transgene

Registration Document 2018

Including the Annual Financial Report

IMMUNOTHERAPY AGAINST CANCERS AND INFECTIONS DISEASES

CONTENTS

REGISTRATION DOCUMENT 2018

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. Furthermore, with *myvac*™, Transgene has developed an innovative platform to create individualized immunotherapies based on neoantigens, specific mutations that are found in the tumors of each patient.

Transgene is based in Strasbourg, France, and has additional operations in Lyon.

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

www.transgene.fr

Pursuant to Article 28 of European Commission regulation No. 809/2004/EC, this Registration Document includes the 2016 consolidated financial statements and related audit report as found on pages 81 to 144 of the 2016 Registration Document filed with the AMF on April 13, 2017 under number D. 17-0385, as well as the 2017 consolidated financial statements and related audit report as found on pages 83 to 156 of the 2017 Registration Document filed with the AMF on April 6, 2018 under number D.18-0283.

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

This Registration Document was filed with the Autorité des marchés financiers on Wednesday April 3, 2019, 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.

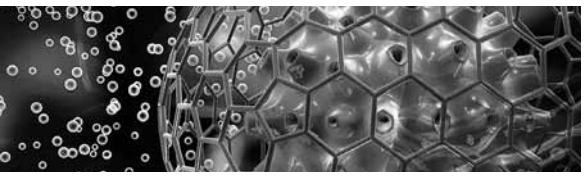
LIST OF ABBREVIATIONS

Abbreviation	Meaning
DNA	Deoxyribonucleic Acid
AML	Approval for market launch
ANSM	*Agence nationale de sécurité du médicament et des produits de santé* (French medicines agency)
BMS	Bristol-Myers Squibb
RTC	Research tax credit (RTC)
CRO	Contract Research Organization
EMA	European Medicines Agency
FDA	Food and Drug Administration
HBsAg	HBV surface antigen
HCC	Hepatocellular *carcinoma*
HPV	Human Papilloma Virus
ICI	Immune Checkpoint Inhibitor
IL-2	Interleukin 2
IV	Intravenous
MVA	Modified Vaccinia Ankara
NSCLC	Non-small cell lung cancer
EPO	European Patent Office
PD-L1 or PD-1	Programmed death-ligand 1, Programmed cell death 1
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
HVB	Hepatitis B virus



OUR STRATEGY

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



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

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.

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 viral vectors, including MVAs (Modified Virus Ankara). 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.

With *myvac*™, Transgene has developed an innovative platform to create individualized immunotherapies based on neoantigens, specific mutations that are found in the tumors of each patient.

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 by integrating all of these factors its Invir.IO™ viruses can become the treatment of choice for multiple cancers.

A DIVERSIFIED IMMUNOTHERAPY PORTOFOLIO

TG4010

Bristol-Myers Squibb

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.

TG4001

Pfizer MERCK

TG4001 is a therapeutic vaccine that targets human papilloma virus. It has demonstrated good safety, a significant HPV clearance rate and promising efficacy results. Its mechanism of action and good safety profile make TG4001 an appropriate candidate for combinations with other therapies, such as ICIs.

TG1050

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.

Pexa-Vec

SILLAJEN BioTherapeutics

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). 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.

TG6002

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.

TG4050

Orchestrating a brighter world NEC

TG4050 is an immunotherapy designed to stimulate the immune system of patients to induce a response that can recognize and destroy tumor cells in a specific way

This personalized immunotherapy is designed for each patient, based on the mutations identified by sequencing tumor tissue using the *myvac*™ technology platform.

PRODUCT	INDICATION	PRECLINICAL	CLINICAL PHASE 1	CLINICAL PHASE 2	CLINICAL PHASE 3
THERAPEUTIC VACCINES					
TG4010	Non-small cell lung cancer – 1st line		+ nivolumab (ICI) + CT		Bristol-Myers Squibb *
TG4001	Recurrent HPV-positive head and neck cancers		+ avelumab (ICI)		Pfizer MERCK *
TG1050	Chronic hepatitis B		+ antiviral		**
TG4050	Ovarian cancer (myvac)				Orchestrating a brighter world NEC
	Head & Neck cancer (myvac)				
ONCOLYTIC VIRUSES					
Pexa-Vec	Advanced HCC – 1st line (PHOCUS)		+ sorafenib		
	Advanced HCC – 1st line		+ nivolumab (ICI)		SILLAJEN BioTherapeutics
TG6002	Colorectal cancer - IV Route				**
	Cancer colorectal - IHA Route				
Anti-CTLA-4	Solid tumors (invivio)				BioInvent

*** Clinical collaboration ** Rights acquired by Tasly Biopharmaceuticals for Greater China**

NEW GENERATIONS OF IMMUNOTHERAPIES

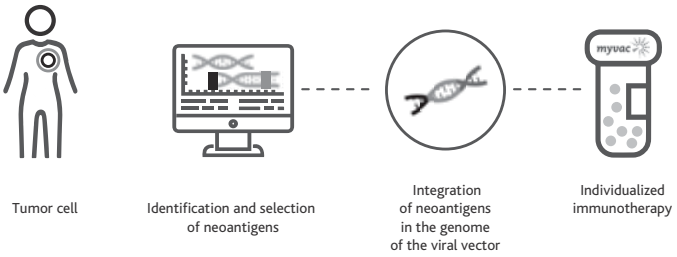
Invir.IO™, A NEW GENERATION OF ONCOLYTIC VIRUSES TO BETTER FIGHT AGAINST TUMORS

Our proprietary oncolytic virus (OV) platform Invir.IO™ allows us to design **a new generation of immunotherapy.** These innovative **multifunctional OVs combine multiple mechanisms of action** and are equipped with several complementary anti-cancer "weapons".

An OV has the ability to selectively multiply in cancer cells but not in normal cells. This property allows the production of anti-cancer "weapons" directly into the cancer cells, thus enabling high concentrations of therapeutic proteins, such as monoclonal antibodies, in the tumor, without exposing the patient to the side effects of these molecules when administered systemically (oral or infusion).

Our patented technology has already generated **several drug candidates undergoing preclinical evaluation. The first oncolytic virus from this technology platform is expected to enter the clinic in 2020.**

myvac™, ONE PATIENT, ONE CANCER, ONE VACCINE



With *myvac*™, Transgene enters the field of individualized immunotherapies with **a unique viral-based immuno-therapy platform.** Our approach is based on the Modified Vaccinia Ankara (MVA) viral vector, which has already been validated in clinical trials. *myvac*™ is designed to stimulate and educate the patient's immune system to recognize and destroy tumors using their own cancer specific genetic mutations.

The neoantigens, which are the basis for the *myvac*™ approach, are identified by sequencing and selected using Artificial Intelligence algorithms, and then integrated into the genome of the viral vector. Once administered to the patient, *myvac*™ triggers a cascade of immune responses against a variety of targets found in the cancer cells.

Transgene has combined its **expertise in viral vectors with highly innovative technologies** to develop *myvac*™. Transgene, together with its collaborative network of experts covering Artificial Intelligence, genomics and translational data have tackled and overcome scientific and technical challenges. With the know-how and highly skilled experts of its collaborators at NEC, Institut Curie, HalioDx and Traaser, Transgene aims to treat a first patient as soon as 2019.

CHAIRMAN'S MESSAGE

PHILIPPE ARCHINARD

> Our priorities for 2019 are advancing our clinical portfolio and preparing for the first clinical studies of candidates from our novel technology platforms *myvac*™ and Invir.IO™.

Dear Madam, Dear Sir,

2018 was a year of intense activity for Transgene with significant progress being made across all aspects of the business.

We continued to advance our promising clinical pipeline of innovative immunotherapies and look forward to announcing data from a number of key clinical trials in the second half of 2019: with the therapeutic vaccine TG4010 in first line lung cancer and TG4001 in head and neck cancer as well as the oncolytic virus products Pexa-Vec in liver cancer and TG6002 in colon cancer. These data will follow the TG1050 results that we communicated at the end of the year.

A key corporate milestone in 2018, was the sale of the China rights to both TG1050 and TG6002 to Tasly Biopharmaceuticals. In return, Transgene received $48 million in Tasly shares. In March 2019, we obtained a €20 million credit facility from Natixis, secured by these shares. Tasly has announced its intention to list its shares on the Hong Kong Stock Exchange.

A presentation at the ASCO congress in May 2018 on our oncolytic viruses paves the way for their administration to patients systemically and not just by direct injection into the tumor. This method of administration was selected for the study we launched at the end of last year with TG6002 in patients with colorectal cancer.

At the same time, we have continued to make excellent progress with our research and development efforts on our two innovative technology platforms for new generations of therapeutic vaccines and oncolytic viruses.

We launched *myvac*™, an innovative, individualized immunotherapy based on our viral vector MVA, which, thanks to recent advances in sequencing and Artificial Intelligence (AI), allows us to build vaccines based on tumor neo-antigens specific to each patient. To achieve this, we have signed a strategic development partnership with NEC, which gives us access to its AI know-how.

Transgene aims to initiate its first two *myvac*™ clinical studies by the end of 2019 with its lead product candidate TG4050. These studies, which will be co-funded by NEC, will assess TG4050 in patients with head and neck cancer and ovarian cancer.

Beyond the partnership with NEC, we have established a consortium with the Institut Curie, HalioDx and Traaser whose skills and expertise complement those of Transgene. This collaborative project called NEOVIVA has recently obtained over €5 million in funding from Bpifrance, and Transgene will directly receive €2.6 million over the next 5 years.

The other priority of our research is the development of a new generation of oncolytic viruses leveraging our unique Invir.IO™ platform. We have an ambitious development plan for a broad portfolio of new multifunctional viruses that we believe will deliver therapeutic responses for tumours that currently do not respond to existing approaches.

In particular we are making progress in our collaboration with BioInvent for the development of a new oncolytic virus coding for an anti-CTLA-4 antibody. The first data from this collaboration were presented at the SITC congress last November in Washington. We are evaluating several other pre-clinical candidates and expect the first Invir.IO™ candidate to enter the clinic in 2020.

Our world-leading expertise in virus-based immunotherapies, as confirmed by our recent advances, allows us to look forward to a very positive 2019. We thank you for your interest and continued confidence in Transgene.

PHILIPPE ARCHINARD

Chief Executive Officer of Transgene

1

OVERVIEW OF TRANSGENE AND ITS BUSINESS

1.1 SELECTED FINANCIAL DATA

(in € thousands, except for shares and per share data) *(Consolidated financial statements, IAS/IFRS)*	12/31/2018 IAS/IFRS	12/31/2017 IAS/IFRS	12/31/2016 IAS/IFRS
INCOME STATEMENT DATA			
Operating income	**42,919**	**8,144**	**10,311**
Research and development expenses	(27,349)	(30,359)	(26,419)
General and administrative expenses	(6,991)	(5,674)	(6,236)
Other expenses	(1,211)	(154)	(320)
Net operating expenses	**(35,551)**	**(36,187)**	**(32,975)**
Operating income/(loss)	**7,368**	**(28,043)**	**(22,664)**
Net finance cost	(2,017)	(2,287)	(602)
Share of profit/(loss) of associates	2,675	(1,944)	(917)
Income tax expense	**-**	**(32,274)**	**(24,182)**
Income tax expense	-	-	-
Net income/(loss)	**8,026**	**(32,274)**	**(24,182)**
Net income/(loss) from discontinued operations	**-**	**-**	**(1,024)**
Net comprehensive income/(loss)	**8,026**	**(32,274)**	**(25,206)**
Diluted earnings per share	0.13	(0.52)	(0.45)
Number of shares outstanding	62,275,923	62,075,190	56,431,991
Cash, cash equivalents and other current financial assets	16,900	41,405	56,207
Total assets	108,543	100,873	122,950
Equity	36,701	28,089	46,503
Net cash flow generated by/(used in) operations	(28,381)	(35,370)	(33,585)

1.2 PRESENTATION OF THE COMPANY AND OVERALL 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 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. Furthermore, with *myvac*™, Transgene possesses an innovative platform to develop a personalized immunotherapy aimed at neo-antigens of the mutations specific to the tumors of each patient.

Transgene is based in Strasbourg, France, and has additional operations in Lyon.

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 respect, 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.

Building on this success, Transgene introduced *myvac*™ in 2018. With this platform, Transgene entered the field of individualized immunotherapy. Our approach is based on the clinically validated MVA viral vector. *myvac*™ products are designed to stimulate and educate the immune system against a patient's cancer by using the genetic mutations specific to his or her tumor. Once they have been identified through sequencing and selected using artificial intelligence algorithms, several mutations are then incorporated into the genome of the viral vector.

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 several 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).

In addition, Transgene has a new production facility called Pilotclin. This facility provides a pilot plant to make small clinical batches (primarily during so-called phase 1 clinical trials). Moreover, Pilotclin effectively meets the various personalized or specific needs of in-house projects (such as *myvac*™ and Invir.IO™)

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	2	3
THERAPEUTIC VACCINES					
TG4010	Non-small cell lung cancer – 1st line	+ nivolumab (ICI) + CT			Bristol-Myers Squibb *
TG4001	Recurrent HPV-positive head and neck cancers	+ avelumab (ICI)			Pfizer Merck *
TG1050	Chronic hepatitis B	+ antiviral			**
TG4050	Ovarian cancer (myvac)				Orchestrating a brighter world NEC
	Head & Neck cancer (myvac)				
ONCOLYTIC VIRUSES					
Pexa-Vec	Advanced HCC – 1st line (PHOCUS)	+ sorafenib			
	Advanced HCC – 1st line	+ nivolumab (ICI)			SILLAJEN
TG6002	Colorectal cancer - IV Route				**
	Cancer colorectal - IHA Route				
Anti-CTLA-4	Solid tumors (invir io)				BioInvent

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 Immune checkpoint inhibitors (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.

Collaboration Agreements

Clinical collaborations with Bristol-Myers Squibb (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-line combination treatment.

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 and continued in 2018:

- first-line treatment for advanced lung cancer (NSCLC): Clinical trial combining TG4010 with the ICI Opdivo® (nivolumab) and chemotherapy in patients whose tumor cells express PD-L1 to 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). Recruitment continues with the opening of additional centers in Europe. The end of recruitment is expected in the first half of 2019. 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. Transgene observed no unexpected problems of tolerance. Nevertheless, the predominant use of ICIs as a first line of treatment in the United States significantly slowed down recruitment in this study since its protocol rules out patients previously treated with an ICI. Accordingly, on the recommendation of the principal investigator, Dr. Kelly, the trial will be stopped due to an unsatisfactory number of patients included in it.

Next stages of development

The results of the phase 2 first-line trial are expected in the second half of 2019. The data from the trial will form the basis for discussions with potential partners aimed at signing a structuring agreement.

Marketing outlook

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

TG4001: HPV-16 positive cancers including head and neck - phase 1b/2

TG4001 is a therapeutic vaccine designed to express antigens E6 and E7 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 being developed in combination with Avelumab in HPV-16 positive or metastatic cancers, including oropharyngeal squamous cell carcinoma of the head and neck (SCCHN).

Collaboration Agreement

Clinical collaboration with the Merck KGaA/EMD Serono 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 immuno-stimulant cytokine, 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-16 positive recurrent/metastatic cancers, including squamous cell carcinomas of the head and *neck* (SCCHN).

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. In this multi-center study, complete resolution of CIN/2/3 lesions occurred significantly more often than with the placebo. 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

In 2017, Transgene initiated a phase 1b/2 clinical trial to evaluate the potential of therapeutic vaccine TG4001 inoropharyngeal squamous cell carcinoma of the head and neck combination with avelumab in patients with recurrent or metastatic HPV-16 positive tumors, including oropharyngeal carcinoma of the head and neck (SCCHN).

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/EMD Serono and Pfizer alliance, which supply their ICI (avelumab).

In 2018, Transgene reached the objectives of phase 1b of the study and demonstrated the safety and tolerability of TG4001 in combination with avelumab, opening the way to phase 2.

Next stages of development

The first results of this trial are expected in the second half of 2019.

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 development in 2015 in patients with a chronic HBV (hepatitis B virus) infection being treated by standard antiviral. This product has shown a good safety profile and after administration of a single or multiple doses of TG1050.

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.

Current treatments for hepatitis B can inhibit the multiplication of the virus but fail to eliminate it. Fewer than 5% of patients treated recover completely. The TG1050 injection is intended to induce an immune response against HBV and thereby to increase the seroconversion rate of HBsAg, the current criterion of cure.

Pre-clinical trials, clinical study 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.

On the basis of these data (main results published in the scientific journal Gut), Transgene in 2015 initiated a phase 1/1b clinical study aimed at evaluating TG1050 in patients with chronic hepatitis B treated with standard antivirals. This randomized, double-blind, placebo-controlled, multi-center trial (Europe and North America) assessed the safety profile and tolerability of single and repeated administration of three doses of TG1050, and helped improve understanding of antiviral activity and immune system responses induced by TG1050.

In November 2018, Transgene presented positive and encouraging results of this clinical trial to the AASLD Liver Meeting, showing the achievement of the following objectives:

- good tolerance of TG1050 at the three doses tested in single dose and in multiple doses in patients with chronic hepatitis B under standard antiviral treatment;
- induction of a specific cellular response of HBV. This immune response was observed mainly at the two highest doses in patients with little or no pre-immunity against adenovirus.

Transgene also presented encouraging new preclinical data in a mouse model expressing HBV chronically. They show that the combination of TG1050 with antivirals or immunomodulators leads to a much greater and longer lasting antiviral activity than treatments administered alone. These data support future clinical evaluation of TG1050 in combination with other molecules, whether or not specific to HBV.

T101 is an immunotherapy derived from TG1050 technology. It is currently being developed in China by Tasly BioPharmaceutical Group Co, Ltd., which holds all rights to research, development and commercialization of T101 for Greater China, following an agreement reached in July 2018.

The phase 1 clinical trial evaluating T101 in China is still ongoing. It is intended to evaluate, among other things, the tolerance and immunogenicity of this therapeutic vaccine in a population of patients with chronic hepatitis B but whose characteristics differ from those in Europe and North America, particularly in terms of the modes of infection, haplotypes and viral genotypes.

Next stages of development

The phase 1/1b clinical trial of TG1050 has been completed, and results were presented at the November 2018 AALSD Liver Meeting. The development options for TG1050 are currently being reviewed.

Marketing outlook

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

TG4050: The new generation of individualized vaccine - phase 1

TG4050 is an immunotherapy designed to stimulate the immune system of patients in order to induce a response that is able to recognize and destroy tumor cells in a specific manner. This personalized immunotherapy is developed for each patient, on the basis of mutations identified through sequencing of tumor tissue by using the myvac™ technological platform which allows development and manufacture of a product that is specific to the patient within time frames compatible with clinical management.

Transgene will be responsible for the clinical development and sponsor of two clinical studies that will begin in 2019:

- A study on ovarian cancers in patients exhibiting an asymptomatic relapse following surgery and chemotherapy.
- A study on HPV negative cancers of the head and neck after surgery and radiation therapy.

Description and mechanism of action

TG4050 is a vaccine developed individually for each patient, based on the mutations identified in the patient's tumors. These mutation may lead to the expression of tumor neo-antigens known to be especially useful targets for the tumor-fighting immune response. These neo-antigens are known to stimulate a stronger immune response than the "classic" tumor antigens because their expression is limited to the tumor and therefore do not have tolerance issues.

Once they have been identified through sequencing and selected using artificial intelligence algorithms, several neo-antigens are then incorporated into the genome of the viral vector (MVA). Thus, when TG4050 is administered to the patient, it initiates a cascade of immune response against a range of targets present in the cancerous cells.

This approach differs from autologous treatments in that no biological material from the patient is used in manufacturing this pharmaceutical product, making it easier to manufacture and standardize. It is also truly individualized since we use the information specific to the characteristics of the tumor

Partnership with NEC

TG4050 is a product developed by utilizing the *myvac*™ vaccination platform and integrating neo-antigens selected from among the mutations present in the tumor and utilizing an artificial intelligence systems developed by NEC (NEC the WISE). This algorithm is developed to select the most relevant mutations to serve as the target for the vaccine. This technology is based on more than 10 years of research in the field of machine learning applied to immunotherapy and on a large set of proprietary data used for the training. NEC is co-financing the development of TG4050 and supplies the software and computer infrastructure to make the predictions.

Next stages of development

Two clinical studies will be conducted in 2019 on patients having ovarian cancer and head and neck cancer. These two studies, which will be co-financed by Transgene and NEC, will evaluate safety and biological activity of TG4050, validate the NEC algorithm and pave the way for combination studies with different classes of therapies.

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 advanced stage 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.

A neo-adjuvant (translational) study, with administration of Pexa-Vec in solid tumors before surgical intervention (neo-adjuvant indication), aimed to better document the Pexa-Vec action mechanism in the real-world environment of tumors. The University of Leeds is the sponsor of this trial, for which the principal investigator is Prof. Anthoney. Transgene presented early positive findings to ASCO in June 2018, showing that Pexa-Vec stimulates anti-tumor immunity after intravenous administration. A complete pathological response was observed during the surgical resection in one of the four evaluable patients with metastases in the liver.

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

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

Clinical trials under way

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®) was until recently 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 objective response 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

Pexa-Vec is currently being developed in other indications than liver cancer, in studies for which Transgene is not the promoter. These phase 1/2 studies combine, in particular, Pexa-Vec with other therapies.

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 study combining Pexa-Vec and nivolumab in HCC will produce its first results in the second half of 2019, with an interim analysis on 15 patients, with the overall response rate as the main endpoint. A futility analysis of the phase 3 clinical trial (PHOCUS) is expected in mid-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 targeted production of chemotherapy (5-FU), directly in the tumor. In addition, the destruction of tumor cells results in the release of tumor antigens, which cause an increase in the immune response. These approaches can attack solid tumors on multiple 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 was obtained by removing two genes necessary for virus replication (the thymidine kinase (TK) and ribonucleotide reductase (RR), which are expressed at high levels by the cancer cells. TG6002 also expresses the patented gene FCU1, for which 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. As such, when TG6002 is administered in combination with 5-FC, it allows the production of chemotherapy at the heart of the tumor.

TG6002 combines several mechanisms of action to:

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

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 gastro-intestinal 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 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

In October 2018 Transgene announced the treatment, at the Léon Bérard Center, of the first patient of the phase 1/2 trial of TG6002 in patients suffering from advanced gastro-intestinal tumors such as colon cancer. The product will be administered by intravenous route This multi-center trial is authorized in France, Belgium and Spain. It will include up to 59 patients.

Next stages of development

The first results of the phase 1/2a intravenous trial are expected in the second half of 2019.

In 2019, Transgene is preparing to launch a phase 1/2 clinical trial in patients with gastrointestinal tumors with hepatic metastases where TG6002 will be administered locoregionally by the intrahepatic artery. This multi-center trial will be held in the United Kingdom. The first patient should be included in December 2019.

T601 is an immunotherapy derived from TG6002 technology. It is currently being developed in China by Tasly BioPharmaceutical Group Co. Ltd., which holds all rights to research, development and commercialization of T601 for Greater China, following an agreement reached in July 2018. A clinical trial evaluating T601 in phase 1 in China could start in 2019.

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. Indeed, the Company takes pride in having developed two major research programs.

With the Invir.IO™ platform, Transgene is developing new cancer treatments which combine a number of complementary mechanisms of action to allow better control of the tumor micro-environment and attack tumor more effectively.

In 2018 Transgene launched *myvac*™, a personalized immunotherapy designed to stimulate and educate patients' immune systems in order to recognize and destroy the specific tumor cells of each patient.

New generation of oncolytic viruses – Invir.IO™

The Invir.IO™ platform is based on a patented technology at the origin of 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 early stages of development.

The capacity of the genome of the vaccine viruses to integrate large quantities of genetic material makes Invir.IO™ the ideal platform to develop a portfolio of multifunctional oncolytic viruses.

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

Invir.IO™ A platform to develop a portfolio of immunotherapeutics combining complementary modes of action

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

The aberrant proliferation of cancer cells is linked to 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 using an oncolysis mechanism, while also inducing immune responses against tumor cells. In addition, during replication, the virus expresses the weapons integrated in its genome and therefore allow the expression of immunomodulators and/or 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 in low concentrations, but they may be toxic when administered by a systemic route. The preferential replication of the virus within the tumor allows the selective local expression of such molecules in addition to the oncolysis. This enables the effective modulation of the tumor micro-environment and an increase in the immuno-sensitivity of the tumor while limiting systemic exposure.

Transgene has already demonstrated that the oncolytic viruses from the Invir.IO™ platform attack tumors on several fronts. In addition to the remarkable lytic properties of the vaccine viruses, our oncolytic viruses:

- induce the immunogenic death of cancerous cells; and
- allow the expression specifically in the tumor of several weapons such as cytokines, chemokines, enzymes, and/or monoclonal antibodies or mini-antibodies (SdAbs – single-domain antibodies) that will act against 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 plan to vector the sequences of molecules of interest developed by the partners in an oncolytic virus from the Invir.IO™ platform. The armed oncolytic viruses resulting from these collaborations will have to be significantly more effective and less toxic than the combination of the empty oncolytic virus and the molecule of interest.

- Collaboration with Randox (October 2017): vectorization of Randox-generated single domain antibodies (SdAbs) generated by Randox in oncolytic viruses from the Invir.IO™ platform. The expression of immunomodulatory SdAbs in the tumor microenvironment, combined with the immunogenic and oncolytic activity of oncolytic viruses, will lead to the destruction of tumors.
- Collaboration with BioInvent (December 2017): vectorization of anti-CTLA-4 antibodies (ICI). The expression of anti-CTLA-4 antibodies in the tumor microenvironment will allow its immunomodulatory activity to be concentrated while reducing its side effects. The local immunomodulatory activity of the anti-CTLA-4 antibody associated with the immunogenic and oncolytic activity of the viruses will lead to the destruction of the tumors. In March 2019, Transgene and BioInvent expanded their collaboration to vectorize other antibody sequences directed against an undisclosed target.

Next stages of development

Roughly ten candidates are undergoing preclinical evaluation in order to identify the oncolytic viruses derived from Invir.IO™ that are the most promising and likely to be the subject of clinical development in priority indications.

The product resulting from the collaboration with BioInvent, the oncolytic virus encoding anti-CTLA-4, is particularly well advanced in its preclinical evaluation and could enter clinical development.

The first drug candidate from this platform is expected to go into clinical trials in 2020.

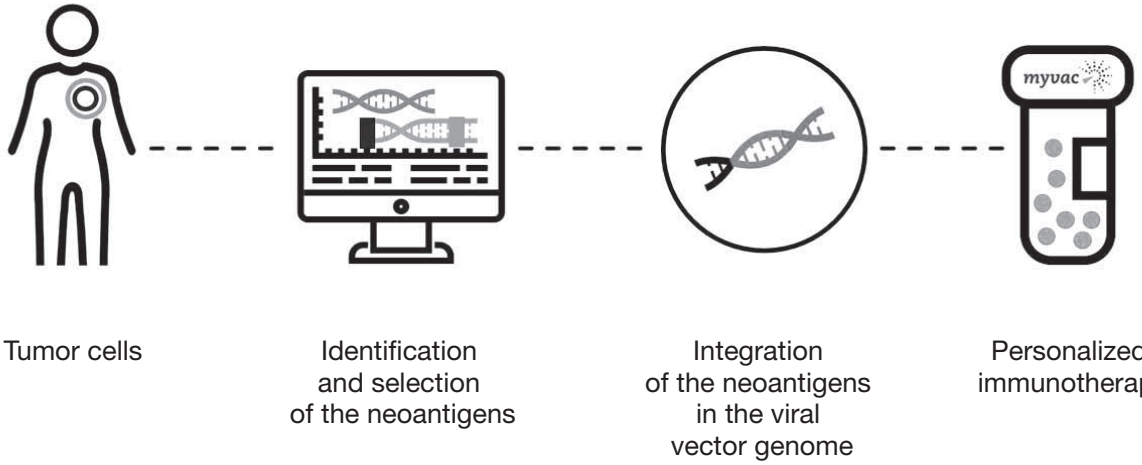
A new generation of individualized immunotherapy: myvac™

With the *myvac*™ platform, Transgene is entering the field of individualized immunotherapy. Our approach is based on the clinically validated MVA viral vector. *myvac*™ products are designed to stimulate and educate the immune system against a patient's cancer by using the genetic mutations specific to his or her tumor. Once identified through sequencing and selected using artificial intelligence algorithms, several mutations are integrated into the genome of the viral vector. Accordingly, when *myvac*™ is administered to the patient, it triggers an immune cascade against a host of targets present in the cancer cells.The aim of this platform is to generate several drug candidates that can be administered alone or in combination with another approach. TG4050 is now the first product candidate from the *myvac*™ platform.

An individualized, MVA-based vaccine

With *myvac*™, Transgene has a number of key advantages in making a success of this ambitious project. The platform uses approaches with a viral strain (MVA) whose safety, tolerance, immunogenicity and effectiveness have been demonstrated by the clinical trials already conducted for TG4010 and TG4001. Furthermore, *myvac*™'s (MVA) viral vector has shown repeatedly that it induces an immune response against tumor antigens incorporated into its genome. Thus, by its viral nature and the targeting of multiple targets, it induces a diversification of anti-tumor immune responses. This is known as epitope spreading.

The different stages in the production of myvac™



Consortium agreements

The implementation of new-generation vaccines requires the existence of a technological ecosystem to allow clinicians to best select the patients most able to benefit from this type of approach and to implement the process enabling the characterization of the patient and the provision of the product. To prepare such an environment, Transgene has formed a collaborative network enabling the establishment of a technological ecosystem.

An innovative project, NEOVIVA, received certification from BioValley France, the Grand Est Region Healthcare Competitiveness Cluster, and Eurobiomed. Transgene holds the intellectual property of the *myvac*™ viral platform and works actively on the translational development of this innovative technology, particularly as part of the project with three French partners: HalioDx in Marseille, Traaser in Evry, and the Institut Curie in Paris.

- the Institut Curie (the Cancer Immunotherapy Center, led by Dr. Amigorena) works on the generation of translational data and the characterization of the action mechanism;
- HalioDx will study biomarkers to monitor and maximize the clinical efficacy of *myvac*™ with Immunogram, a high-tech clinical research platform that includes a suite of proprietary tests including Immunosign® and the Immunoscore® assay range;
- Taaser automates, secures and manages the genomic data, including the integration of predictive algorithms provided by a partner recognized in artificial intelligence;

The NEOVIA project will receive a €5.2 million grant from the PIA (Programme d'Investissements d'Avenir) run by Bpifrance, of which Transgene will receive €2.6 million. The payments will be staggered over the 5-year duration of the program.

Next stages of development

The first candidate from *myvac*™, TG4050, is undergoing a clinical development plan, as mentioned in section 1.2.2.1.

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.

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 is the second-leading cause of death in the world with 8.8 million deaths in 2015. Nearly one death in six in the world is due to cancer (source: WHO 2018). It causes more deaths than AIDS, tuberculosis and malaria combined. The new version of the IARC *(International Agency for Research on Cancer)* on-line database, GLOBOCAN 2018, gives the most recent estimates for 28 types of cancer in 184 countries and provides a thorough overview of the global burden of cancer. In 2018 the global burden was 18.1 million new cases and 9.6 million deaths from cancer. The number of deaths that same year was estimated at 9.5 million (approximately 26,000 deaths per day), including 3.2 million in developed countries and 4.0 million in developing countries. By 2040, new cancer cases are expected to reach 27.5 million with cancer deaths increasing to 16.3 million, as a result of population growth and aging (source: *American Cancer Society's Global Cancer Facts and Figures*, 4th 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 growing economic impact of cancer is considerable. Some $78.2 billion have been estimated as the total annual cost of the disease *(2014 Work Cancer Report, Lyon: International Agency for Research on Cancer; 2014; Allied Market Research)*. The market is expected to reach $111.9 billion (US$) in 2020, assuming an annual average growth rate of 7.1%. The growth of the market is aided by the increase in the number of cases as well as by access to new targeted therapies *(Allied Market Research)*.

1.2.3.1.1 Non-small cell lung cancer

According to the statistics and estimates of GLOBOCAN 2018, lung cancer is the most common cancer in the world, with 2.09 million new cases diagnosed every year and close to 1.7 million deaths. Non-small cell lung cancer (NSCLC) accounts for approximately 85% of all lung cancers. More than 470,000 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 2018, accounting for 18.4% of cancer-related deaths. In the United States, it is estimated that there were more than 252,000 new cases of lung cancer and more than 173,000 related deaths in 2018. Lung cancer is one of the cancers with the bleakest prognosis (the 5-year survival rate is less than 19% 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 using 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 840,000 new cases of liver cancer were diagnosed and more than 781,000 related-deaths were reported worldwide in 2018 (source: GLOBOCAN 2018), with 82,500 new cases and 77,000 deaths in Europe. According to the GLOBOCAN 2018 database, more than 40,000 liver cancer cases should be diagnosed in the United States in 2020 and 31,000 deaths should result from this disease. Hepatocellular carcinomas (HCC) account for 90% of primitive 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

Cancers of the head and neck affect about 280,000 people in Europe and the United States (source: Globocan 2018). These cancers have experienced great epidemiological changes since the 1980s. Traditionally due to overuse of tobacco and alcohol, they tend generally to decline in reaction to anti-tobacco campaigns. This trend, however, is not uniform, for in recent decades we have seen a net increase in cancers located in the oropharynx, an increase caused by a viral agent, the oncogenic papillomavirus (the HPV virus) (source: Institut Gustave Roussy). Thus, 26% of head and neck cancers are linked with HPVs. Although there are more than 100 HPV sub-types, HPV-16 alone is responsible for over 85% of oropharyngic tumors (Kreimer *et al.*, 2005).

According to a recent IARC study (De Martel *et al.*, 2017, *International Journal of Cancer*) using the 2012 version of the Globocan database, three subtypes of head and neck cancers are especially associated with the HPV virus: the oropharynx and to a lesser degree, the oral cavity and the larynx. 38,000 cases are attributable to the HPV virus, including 29,000 cancers of the oropharynx, of which 85% are attributable to genotypes 16 and 18.

The global economic burden of head and neck cancer indications was $580 million in 2016.

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 Gastro-intestinal cancers

Gastro-intestinal cancers include several forms of cancer of the digestive system. They include cancers of the esophagus, gallbladder, liver, pancreas, stomach, small intestine, colon, rectum and anus. Colorectal cancer (CRC) is the second most frequently diagnosed cancer in Europe and one of the leading causes of death in Europe and in the world.

In 2012, 447,000 new cases of CRC were reported in Europe, with 215,000 deaths. Worldwide, this represents 1.4 million new cases and 694,000 deaths (Ferlay J. *et al.*, 2013, Ferlay J. *et al.*, 2015). In the last decade, the prognosis for patients with metastatic CRC has improved, with a total median survival period of 30 months.

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 450,000 in the US, Germany, France, Italy, Spain and the United Kingdom with approximately 185,600 patients in Japan. The total prevalence of chronic hepatitis B cases treated across these seven principal markets is expected to reach 770,000 patients by 2050 (source: ECDC-Incidence of Hepatitis B, Decision Resources: expert opinions). The Chinese market is currently estimated at 775,000 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, Replimmune, 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 2019 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 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 and the study is in progress.

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 acted 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 product belonging to Bristol-Myers Squibb. The sponsor stopped the study in September 2018, citing inter alia the difficulty of recruiting patients who matched the inclusion criteria.

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 and phase 2 of the study is in progress.

Licensing agreement with SillaJen

In August 2010, Transgene and Jennerex, Inc. (acquired by the South Korean-based company SillaJen in 2014) signed an exclusive partnership agreement for the development and commercialization in Europe, the Commonwealth of Independent States (CIS) and the Middle East of SillaJen's oncolytic virus Pexa-Vec for the treatment of solid tumors. In November 2015, SillaJen and Transgene announced the amended partnership agreement to streamline the conduct of clinical studies reflecting the areas of interest of each partner and to redefine the territories. Transgene has returned rights to SillaJen for all Middle Eastern countries, Russia, Ukraine, Belarus and Turkey. SillaJen assumed the responsibility of conducting the phase 3 trial in hepatocellular 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 final payment of $1.5 million was made 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 and the expansion of this collaboration to a second target in March 2019. 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.

Collaboration Agreement with NEC

On March 4, 2019, following a letter of intent announced in October 2018. Transgene and NEC Corporation signed a collaboration agreement for the design of a personalized vaccine (the "Collaborative Vaccine") that combines Transgene's *myvac*™ technology with a neoantigen prediction algorithm created by NEC, together with the co-financing of a phase 1 clinical program for the Collaborative Vaccine to demonstrate the value of the NEC algorithm and the Transgene *myvac*™ technology.

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. The companies are presently negotiating a new contract to encompass this work beyond the three years originally agreed.

Loan agreement with the European Investment Bank (EIB)

In early January 2016, the Company obtained a €20 million loan facility 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.

Revolving credit agreement with Natixis

In March 2019, the Company signed an engagement letter with Natixis, which allowed it to obtain a revolving credit facility of up to €20 million, which may be drawn on one or more occasions, provided that the agreement is signed with the appropriate supporting documents before April 30, 2019. The agreement was signed on the date of this report. As part of this loan agreement, Transgene is required to pledge its shares in Tasly BioPharmaceuticals before the first drawdown. The principal (excluding interest) shall not exceed 60% of the value of the Tasly BioPharmaceuticals stock pledged or €20 million. If the value of its shares declines, in the event of a decline in the market price of Tasly BioPharmaceuticals on the Hong Kong stock market after its listing for instance, Transgene may be forced to repay part or all of the amounts borrowed. The agreement with Natixis contains a number of standard provisions, including an early repayment clause in the event of a change of control or certain events, plus restrictions placed on Transgene's debt. If the outstanding amount drawn exceeds 60% of the value of the shares, the Company must immediately reimburse the difference. Interest on the principal drawn down plus an unused line fee, if any, are payable quarterly. This loan agreement runs for two and a half years until July 2021 and, as is typical of revolving loans, the amounts drawn must be repaid in full by the end of the program at the latest.

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 viral vector production platform at Sanofi Genzyme Lyon was completed in June 2015. Certification by all health authorities of this platform for the production of TG4010 was first sought in 2016. Approval of the French health authority was obtained in May 2017 and final approval in the United States was obtained in January 2019.

Tasly BioPharmaceuticals shareholders' agreement

In July 2018 Transgene subscribed 27.4 million shares of new stock issued by Tasly BioPharmaceuticals, or 2.53% of its equity, through an asset contribution of intellectual property in China necessary for the development and operation of a therapeutic vaccine against hepatitis B and Transgene's interest in the Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. joint venture. This investment was made as part of a raising of capital with institutional funds, to clear the way for Tasly Biopharmaceurticals to be listed on the Hong Kong Stock Exchange. The assets contributed by Transgene were valued by the parties at $48 million, and the per share value of the stock received was the price negotiated by the institutional funds. At the time of this capital increase, Transgene, the institutional funds, Tasly BioPharmaceuticals and its parent Tasly Holding Group signed a shareholders' agreement to define their relationships prior to the initial public offering. Besides the normal clauses such as a right of first refusal in the event a shareholder wishes to sell, Tasly Holding Group agrees to buy out the shares subscribed by Transgene should the IPO not take place within two years, depending on circumstances, at the original subscription price increased by a contractual yearly rate.

Consortium agreement in the NEOVIVA project

Transgene is a partner in and coordinator of a research program with, among others, Traaser, HalioDx and the Institut Curie, the purpose of which is to develop a new manufacturing facility for the production and development of personalized vaccines to treat cancer. That program is known as NEOVIVA and is supported by Bpifrance. The members of the consortium signed their agreement wirth Bpifrance in March 2019.

Under the NEOVIVA program, Transgene could receive grants and reimbursable advances of up to €0.2 million and €2.37 million, respectively, over the duration of the program. If the project is a success, defined in consultation with Bpifrance, Transgene shall be required, under certain conditions, to repay the advances in installments and then, if applicable, make additional repayments until 2040 or up to a cap of €3.35 million. These obligations relate to the candidate in development, TG4050. Transgene is not liable for any potential repayments by other members of the consortium.

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

Transgene was 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 was to develop a new generation of diagnostics and therapies focusing on cancers and infectious and genetic diseases. This program, called "ADNA" ("Advanced Diagnostics for New Therapeutic Approaches"), supported by Bpifrance, began in 2007 and ended in 2016.

Under the ADNA program, Transgene received a total of €8.3 million in grants and €15.9 million, in reimbursable advances. 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 in tuberculosis was going to receive $5 million in funding from the U.S. 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. This agreement ended in 2018.

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. It has been put into use for several therapeutic vaccines currently under development and for the new *myvac*™ personalized vaccine program.

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.

myvac™, an individualized vaccine based on an MVA

With *myvac*™, Transgene possesses a state-of-the-art platform for innovation in cancer-fighting immunotherapies. The Company's know-how in viro-therapy has enabled it to incorporate coding sequences for antigens into our individualized immunotherapy. By incorporating sequencing and artificial intelligence into the design of the virus, *myvac*™ signals the entry of viral vector-based approaches into the era of digital transformation.

Transgene has created an organization able to design and manufacture this product, which is individualized for each patient, on a very competitive basis in terms of turnaround time and cost. This new therapeutic option promises major improvement over existing therapies. *myvac*™ is also the result of a policy that welcomes partners developing technologies that complement our expertise, so as to develop a multi-disciplinary approach.

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

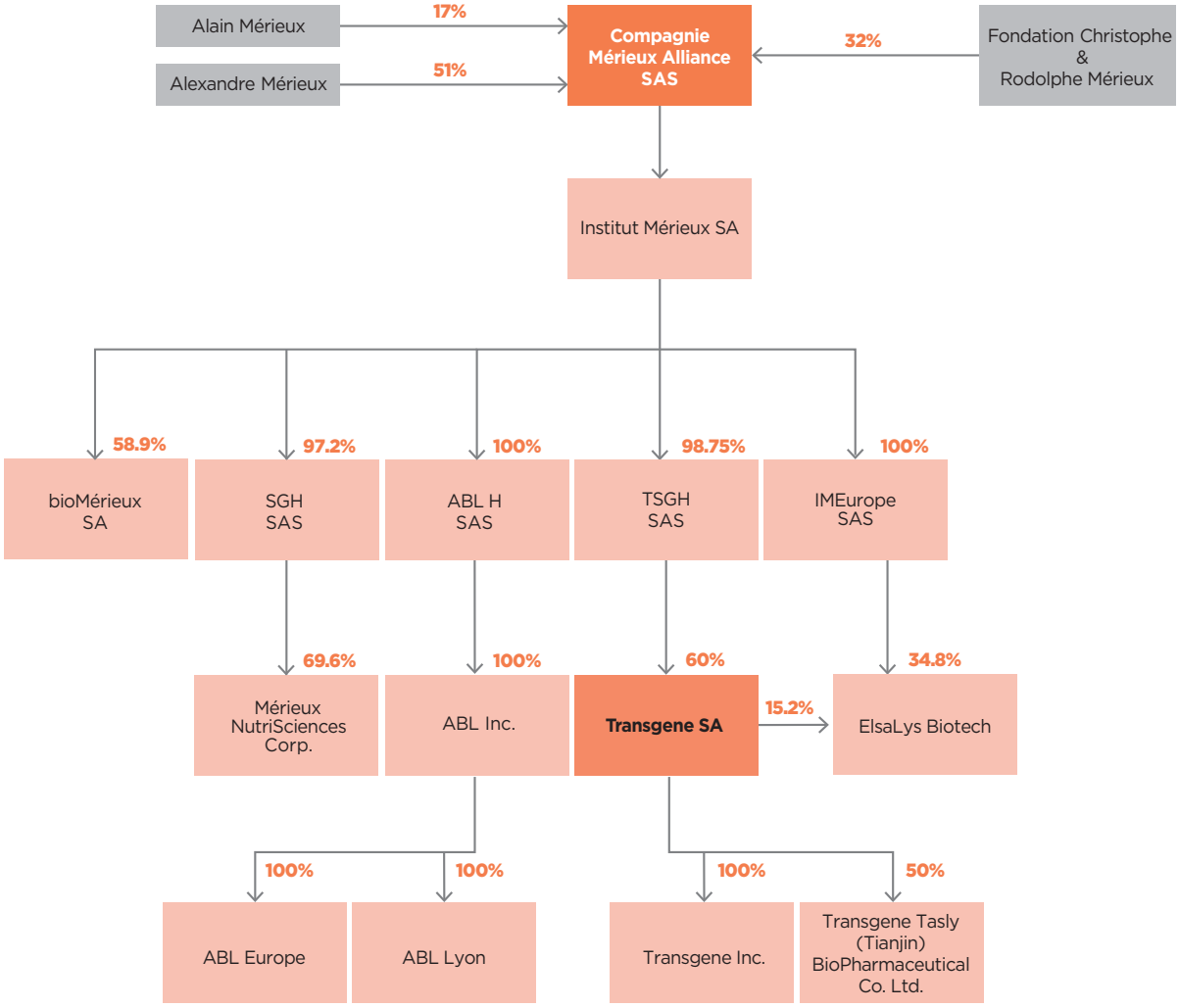
Transgene has applied for patents and will continue to do so to protect its products, vector technologies and related processes and other technologies. As of the date of this Registration Document, Transgene owns over 200 patents in several countries (including in Europe and the United States). In addition 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 was jointly owned (50%/50%) with Tasly Pharmaceutical Group, which is based in Tianjin, China. In July 2018 Transgene transferred all of its investment in this company to Tasly BioPharmaceuticals Co. Ltd.

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, 2018, Transgene's equity interest in ElsaLys Biotech was 8.25%. 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 170 sq.m, housing laboratories and offices occupied under a sublease.

1.3 DESCRIPTION OF ACTIVITIES

1.3.1 Principal activities of the year

2018 was an intense year for Transgene, during which significant progress was made in all our activities.

We continued to make progress in our promising clinical assets and are looking forward to announcing the results of our ongoing clinical trials during the second half of 2019. Our R&D efforts, focused on our worldwide expertise in viral vectors, were applied to our two cutting-edge technology platforms: oncolytic viruses and therapeutic vaccines, which were created to improve the treatment of solid tumors.

With our Invir.IO™ platform, we are developing new multifunctional viruses capable of providing an improved modulation of the tumor microenvironment. In 2018, positive data were presented at the annual meeting of the Society for Immunotherapy of Cancer (SITC). We are currently assessing several preclinical candidates from Invir.IO™, and the platform's first product is expected to enter the clinical phase in the first half of 2020.

In September 2018, we launched *myvac*™, a highly innovative personalized immunotherapy based on a viral vector, associating the identification of the tumor neoantigens with Transgene's expertise to create a completely revolutionary treatment tailored to each patient. We signed a strategic collaboration with NEC to leverage its artificial intelligence capabilities to identify targets for neo-antigen candidates. With NEC's know-how and highly qualified experts, in addition to those of Institut Curie, HalioDx and Traaser, we aim to launch two clinical studies in the second half of 2019 with TG4050, our main *myvac*™ candidate.

This is an exciting time for Transgene, thanks to the overall progress of our cutting-edge viral vector immunotherapies to transform the fight against solid tumors.

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 1.2.5) 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.

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

The equity securities relate to Transgene's 8.25% stake in ElsaLys Biotech 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 IFRS 9, 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, financial income from cash investment and public funding.

Comments on operating results (IFRS standards)

Fiscal years ended December 31, 2018 and 2017

INCOME STATEMENT

(in € thousands, except for per-share data)	12/31/2018	12/31/2017
Revenue from collaborative and licensing agreements	1,335	2,099
Public funding for research expenses	5,749	5,358
Other income	35,835	687
Operating income	**42,919**	**8,144**
Research and development expenses	(27,349)	(30,359)
General and administrative expenses	(6,991)	(5,674)
Other expenses	(1,211)	(154)
Net operating expenses	**(35,551)**	**(36,187)**
Operating income/(loss)	**7,368**	**(28,043)**
Net finance cost	(2,017)	(2,287)
Share of profit/(loss) of associates	2,675	(1,944)
Income tax expense	**8,026**	**(32,274)**
Income tax expense	-	-
Net income/(loss)	**8,026**	**(32,274)**
Net income/(loss) from discontinued operations	**-**	**-**
NET INCOME/(LOSS)	**8,026**	**(32,274)**
Basic earnings per share *(€)*	0.13	(0.52)
Diluted earnings per share *(€)*	0.13	(0.52)

Operating income

During the periods under review, income from the collaboration and licensing agreements, representing €1.3 million in 2018 versus €2.1 million in 2017, consisted primarily of the following items:

- research and development services for third parties amounting to €1.3 million in 2018 (€0.9 million in 2017); and
- income related to the commercial use of technologies or products provided under license by Transgene amounting to €0.03 million in 2018 compared to €1.2 million in 2017. 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 €5.7 million in 2018 versus €5.4 million in 2017, referring to the research tax credit and to grants received and receivable:

- the research tax credit (CIR – *Crédit impôt recherche*) amounted to €5.7 million in 2018 (€5.4 million in 2017); and
- research grants were zero in 2018 (vs. €0.1 million in 2017).

Operating expenses

Research and Development "R&D" expenses

R&D expenses amounted to €27.3 million in 2018 versus €30.4 million in 2017.

The following table details R&D expenses by type:

(in € millions)	12/31/2018	12/31/2017	Change
Payroll costs	11.2	11.1	+1%
Share-based payments	0.3	0.3	+20%
Intellectual property expenses and licensing costs	0.9	4.8	-81%
External expenses for clinical projects	7.9	7.0	+13%
External costs on other projects	1.5	1.5	-
Operating costs	3.7	3.9	-5%
Depreciation and provisions	1.8	1.8	-
RESEARCH AND DEVELOPMENT EXPENSES	**27.3**	**30.4**	**-10%**

Employee costs allocated to R&D (salaries, employer contributions and related expenses) amounted to €11.2 million in 2018, compared to €11.1 million in 2017.

Intellectual property and licensing expenses amounted to €0.9 million in 2018 versus €4.8 million in 2017. This decrease 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 amounted to €7.9 million in 2018 versus €7.0 million in 2017.

External expenses for other projects (research and preclinical) were €1.5 million in 2018, just as in 2017.

Operating expenses, including the cost of operating research laboratories, amounted to €3.7 million in 2018, compared to €3.9 million in 2017.

Overhead expenses

General and administrative (G&A) expenses amounted to €7.0 million in 2018 versus €5.7 million in 2017.

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

(in € millions)	12/31/2018	12/31/2017	Change
Payroll costs	3.2	3.0	+7%
Share-based payments	0.2	0.2	-
Fees and administrative expenses	2.8	1.6	+75%
Other G&A expenses	0.7	0.8	-13%
Depreciation and provisions	0.1	0.1	-
GENERAL AND ADMINISTRATIVE EXPENSES	**7.0**	**5.7**	**+23%**

Employee costs amounted to €3.2 million in 2018 versus €3.0 million in 2017.

Fees and administrative expenses amounted to €2.8 million in 2018, reflecting expenses related to the transaction with Tasly BioPharmaceuticals, versus €1.6 million in 2017.

Other income

Interest income amounted to €35.8 million in 2018 versus €0.7 million in 2017. This increase is attributable to the sale of rights in TG1050 for Greater China to Tasly BioPharmaceuticals for €35.6 million in July 2018.

Other expenses

Other expenses amounted to €1.2 million in 2018 versus €0.2 million in 2017.They consist primarily of a depreciation in the receivables for ElsaLys Biotech SA of €1.1 million.

Financial income/(loss).

Financial income showed a loss of €2.0 million in 2018 versus a loss of €2.3 million in 2017.

Financial income (investment income) amounted to €0.3 million in 2018, just as in 2017.

Financial expense amounted to €2.3 million in 2018 (€2.6 million in 2017) and primarily involved:

- bank interest on the loan received from the EIB (€0.8 million, as was the case in 2017);
- the present discounting of the contingent proceeds on the sale of Jennerex, Inc. stock to SillaJen Inc. in 2014 (€0.3 million vs. €0.8 million in 2017);
- the present discounting of the debt owed to Bpifrance on the advances received under the ADNA program (€1 million versus €0.5 million in 2017);
- the interest on financial leases (€0.2 million in 2018, the same as in 2017).

Net income before tax

Net income before tax was positive at €8.0 million in 2018 vs. a net loss of €32.3 million in 2017.

Net income/(loss)

Net profit was positive at €8.0 million in 2018 vs. a net loss of €32.3 million in 2017.

Net earnings per share were positive at €0.13 in 2018 vs. a net loss of €0.52 in 2017.

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

In March 2019, the Company signed an engagement letter with Natixis, which allowed it to obtain a revolving credit facility of up to €20 million, which may be drawn on one or more occasions, provided that the agreement is signed with the appropriate supporting documents before April 30, 2019. As part of this credit agreement, Transgene must pledge its shares in Tasly BioPharmaceuticals prior to the first draw. The outstanding amount (excluding interest) may not exceed the equivalent of 60% of the value of the pledged Tasly BioPharmaceuticals shares or a ceiling of €20 million. If the outstanding amount drawn exceeds 60% of the value of the shares, the Company must immediately reimburse the difference. The interest on the outstanding amount drawn and a make-ready fee for the undrawn part are payable quarterly. This loan agreement runs for two and a half years until July 2021 and, as is typical of revolving loans, the amounts drawn must be repaid in full by the end of the program at the latest.

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

Investments

Investments in tangible and intangible assets (net of disposals) amounted to €0.5 million in 2018 (€0.6 million in 2017).

Repayable advances and loans

In 2018, Transgene refinanced its 2017 research tax credit of €5.4 million. To this effect, it took out a bank loan with Bpifrance that matures in mid-2021, at which time the receivable is expected to be paid by the French government.

The tax credit for competitiveness and employment (CICE) was also financed in 2018 in the amount of €0.1 million through a loan from Bpifrance (which matures in mid-2022).

Since 2016, Transgene has benefitted from a loan granted by the European Investment Bank (EIB) in the amount of €10 million. This loan is payable in 2021 and the interest accrued is payable starting in 2019.

In March 2019, the Company signed an engagement letter with Natixis, which allowed it to obtain a revolving credit facility of up to €20 million, which may be drawn on one or more occasions, provided that the agreement is signed with the appropriate supporting documents before April 30, 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, 2018, the Company's available cash amounted to €16.9 million versus €41.4 million on December 31, 2017.

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

Cash flow

The Company's net cash consumption amounted to €24.5 million in 2018 versus €28.1 million in 2017.

1.3.5 Investments

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

2018	Thousand euros	Principal investments
Tangible	661	Maintenance and laboratory equipment
Intangible	56	Softwares
2017	Thousand euros	Principal investments
Tangible	943	Maintenance and laboratory equipment
Intangible	14	Softwares

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

The forecast budget for tangible and intangible investments in 2019 amounts to around €1.5 million. This budget contains capital expenditures for installing a new manufacturing area for pilot batches as well as current operating expenditures for replacing and improving equipment and facilities.

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

- in July 2018 Transgene sold its 50% stake in the Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. joint venture together with the patent rights on TG1050 for Greater China for €41.4 million. As security, the company has received Tasly BioPharmaceuticals Co. Ltd. securities in the same amount, accounting for 2.53% of that company's capital;
- in September 2018 the Company participated in the capital increase of ElsaLys Biotech SA by converting its €0.3 million current receivable into equity.
- 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.

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

1.3.6.1 Information on trends

At the date of the present Registration Document, the Company expects cash outflow in 2019 of between €25 and 30 million.

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, earnings or its ability to achieve its goals and believes that, as of the date of this Registration Document, there are no significant risks other than those presented below. Investors should note that the list of risks presented below is not exhaustive and that other risks, unforeseen or the realization of which is not considered as of the date of this Registration Document, as likely to have a material negative effect on the Company's operations, financial situation, income or ability to realize its goals, may or could exist.

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 or its individual impact on the Company.

1.4.1 Risks related to the development of the Company's drug candidates

The field in which the Company carries out its R&D activities - therapeutic vaccines and oncolytic cancer virus vectors, is a new field, in which there still remain many unknowns and uncertainty. This only amplifies the risks inherent in candidate drug development, which is a long, complex, costly process with random results.

1.4.1.1 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. The best known of these are Opdivo® (nivolumab) from Bristol-Myers-Squibb and Keytruda® (pembrolizumab) from Merck and Bavencio® (avelumab) from Merck KGaA et 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 phase, pre-clinical studies, in first (TG1050 and TG6002) or second phase (TG4010 and TG4001) clinical studies. Whatever the results obtained from the former development stage, there are numerous uncertainties until the clinical development is completed. The Company's preclinical 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. 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.

1.4.1.2 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), the US Food and Drug Administration (FDA) and their counterparts in other countries (see also 1.4.5.1 Risks related to the regulation of clinical development). 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 clinical trials authorization processes is long and expensive and its outcome is uncertain. 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:

- the fact that immunotherapy is still being developed as a treatment approach;
- the regulatory requirements governing immunotherapy, in particular therapeutic vaccines and oncolytic viruses, which may change;
- the clinical results obtained by other products in the same therapeutic indications, which may modify the assessment criteria used by the regulatory authorities; and
- the data obtained from preclinical studies and clinical trials, which 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, like those of the Company, study the protocols using recombinant DNA products before authorizing them for marketing (the Haut Conseil des biotechnologies in France, the National Institutes of Health's Recombinant DNA advisory committee in the US and the Gene Therapy advisory committee in the United Kingdom);
- the recruitment of patients for inclusion in the trials may be faster or slower, or indeed fail. 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 in carrying out the trials;
- in the worst case, it is not possible to recruit the necessary number of patients within an acceptable time frame in order for the study to be conclusive and it would need to be interrupted. In order to mitigate this problem, the Company may need to increase the number of clinical centers, which adds to the complexity of follow-up and increases the cost of the trial;
- access to appropriate clinical sites may be difficult, preventing the initiation or conduct of the trial within a reasonable 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 and personalized medicine, 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, which is targeted by TG4010. 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.

The rapid changes in medical research and treatments available that have been seen in oncology in general, and immunoncology in particular, present a major risk that influences several of the factors already cited. If the standard treatments change during a clinical study, the usefulness of the results hoped for when the study was designed may turn out to be inadequate as compared to the therapeutic options that might become available during the study, and the patient populations and the inclusion criteria may prove to be inappropriate. (See also 1.4.4.1 Risks related to competition and technological development). In 2018, for instance, the independent sponsor of a clinical study dealing with TG4010 chose to stop its study largely for these reasons.

1.4.1.3 Risks related to obtaining approval for market launch

In order to obtain an approval for market launch (AML) for one or several of its products, the Company, or its partners, must demonstrate to the competent regulatory authorities, in particular the ANSM, the EMA and the FDA, the pharmaceutical quality of the products, their safety and their effectiveness for the targeted indications. 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. Even if the Company is not immediately concerned with an AML review, an AML dossier is established throughout the development of a drug candidate and the Company monitors compliance with best practices and applicable regulations in order not to hinder its chances to obtain future AMLs under the right conditions. The Company's ability to obtain an AML 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 clinical phases or of getting its products which are, as of the date of this Registration Document, in pre-clinical 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 an AML for another indication;
- whether its competitors announce clinical results that may cause the competent regulatory authorities to modify their evaluation criteria; and
- the presence of adverse side effects due to the products developed by the Company or by other companies, which could lead the regulatory authorities to restrict or prohibit use of these products or similar products.

If the Company does not obtain any AMLs, it will not be able to market its products. Furthermore, its products may not obtain an AML in a given geographic zone, which would significantly limit commercialization. If the Company licenses 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 an AML, followed by royalty payments based on product revenue.

1.4.1.4 Risks related to product adverse side effects

After obtaining an AML, the commercial success of the Company's products will essentially depend 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.

1.4.2 Risks related to the Company's financial position

The Company's development requires significant capital which it will need to find externally, given its history and loss trends.

1.4.2.1 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. The Company's 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. 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. 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. This interest could be a brake, if the majority shareholder does not have the means to pursue a capital increase and thereby imposes a limit on its amount.

The Company also receives a research tax credit (CIR - Crédit impôt recherche) to finance its activities. The Company activates the research tax credit with a banking institution each year during the year following the end of the year in question. During the last three fiscal years, the Company recorded €5,790 thousand, €5,397 thousand, and €6,297 thousand in RTC in 2018, 2017 and 2016, respectively. Given the importance of the RTC in the financing of the Company's operations, if the RTC is modified or withdrawn due to a change in French tax policy, that would have an impact on the Company's financing abilities. 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 obtain a loan of €10 million from the European Investment Bank which is due in June 2021 and must therefore find refinancing. The Company has also implemented a renewable credit line with Natixis which has a maximum draw of €20 million until June 2021. This line of credit is secured by the shares of Tasly Pharmaceuticals (see 1.2.5 Material Contracts) held by the Company. The drawing ability could be lowered if the value of the shares decreases, with an obligation to reimburse the amount of potential draws that exceeds the value of the any early revaluations].

1.4.2.2 Risks related to past and future losses

For several years now, with the exception of a profit of €8,026 in 2018, the Company has recorded operating losses in its consolidated financial statements. At December 31, 2018, the accumulated deficit amounted to approximately €667.7 million (versus €667.6 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 operations and pre-clinical 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 to achieve profitability and become self-financing.

1.4.3 Risks related to manufacturing

Certain of the Company's candidate drugs are developed by third parties, through partnership agreements. In addition, the Company relies on various third parties to manufacture its clinical batches and, when the time comes, its commercial batches.

1.4.3.1 Specific risks related to development, manufacturing and product marketing partnerships

The Company's strategy in terms of research and development and the marketing 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 Pexa-Vec Development and Marketing Agreement signed with SillaJen in August 2010 which was amended in December 2015. Under the terms of the amended agreement, Transgene holds exclusive marketing rights to Pexa-Vec in Europe, as well as manufacturing rights in 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;

- 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. Putting an alternate supplier into place would generate production delays for the Company as well as significant investments;

- the exclusive service agreement signed in February 2016 as well as the agreement being negotiated on a non-exclusive basis with ABL to have ABL Europe manufacture the clinical batches of certain Transgene products for its clinical studies. While ABL Europe is operating in Transgene's former manufacturing facilities, staffed mainly by reassigned employees, ABL Europe might be unable to perform the requested services within the time frames and specifications imposed by Transgene or keep the required authorizations for its operations. This could delay the Company in executing its clinical development plan;

- The Company has signed a collaborative development agreement with NEC for a personalized vaccine. The development and marketing for this vaccine will thus depend on the proprietary technology and future joint decisions with NEC Corporation and, consequently, the priorities and interests of this strategic partnership. There is a risk that Transgene and NEC Corporation do not reach agreement on the key aspects of developing or operating the jointly developed vaccine or that Transgene will need to accept solutions that are not optimal from its point of view, with a significant impact on developing the vaccine in question and on its value to the Company.

1.4.3.2 Risks related to manufacturing clinical batches and, potentially, commercial batches

Since February 1, 2016, the Company no longer has its own large-scale 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 (see 1.4.3.1 Specific risks related to development, manufacturing and marketing partnerships), does not have sufficient capacity to guarantee the commercial-scale production of these products beyond the initial phase. The Company 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. To overcome some of these production-related risks, the Company is presently acquiring the means to produce internally and to "good manufacturing practices" standards small batches of certain MVA and VV virus-based products for purposes of research and small-scale clinical studies. If the new production equipment is not available and approved by the French health authority (ANSM) in the time frame planned or if they prove to take longer to install or be less reliable than the Company contemplated, the Company risks disorganization and delay in some of its activities, with consequence for the costs and even the feasibility of some of its projects.

1.4.4 Risks related to competition

The Company operates in a sector where numerous other companies develop competing products which could be more successful. This competition also exists with respect to intellectual property and the Company could see its development blocked or stalled by the rights of third parties.

1.4.4.1 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 risk could also have an impact on our ability to recruit patients for clinical studies and on the scientific or commercial usefulness of the protocols of the studies under way.

1.4.4.2 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. This could obligate the Company 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.

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.

Its business could be affected if it could not obtain a license, or if it could obtain a license only under conditions deemed unacceptable. The same would hold if it were unable to redesign the products or processes so as to avoid being sued for infringement.

1.4.5 Regulatory risks

In addition to the risks associated with regulation applicable to the development of drug candidates already discussed in 1.4.1.2 and 1.4.1.3 and discussed below, the Company will, once it markets its products, be exposed to issues related to determining their reimbursement price.

1.4.5.1 Risk related to regulations applicable to clinical development

At the date of this Registration Document, none of the Company's products have yet to receive marketing authorization from a regulatory agency. It cannot be certain that it will receive the authorizations necessary to market one of its products. As indicated in 1.4.1.2 and 1.4.1.3, its products are subject to extensive and strict legislation, and regulatory requirements are complex, sometimes difficult to apply and subject to change. The ANSM, EMA and 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. 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, in 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.

1.4.5.2 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.

1.4.6 Financial risks

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

1.4.6.1 Foreign exchange risks

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

The Company has US dollar bank accounts. Net dollar disbursements totaled $2.8 million in 2018.

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, 2017 and 2018 (before tax and any hedging):

(in € thousands)	12/31/2018	12/31/2017
Expenditures denominated in US dollars	2,817	7,205
Equivalent in euros on the basis of an exchange rate of €1 = $1.145	2,460	6,008
Equivalent in euros in the event of an increase of 10% USD vs. EUR	2,734	6,675
Equivalent in euros in the event of a decrease of 10% USD vs. EUR	2,237	5,462

The Company's foreign exchange position as at December 31, 2018 is as follows:

(in thousands)	USD
Assets	50,727
Liabilities	300
Net position	50,427
Adjusted	50,427
Off-balance sheet position	-

1.4.6.2 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 €75 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	5 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, 2018, the market value of the hedging instrument totaled -€256 thousand.

The Company also has variable market rate liabilities under finance leases financing laboratory equipment. At December 31, 2018, the total obligation under these contracts was €735 thousand.

1.4.6.3 Liquidity risk

The Company undertook a special review of its liquidity risk and concluded that its liquidity reserves as of December 31, 2018 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, as well as the revolving loan agreement secured from Natixis in March 2019 for €20 million.

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, 2018 in very short-term money market funds or at market conditions in the cash pooling managed by the Institut Mérieux, stood at €15.0 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 and the revolving credit agreement, that makes it possible to anticipate somewhat the appreciation of the Company's shares of stock in Tasly BioPharmaceuticals. The Company plans to finance operations mainly through equity until its profitability situation changes such that it has access to debt instruments.

1.4.6.4 Equity risk in the Company

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 invest its cash in publicly traded companies; its cash is invested primarily in common shares of short-term money market funds not directly exposed to equity market risk.

1.4.6.5 Equity risk in other companies

The 27.4 million shares of Tasly BioPharmaceuticals owned by the company since July 2018 had a book value of $48 million at December 31, 2018 and represent a major asset of the Company. The Company's ability to use this asset to finance it future activities depends on the success of the initial public offering of Tasly BioPharmaceuticals announced by its parent company, Tasly, as well as the market price of those shares after the IPO, or alternatively after the execution of Tasly's obligation to buy.

1.4.7 Legal risks

The intellectual property is an essential asset of the Company, the associated risks are therefore particularly significant for the Company (see 1.2.6 Competitive Advantages). The Company is also exposed to risks related to the use of certain dangerous products and to risks related to defective products.

1.4.7.1 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 (see 1.4.4.2 Specific risks related to patents and third-party intellectual property rights). 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.

1.4.7.2 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.

1.4.7.3 Product liability risks

Even though the Company does not currently market any products, it is exposed to liability by virtue of the clinical batches administered to patients in the trials. 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.

1.4.7.4 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. 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.

Neither the Company nor the Group are currently parties to a significant dispute. See also paragraph 1.5.2.3. "Legal and arbitration proceedings" of this Registration Document.

1.4.8 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 2018 amounted to €212 thousand (versus €228 thousand in 2017 and €234 thousand in 2016). 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.

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. The tables below summarize the mandates and roles of the members of the Board of Directors: The Board assessed the status of independent director in accordance with the criteria of the MiddleNext Corporate Governance Code. The directors' terms expire on the date of the Annual General Shareholders' Meeting held in the year indicated to approve the financial statements for the year ended on the 31st day of December preceding the meeting.

PHILIPPE ARCHINARD

Chairman and Chief Executive Officer – Director
Age: **59**
First appointment: **2004**
Term expires: **2020**
Number of Company shares held: 70,405
Number of Company options held: **0**

Principal role outside of the Company:

Chairman of the Immunotherapy Unit at Institut Mérieux (1)

Chairman of the Technological Research Institute BIOASTER (3)

Management experience and expertise:

Graduated from the Management Program at Harvard Business School

Chairman of bioMérieux Inc. (United States) (1) (2)

Deputy CEO of bioMérieux SA (1) (2)

CEO of Innogenetics BV

Other offices held:

Chief Executive Officer: TSGH (1) Permanent representative of TSGH on Board of ABL, Inc. (1) (2)

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

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

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 foundation (end: 2017)

JEAN-LUC BÉLINGARD

Director
Age: **70**
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 (1)

Management experience and expertise:

HEC Paris and MBA Cornell University (US)

Chairman and CEO of IPSEN (2001 à 2010)

Chairman and CEO of bioMérieux (2011-2017)

Other offices held:

Director of bioMérieux SA (1) (2), LabCorp of America, Stallergenes Greer UK, Lupin (India), Pierre Fabre SA,

Offices expired during the last five years:

Chairman of BioMérieux (end: 2017), Director: AES Chemunex SA (end: 2013)

(1) Institut Mérieux group company.

(2) Publicly traded company.

(3) Association, foundation or other.

ANTOINE BERET

Independent director

Member of the Audit and Compensation (Chairman) Committees

Age: **74**

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: **64**

First appointment: **2008**

Term expires: **2019**

Number of Company shares held: **5,000**

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

Principal role outside of the Company:

Independent director

Management experience and expertise:

Doctor of medicine

30 years clinical experience in oncology (held clinical development management positions)

Other offices held:

Director: ONXEO (2) (FR), Halozyme Therapeutics (2) (US), Pieris Pharmaceuticals (2) (US), Oxford BioTherapeutics (3) (UK); Nordic Nanovectors ASA (2) (NO); IDDI - International Drug Development Institute (3) (Belgium)

Member of the international scientific committee of the National Cancer Institute (3)

President: Fondation Synergie Lyon Cancer (3)

Offices expired during the last five years:

ITEOS Therapeutics (Belgium) (end: 2017); Celator Pharmaceuticals (US) (ended 2016)

(2) Publicly traded company.

(3) Association, foundation or other.

BENOÎT HABERT

Independent director

Member of the Audit (Chairman) and Compensation Committees

Age: **54**

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)*

Offices held within GIMD: Figaro Group*; Dassault Médias*; HOWTOMEDIA*; Figaro classifieds*; Marco Vasco*; Maison de la Chine et de l'Extrême Orient*

Director: Mérieux NutriScience Corp. (USA) (1); Colombus Family Holding; Dargaud; Éditions Dupuis (Belgium); Éclosion; ITEN; KTO (3) TV and Fondation KTO; ZEWAOW

Non-voting observer: Relaxnews; UNOWHY

Offices expired during the last five years:

As a permanent representative of GIMD: bioMérieux SA (1)(2); Silliker (1); Sport 24 (SA), Intigold

* Controlled by GIMD.

MARIE-YVONNE LANDEL

Independent director

Member of the Audit Committee

Age: **66**

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: Safe Orthopaedics (2), Cellnovo Group SA (2)

Offices expired during the last five years:

Director: TxCell (end: 2018)

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

(1) Institut Mérieux group company.

(2) Publicly traded company.

(3) Association, foundation or other.

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: Cie bioMérieux Italia SpA [(1)] (Italy)

Director and Chairman ex officio: Fondation Christophe et Rodolphe Mérieux Institut de France [(3)]

Chairman: Fondation Mérieux [(1)] [(3)]

Director: Fondation Pierre Fabre and Fondation HCL-Hospices Civils de Lyon [(3)]

Offices expired during the last five years:

ABL (end: 2019); CIC Lyonnaise de banque (end: 2018); bioMérieux (end: 2017), Plastic Omnium SA (end: 2018), Mérieux NutriSciences (United States) (end: 2017), Fondation pour l'Université de Lyon (Chair) (end: 2015)

Institut de Recherche Techonologique BIOASTER (ended in March 2014)

MAYA SAÏD

Independent director

Member of the Compensation Committee

Age: **42**

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. USA

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:

Chief Executive Officer: Outcomes4me Inc. USA

Offices expired during the last five years:

None.

TSGH

Director

Member of the Audit Committee and the Compensation Committee

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.

(3) Association, foundation or other.

REPRESENTED BY: DOMINIQUE TAKIZAWA

Permanent representative of TSGH
Age: **62**
Number of Company shares held: **0**
Number of Company stock options held: **0**

Principal role outside of the Company:

Corporate Secretary at the Institut Mérieux (1) (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 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(1):

Institut Mérieux (paid Director), ABL, Inc. (United States), ElsaLys Biotech (Chairman of the Board of Directors) (2), Mérieux NutriSciences Corporation (United States)

Outside the Mérieux Group:

ADOCIA (2), April (2), Theradiag (2), Lyon Place Financière et Tertiaire (3), Lyon Pôle Bourse (3)

Offices expired during the last five years:

Director: Platine (renamed ABL Lyon)

LAURENCE ZITVOGEL

Independent director
Age: **55**
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

and Oncologist-Researcher-Immunotherapist at 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:

Member of the Scientific Advisory Board of Lytix Biopharma, Epivax and NeoVax

Cofounder of EverImmune

(1) Institut Mérieux group company.

(2) Publicly traded company.

(3) 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 represent the Economic and Social 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	59	Chairman and Chief Executive Officer	2004
Éric Quéméneur	55	Deputy CEO – R&D Director	2014
Christophe Ancel	55	Responsible Pharmacist – Vice-President, Quality and Deputy Chief Executive Officer	2014
Maud Brandely	65	Vice-President, Clinical Development, Clinical Operations and Regulatory Affairs	2016
Jean-Philippe Del	39	Vice-President, Finance	2014
Thibaut du Fayet	51	Vice-President, Strategic Alliance, Project Management and Marketing	2008
John Felitti	49	Vice-President, General Counsel and Corporate Secretary	2016
Hemanshu Shah	58	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.

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, 56.7% of the capital and 66.9% 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 TSGH (represented by Mrs. Takizawa), whose functioning is outlined in Section 2.3, examined the following points in particular during fiscal year 2018:

- review of the consolidated and corporate financial statements for fiscal year 2017;
- review of the consolidated financial statements of the first half of 2018;
- review of the 2019 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, as well as TSGH, and whose working methods are described in Section 2.3, examined, among other subjects, the compensation of senior management and the Executive Committee during 2018; 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 2018.

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.

It should be noted that in 2018, 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 €278.9 thousand (including €135 thousand in variable compensation and €9 thousand in benefits in kind – company car), which were not charged to the Company in 2018.

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 2017	Amount paid in 2018
JEAN-PIERRE BIZZARI		
Director's fees	23.75	32
Other compensation	None	None
JEAN-LUC BÉLINGARD (1)		
Director's fees	None	None
Other compensation	None	None
ANTOINE BERET		
Director's fees	30.25	28
Other compensation	None	None
BENOÎT HABERT		
Director's fees	30.25	28
Other compensation	None	None
MARIE-YVONNE LANDEL		
Director's fees	38	44
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
MAYA SAÏD		
Director's fees	36	52
Other compensation	None	None
LAURENCE ZITVOGEL		
Director's fees	14.75	18
Other compensation	None	None
TOTAL	**183**	**202**

(1) Non-independent director

Tables 4 and 5: see Section 2.2.3 below.

Table 6: performance shares allocated to each corporate officer during the fiscal year: Chairman & CEO: 26,000 shares. Deputy Chief Executive Officer: 8,600 shares

NB: *Due to the Company's performance criteria only being partially met for 2018, on March 20, 2019, the Board of Directors reduced the Chairman and Chief Executive Officer's allocation of performance shares by 3,250 shares and the Deputy Chairman and Chief Executive Officer's allocation by 1,075 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 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.

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 2019) and 2.3.3 (compensation for 2018). The Chairman and Chief Executive Officer does not have an employment contract with the Company. He is compensated by the Company for his position as a corporate officer. 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, 2018, retirement provisions set up by the Company for the corporate officers totaled €348.5 thousand for Philippe Archinard and €47.6 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, 2018 is summarized in the following table.

Grant date	Exercise start date	Expiration date	Exercise price	Number of options granted	Number of options exercised in 2018	Number of options remaining to be exercised at 12/31/2018*
10/4/2007	10/5/2012	10/5/2017	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	0
12/9/2009	12/10/2015	12/10/2019	17.122	76,907	0	72,316
12/7/2010	12/8/2015	12/8/2020	14.198	321,054	0	214,419
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**	**328,063**

* *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 2018: NONE

STOCK OR PURCHASE OPTIONS ALLOCATED DURING THE FISCAL YEAR TO EACH COMPANY EXECUTIVE CORPORATE OFFICER 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 2018: 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 2018. 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, 2018, adopted by the Board of Directors in 2017 and 2018 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, and on May 24, 2018, 200,733 newly issued shares subject to a withholding period of two years were definitively attributed to beneficiaries of the plan adopted by the Board of Directors on May 24, 2016. In total, 401,183 shares in the share capital of Transgene were issued under free allocations of shares.

The status of these plans at December 31, 2018 is summarized in the following table:

		2018 plan
General Meeting date		
Total number of shares authorized by the meeting		
	2017 allocation	**2018 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.	31,000	34,600
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.	49,400	85,000
Board of Directors meeting date	3/17/2017	3/21/2018
Total number of bonus shares allocated	183,000	220,600
Balance at 12/31/2018	179,800	218,600
Of which: number of shares allocated to corporate officers and members of the Executive Committee	72,000	104,600
Final grant date	3/17/2019	3/21/2020
Expiration date of the lock-up period	3/17/2021	3/21/2022
Share value on the date of allocation (opening price on the date of allocation)	€ 2.63	€ 3.15

On March 20, 2019, the Board of Directors decided to grant 414,800 free shares in a general grant to employees and corporate officers, with a vesting period of thirteen months followed by a mandatory holding period ending on April 20 2023. Performance conditions apply to half of the grant to the Executive Committee, including 30,000 of the 60,000 shares granted to the Chairman & CEO and 8,750 of the 17,500 shares granted to the Deputy CEO.

As at the date of this report, given the shares granted on March 20, 2019, the free shares awarded and not issued represent a potential dilution of 622,200 shares; the shares and options awarded and not exercised represent a potential dilution of 328,063 shares, giving a total of approximately 1.52% of the Company's share capital.

2.3 REPORT ON CORPORATE GOVERNANCE

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 20, 2019,

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*	None
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 2018), 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 four times in 2018, 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 four times in FY 2018. 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 2018, 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 three times in 2018.

- **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 2018, the Company did not adopt a new regulated agreement.

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 2018:

- a mobility agreement 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;
- 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; 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, 2018 is shown in Section 2.2 of the Company's Registration document.

2.3.2 Compensation for 2019 – 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 20, 2019, 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 22, 2019 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, the volatility of their value, and in the presence condition. The multiannual vesting and conservation period after granting is medium-term and, in itself, sufficient to provide an incentive for long-term collective performance, and is reinforced for the Chairman and Chief Executive Officer, who has an obligation to retain 10% of the grant until the end of the performance of his duties.

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. The fixed compensation proposed for the 2019 fiscal year is € 403,391.

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: the valuation of the Company's mature assets, the valuation of research programs, and the ability of the Company to advance its clinical programs, including those that derive from the new generation platforms (particularly *myvac*™ and Invir.IO™).

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. The fixed compensation proposed for the 2019 fiscal year is €112,547.

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: the valuation of the Company's mature assets, the valuation of research programs, and the ability of the Company to advance its clinical programs, including those that derive from the new generation platforms (particularly *myvac*™ and Invir.IO™).

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 2018 – Executive corporFFate officers compensation for 2018 (Say on Pay Ex-Post "Sapin II" law)

Following a proposal by the Compensation Committee, at its meeting on March 21, 2018, the Board of Directors agreed the compensation package for Philippe Archinard and Christophe Ancel for 2018. This package was proposed to the General Shareholders' Meeting on May 24, 2018 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 May 24, 2018, his annual compensation for 2018 was made up of annual fixed gross compensation of €393,552 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 2018 was made up of annual fixed gross compensation of €112,338 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 Chief Executive Officer that a portion of the free shares granted in March 2018 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 20, 2019, the Board of Directors reviewed the extent to which the individual criteria had been met. The Company's 2018 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 2018. Applying this 75% level of achievement to the 2018 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 2018. For Christophe Ancel, the level of achievement of Company collective objectives and individual performance conditions gives rise to variable compensation of 25% of his fixed annual compensation for 2018.

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 2018 is presented below.

Table 1

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

(in € thousands)	FY 2017	FY 2018
Philippe Archinard, Chief Executive Officer		
Compensation payable for the year *(details in Table 2)*	732	743
Valuation of options assigned during the year *(details in Table 4)*	None	None
Valuation of performance shares assigned during the year	63	82
TOTAL	**795**	**825**
Christophe Ancel, responsible pharmacist, deputy Chief Executive Officer		
Compensation payable for the year *(details in Table 2)*	129	131
Valuation of options assigned during the year *(details in Table 4)*	None	None
Valuation of performance shares assigned during the year -- 7,000 shares in 2017 compared to 8,600 shares in 2018.	18	27
TOTAL	**147**	**158**

NB: *Due to the Company's performance criteria only being partially met for 2018, on March 20, 2019, the Board of Directors reduced the Chairman and Chief Executive Officer's allocation of performance shares by 3,250 shares and the Deputy Chairman and Chief Executive Officer's allocation by 1,075 shares.*

Table 2

SUMMARY OF COMPENSATION OF EACH EXECUTIVE CORPORATE OFFICER

	FY 2017		FY 2017	
(in € thousands)	Amount due	Amount paid	Amount due	Amount paid
Philippe Archinard, Chief Executive Officer				
Fixed compensation	388	388	394	394
Variable compensation [1]	344	344	349	349
Exceptional compensation	-	-	-	-
Director's fees	-	-	-	-
Payments in kind	-	-	-	-
TOTAL	**732**	**732**	**743**	**743**
Christophe Ancel, responsible pharmacist, deputy Chief Executive Officer				
Fixed compensation	98	98	99 [1][1]	99
Variable compensation [1]	25	25	25	25
Exceptional compensation	2	2	2	2
Director's fees	-	-	-	-
Payments in kind	4	4	5	5
TOTAL	**129**	**129**	**131**	**131**

(1) With respect to the 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 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.

(1) Prorated from the amount of €112,338 authorized for full time.

Total amount of pension provisions

At December 31, 2018, retirement provisions set up by the Company for the corporate officers totaled €348.5 thousand for Philippe Archinard and €47.6 thousand for Christophe Ancel.

CORPORATE GOVERNANCE

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 12/31/2018, namely 143 employees (94 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.

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, 2018) 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, 2018). 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 2016, 2017 and 2018 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, 2018 are counted in the total workforce. 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, 2018.

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 12/31/2018

	Men	Women	Total
Geographical area and age distribution	**12/31/2018**	**12/31/2018**	**12/31/2018**
France	49	94	143
of whom: under 25 years old	4	3	7
25 to 39 years old	13	22	35
40 to 49 years old	14	23	37
over 50 years old	18	46	64

HIRES AND DEPARTURES

For the period from January 1, 2018 to December 31, 2018 (Including apprenticeships, vocational contracts and CIFRE [Phd training])	
Hires*	13 (including 1 temporary and 8 work-study)
Departures	16

* Including one employee leaving and entering during the year (Total Employment Pension)

NB: the following indicators were established based on a headcount of 143 employees as of December 31, 2018.

COMPENSATION AND CHANGES OVER TIME

The following table shows the breakdown of average gross annual compensation (salary and bonuses) for men and women for 2016, 2017 and 2018, according to this new method:

Classification according to the Pharmaceutical Companies		**3**	**4-5**	**6 non-managers**	**6 managers**	**7**	**8**	**9****
	Men	0	33,830	NC*	41,313	53,799	76,726	96,516
2018	Women	NC*	32,222	41,991	40,257	49,261	64,656	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	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.

Total payroll for 2018 was €14.12 million (€14.13 million in 2017; €16.13 million in 2016).

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 and 2018:

- 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 prof147ional 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;
- signature on September 13, 2018, of the agreement on Obligations relating to Animals on weekends and public holidays.

Absenteeism

The absenteeism rate was 2.21% in 2018, compared to 1.54% in 2017 2.30% in 2016.

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.

A new body called the Social and Economic Committee (CSE) which replaced the Works Council, the employee representatives and the CHSCT (Committee for Hygiene, Safety, and Working Conditions), was elected in February 2018. In its rules, the CSE created three commissions with different responsibilities: the Committee for Health, Safety and Working Conditions (CSSCT), the Commission for Gender Equality in the Training Commission.

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. It operates based on the schedule of deadlines defined by the parties.

Collective bargaining agreements

The Company undertook a number of discussions with the social partners, resulting in the signature of four agreements in 2017 and one in 2018:

- 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;
- the Gender Equality agreement signed on March 8, 2017;
- and the agreement on Obligations relating to Animals on weekends and public holidays signed on September 13, 2018.

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 (CSSCT) holds its ordinary meetings twice yearly. It 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 2018, or in 2017 and 2016. No analyses were carried out in 2018 (two in 2017 and none in 2016) following a workplace accident and an incident.

WORKPLACE ACCIDENTS, FREQUENCY AND SEVERITY; OCCUPATIONAL DISEASES

Number of accidents (including onsite aid in the infirmary)	2016	2017	2018
Total Company accidents resulting in an entry in the infirmary logs or a report	6	15	18
Number of accidents reported	1	5	9
of which, commuting accidents (home-workplace)	-	3	2
workplace accidents	1	1	5
travel accidents (away from the workplace)	-	1	2
Number of accidents with work stoppage	1	-	1
Number of travel accidents with work stoppage	-	1	1
Frequency rate [1]	3.39	0.00	4.051
Severity rate [2]	0,003	0,000	0.024

(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 2018 (none in 2017 and 2016). The employer did not file any reports indicating any processes that could cause occupational illnesses in 2018 or in 2017 and 2016.

Training

Training policies implemented

Employees enter the Company with a high level of prior training. Over 55% 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, 6.20% in 2017 – data not yet available for 2018) 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.

In 2018, the Company also pursued a policy to secure its skills *via* skills transmission through the internal training program set up in 2017. Nineteen employees were trained and certified as trainers to enable them to provide training modules in-house in technical and scientific fields. 321.50 hours of training were provided in-house in 2018 for a total of 94 employees.

Total number of hours of training

42,973 hours were dedicated to occupational training in 2018 (4,602 in 2017 and 4,929 in 2016). 76% of employees took at least one training course in 2018, including internal training (94% in 2017 and 87% in 2016).

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 2016, 2017 and 2018 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 36 employees in 2018, including 4 male managers, 25 female managers, and 7 female non-managers, (29 employees in 2017 including 3 male managers, 19 female managers and 7 female non-managers in 2017; 29 employees including 4 male managers and 25 women of which 18 managers in 2016);
- 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 €66,884 in 2018 and €66,187 in 2017 and €65,617 in 2016).

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.

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 five people in 2017/2018;
- Transgene has also continued its communication efforts by organizing its **sixth** annual disability day in November 2018, 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, conferences and the creation of a collective canvas in 2018.

In 2018, and for the fourth consecutive year, the Company is exempt from the payment of the Agefiph contribution (paid to HANDI'EM in the pharmaceutical sector). It employed five RQTH-declared people in 2018 (nine employees including three under reclassification in 2016; 14 including 8 under reclassification in 2016). The Company also used several social-support-through-work centers for various services (HANDIRECT, ESAT ESSOR, AVS, ESAT LA GANZAU, 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 French Labor Code.

Elimination of discrimination in respect of employment and occupation

See above, Non-discrimination.

Elimination of forced or compulsory labor

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

Effective abolition of child labor

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

3.3 ENVIRONMENTAL INFORMATION

3.3.1 Environment

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

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

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

3.3.2 Environmental responsibility

3.3.2.1 General policy in environmental matters

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

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

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

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

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

Training and information for employees regarding environmental protection

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

Resources devoted to the prevention of environmental risks and pollution

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

Provisions and guarantees for environmental risks

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

3.3.2.2 Pollution and waste management

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

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

Prevention, recycling and waste disposal measures

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

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

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

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

3.3.2.3 Sustainable use of resources

Water use and water supply according to local restrictions

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

WATER *(M^3)*

Year	Volume	Change
2016	3,104	-44%
2017	3,229	+5%
2018	3,344	+4%

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

The Company does not directly consume raw materials.

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

The equipment in the research laboratories and the facilities for producing clinical batches run exclusively on electricity.

There is a very strict equipment maintenance plan to ensure optimal energy consumption.

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

ELECTRICITY *(KWH)*

Year	Total	Change
2016*	3,902,541	-30%
2017	2,899,306	-33%
2018	3,346,907	+15%

* *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:

- 200 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 Biovalley France, an association for the development of activities related to life sciences in the Grand Est Region, and Strasbourg Sud Développement, which conducts actions to promote employment in this sector.

Partnerships or sponsorships

As part of the measures negotiated in the 2015 Majority Agreement, in 2018 Transgene signed a job creation agreement with the Prefect of the Bas-Rhin department.Transgene decided to help revive business and create jobs by actively and financially supporting four associations:

- BioValley France: Grand Est Region cluster providing financial assistance for innovative projects, managed by Healthcare companies, for Healthcare companies;
- SEMIA: As the Region's incubator, SEMIA helps start-ups at every stage of the business-creation process through coaching, training courses, a strong community of entrepreneurs and inspirational facilities;
- Citéslab: Citéslab's objective is to foster an entrepreneurial mind-set in critical neighborhoods in the Eurométropole (the Strasbourg metropolitan area), identify potential entrepreneurs, help them plan their project and guide them toward support networks;
- Strasbourg Employment Center: Transgene particularly supports the launch of an activity platform for this employment center in the Neuhof neighborhood of Strasbourg. This platform's objective is to address businesses' one-off and short-term needs by hiring long-term job seekers.

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.

4

ANNUAL FINANCIAL STATEMENTS AT DECEMBER 31, 2018

4.1 FINANCIAL STATEMENTS AND NOTES

4.1.1 Consolidated financial statements

Consolidated balance sheet, IFRS

ASSETS

(in € thousands)	*Notes*	12/31/2018	12/31/2017
CURRENT ASSETS			
Cash and cash equivalents	*2*	1,885	1,643
Other current financial assets	*2*	15,015	39,762
Cash, cash equivalents and other current financial assets	***2***	**16,900**	**41,405**
Trade receivables		784	2,564
Inventories		443	270
Other current assets	*3*	11,627	14,497
Assets available for sale	*4*	-	-
Total current assets		**29,754**	**58,736**
NON-CURRENT ASSETS			
Property, plant and equipment	*5*	13,217	13,604
Intangible assets	*6*	180	250
Non-current financial assets	*7*	45,158	3,971
Investments in associates	*7*	-	2,916
Other non-current assets	*8*	20,234	21,396
Total non-current assets		**78,789**	**42,137**
TOTAL ASSETS		**108,543**	**100,873**

LIABILITIES AND EQUITY

(in € thousands)	*Note*	12/31/2018	12/31/2017
CURRENT LIABILITIES			
Trade payables		4,791	2,868
Financial Liabilities	*9*	11,207	10,283
Provisions for risks	*10*	76	356
Other current liabilities	*11*	3,463	3,359
Total current liabilities		**19,537**	**16,866**
NON-CURRENT LIABILITIES			
Financial Liabilities	*9*	48,369	51,717
Employee benefits	*12*	3,778	3,710
Other non-current liabilities		158	491
Total non-current liabilities		**52,305**	**55,918**
Total liabilities		**71,842**	**72,784**
EQUITY			
Share capital	*13*	62,276	62,075
Share premiums et reserves		512,581	512,228
Retained earnings		(545,468)	(513,194)
Profit/(loss) for the period		8,026	(32,274)
Other comprehensive income/(loss)		(714)	(746)
Total equity attributable to Company shareholders		**36,701**	**28,089**
TOTAL EQUITY AND LIABILITIES		**108,543**	**100,873**

CONSOLIDATED INCOME STATEMENT, IFRS

(in € thousands, except for per-share data)	*Notes*	12/31/2018	12/31/2017
Revenue from collaborative and licensing agreements	*14*	1,335	2,099
Public funding for research expenses	*14*	5,749	5,358
Other income	*15*	35,835	687
Operating income		**42,919**	**8,144**
Research and development expenses	*1.3.3*	(27,349)	(30,359)
General and administrative expenses	*1.3.3*	(6,991)	(5,674)
Other expenses	*15*	(1,211)	(154)
Operating expenses		**(35,551)**	**(36,187)**
Operating income/(loss)		**7,368**	**(28,043)**
Net finance cost	*16*	(2,017)	(2,287)
Share of profit/(loss) and disposal of investments in associates	*7*	2,675	(1,944)
Income tax expense		**8,026**	**(32,274)**
Income tax expense	*17*	-	-
NET INCOME/(LOSS)		**8,026**	**(32,274)**
Basic earnings per share *(€)*	*13*	0.13	(0.52)
Diluted earnings per share *(€)*	*13*	0.13	(0.52)

OTHER COMPONENTS OF COMPREHENSIVE INCOME, IFRS

(in € thousands)	12/31/2018	12/31/2017
Net income/(loss)	**8,026**	**(32,274)**
Foreign exchange gains/(losses)	1	(4)
Revaluation of hedging instruments	85	134
Other elements of comprehensive income/(loss) subsequently restated as income	**86**	**130**
Actuarial gains/losses on employee benefit provision	(54)	107
Other elements of comprehensive income/(loss) subsequently non-recyclable as income, net of deferred taxes	**(54)**	**107**
Other comprehensive income/(loss)	**32**	**237**
NET COMPREHENSIVE INCOME/(LOSS)	**8,058**	**(32,037)**
Of which, attributable to parent company	8,058	(32,037)
Of which, non-controlling interests	-	-

CASH FLOW STATEMENT, IFRS

(in € thousands)	Notes	12/31/2018	12/31/2017
CASH FLOW FROM OPERATING ACTIVITIES			
Net income/(loss)		8,026	(32,274)
Cancellation of financial income		2017	2,287
Elimination of non-cash items			
Income of associates		(2,675)	1,944
Provisions		(333)	(1,070)
Depreciation	*5.6,7*	1,733	1,691
Share-based payments	*18.2*	467	436
Other	*15*	(35,590)	60
Net cash generated from/(used in) operating activities before change in working capital and other operating cash flow		**(26,355)**	**(26,926)**
Change in operating working capital requirements			
Current receivables and prepaid expenses	*22*	2,268	(2,117)
Inventories and work in progress		(173)	(49)
Research tax credit (RTC)/CICE	*14.2*	(5,899)	(5,530)
Other current assets	*3*	23	941
Trade payables	*22*	2,031	(1,778)
Prepaid income	*11*	(368)	766
Employee benefits	*12*	(6)	(663)
Other current liabilities	*9*	144	(14)
Net cash used in operating activities		**(28,381)**	**(35,370)**
CASH FLOWS FROM INVESTING ACTIVITIES			
(Acquisitions)/disposals of property, plant and equipment	*5*	(1,359)	(432)
(Acquisitions)/disposals of intangible assets	*6*	(45)	(30)
Other (acquisitions)/disposals	*7*	6	100
Net cash used in investing activities		**1,398**	**(362)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net financial income/(loss) proceeds	*16*	(75)	(113)
Gross proceeds from the issuance of shares	*13*	-	14,390
Share issue costs		-	(1,118)
Conditional subsidies	*14.2*	30	2,528
(Acquisitions)/disposal of other financial assets	*2*	24,790	11,651
Net amounts received for financing of tax credits	*9*	5,666	6,307
Financial leases	*9*	(391)	(1,121)
Net cash generated from/(used in) financing activities		**30,020**	**32,524**
Exchange rate differences on cash and cash equivalents		1	(4)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**242**	**(3,212)**
Cash and cash equivalents at beginning of period		1,643	4,855
Cash and cash equivalents at end of period		**1,885**	**1,643**
Investments in other current financial assets		15,015	39,762
CASH, CASH EQUIVALENTS AND OTHER CURRENT FINANCIAL ASSETS		**16,900**	**41,405**

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, 2016	**56,431,991**	**56,432**	**504,248**	**(487,987)**	**(983)**	**(25,207)**	**46,504**
Share-based payments	-	-	-	-	-	-	-
Capital increase	5,643,199	5,643	8,065	-	-	-	13,707
Liquidity contract	-	-	(85)	-	-	-	(85)
Allocation of net income/(loss) 2016	-	-	-	(25,207)	-	25,207	-
2017 net income/(loss)	-	-	-	-	-	(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**
Share-based payments	200,733	201	266	-	-	-	467
Capital increase	-	-	-	-	-	-	-
Liquidity contract	-	-	87	-	-	-	87
Allocation of net income/(loss) 2017	-	-	-	(32,274)	-	32,274	-
2018 net income/(loss)	-	-	-	-	-	8,026	8,026
Fair value gains on available-for-sale financial assets	-	-	-	-	1	-	1
Actuarial gains/losses on employee benefit provision	-	-	-	-	(54)	-	(54)
Interest rate swap	-	-	-	-	85	-	85
Net comprehensive income/(loss)	-	-	-	-	32	8,026	8,058
AS OF DECEMBER 31, 2018	**62,275,923**	**62,276**	**512,581**	**(545,468)**	**(714)**	**8,026**	**36,701**

4.1.2 Notes to the consolidated financial statements

(in € thousand unless otherwise indicated)

Foreword

The consolidated financial statements of Transgene (the "Company") at December 31, 2018 were prepared in accordance with the principles and methods defined by IFRS (International Financial Reporting Standard) as adopted by the European Union. They were approved by the Board of Directors on March 20, 2019.

Transgene is a biotechnology company that designs and develops immunotherapy products target against cancers and infectious diseases.Transgene is fully consolidated in Compagnie Mérieux Alliance (17 rue Bourgelat, 69002-Lyon, France).

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 equity; and
- the notes to the financial statements.

NOTE 1 ACCOUNTING PRINCIPLES

Accounting basis

The accounting principles used to prepare the consolidated financial statements are in accordance with IFRS standards and interpretations as adopted by the European Union as of December 31, 2018 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, IN EUROPE

Standard/Interpretation	Date of application per IASB (periods beginning on or after)	Expected EU date of application (no later than periods beginning on or after)
IFRS 9 – Financial Instruments	1/01/2018	1/01/2018
IFRS 15 Revenue from Contracts with Customers & effective date of amendments to IFRS 15	1/01/2018	1/01/2018
Clarifications made regarding IFRS 15	1/01/2018	1/01/2018
Amendments to IFRS 2: *Classification and Measurement of Share-based Payment Transactions*	1/01/2018	1/01/2018
Amendments to IFRS 4: Application of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts	1/01/2018	1/01/2018
Annual Improvements to IFRS (2014-2016 cycle)		
Amendments to IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	1/01/2018	1/01/2018
IFRIC 22 – Foreign Currency Transactions and Advance Consideration	1/01/2018	1/01/2018
Amendments to IAS 40: *Transfers of Investment Property*	1/01/2018	1/01/2018

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

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

- identification of the contract;
- identification of the various performance obligations, *i.e.* the list of separate goods or services that the seller has undertaken to provide to the buyer;
- determination of the total contract price;
- allocation of the total price to each performance obligation;
- recognition of revenue and related costs whenever a performance obligation is satisfied;
- the analysis performed by the Company did not have an impact on the Company's financial statements.

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

- classification and valuation;
- depreciation;
- hedge accounting.

The standard was applied retrospectively, except for phase 3 on hedges, which was applied early and had no impact. For non-derivative financial assets, IFRS 9 requires a change in the classification of sub-categories of financial assets without any change in the valuation principles for these assets, which are still measured either at fair value or at cost. The application of IFRS 9 has no impact on the Company's consolidated financial statements (see Note 23).

OTHER STANDARDS/AMENDMENTS PUBLISHED AT DECEMBER 31, 2018

Standard/Interpretation	Date of application per IASB (periods beginning on or after)	EU date of application (no later than periods beginning on or after)
Amendments to IFRS 10 *and* IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* *Effective date of amendments to* IFRS 10 and IAS 28	Postponed indefinitely	Suspended
IFRS 16 *Leases*	1/01/2019	1/01/2019
IFRIC 23 – *Uncertainty over Income Tax Treatments*	1/01/2019	Endorsement expected in Q3 2018
IFRS 17 – *Insurance contracts*	1/01/2021	ND
Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures*	1/01/2019	1/01/2019
Annual Improvements to IFRS 2015-2017 *cycle*	1/01/2019	1/01/2019
Amendments to IFRS 3 *Business Combinations &* IFRS 11 *Joint Arrangements*		
Amendments to IAS 12 *Income taxes*		
Amendments to IAS 23 *Borrowing costs*		
Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*		1/01/2019
Changes to references to Conceptual Framework in IFRS	01/01/2020	ND

The Company decided not to opt for early adoption of the new standards and interpretations and the new amendments for which application was not mandatory for the fiscal year ended December 31, 2018. With respect to IFRS 16 Leases, which will replace IAS 17 and the associated IFRIC and SIC interpretations, as at the date of these financial statements, the Company:

- has conducted an exhaustive survey of the lease agreements with respect to the criteria for their identification according to IFRS 16;
- has chosen to apply the exemptions for low value assets and short-term leases;
- has estimated the reasonably certain term of its lease contracts, which corresponds to the non-cancellable period of each contract;
- has used the "practical expedient" of excluding contracts with a term of less than one (1) year.

The Company plans to apply the standard on January 1, 2019 using the modified retrospective method. Consequently, on January 1, 2019, Transgene will record a right of use equal to the lease debt corresponding to the present value of rent payable during the reasonably certain period of the lease. The Company's equity will not be impacted as a result of the transition to IFRS 16. The application of IFRS 16 on January 1, 2019 will not have an impact on the Company's cash and cash equivalents. The discount rate applied is the incremental borrowing corresponding to the term of each lease in place at that date. Thereafter, it will be the same in the absence of recognition of the implicit rate in the contract. The impact of IFRS 16 will not be significant.

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, and materiality.

Regarding the Company's going concern, it considers that obtaining a revolving credit of €20 million in March 2019 allows it to continue operating for more until mid-2020 as of the closing date.

Transgene's management made estimates and assumptions in preparing the financial statements in accordance with IFRS, which 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) and ElsaLys Biotech SA assets;
- the new Tasly BioPharmaceuticals non-consolidated equity securities, which had no significant influence (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, Transgene Inc., and Transgene BioPharmaceutical Technology (Shanghai) Co. Ltd. ("Transgene Shanghai" currently being wound up), 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:

	2018		2017	
Company	Percentage of ownership	Nature of control	Percentage of ownership	Nature of control
ElsaLys Biotech SA	8.25%	Significant influence	15.22%	Significant influence
Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.	-	-	50%	Joint control

Transgene SA's significant influence over ElsaLys Biotech SA as of December 31, 2018 was attributable to the continued role of Transgene as a member of said company's Board of Directors, as well as to Institut Mérieux's stake in this company (47.6%).

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)	12/31/2018	12/31/2017	Change
Payroll costs (1)	11.2	11.1	+1%
Share-based payments (2)	0.3	0.3	-
Intellectual property expenses and licensing costs (3)	0.9	4.8	-81%
External expenses for clinical projects (4)	7.9	7.0	+13%
External costs on other projects (5)	1.5	1.5	-
Operating costs (6)	3.7	3.9	-5%
Depreciation and provisions (7)	1.8	1.8	-
RESEARCH AND DEVELOPMENT EXPENSES	**27.3**	**30.4**	**-10%**

(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.

GENERAL AND ADMINISTRATIVE EXPENSES

(in € millions)	12/31/2018	12/31/2017	Change
Payroll costs (1)	3.2	3.0	+7%
Share-based payments (2)	0.2	0.2	-
Fees and administrative expenses (3)	1.8	1.6	+13%
Other G&A expenses (4)	0.7	0.8	-13%
Depreciation and provisions (5)	0.1	0.1	-
GENERAL AND ADMINISTRATIVE EXPENSES	**6.0**	**5.7**	**+5%**

(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 2018 and 2017.

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 because these investments correspond either to bank accounts or to very short-term investments that do not present any risk of changes in value.

Receivables

Receivables are recognized at amortized cost, which corresponds to their nominal value. All receivables are impaired when they are recorded, in the amount of losses expected at maturity..

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 +0.25% 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 are measured at their nominal value, and the other current assets are initially recognized at cost and are subsequently measured at the lower of cost and net realizable value.

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 Company, 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 Company, 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 2018.

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, earn-outs due on the sale of interests, cash advances made to non-consolidated equity investments, and non-consolidated equity securities without significant influence that are measured at fair value relative to income. These securities are the shares in Tasly BioPharmaceuticals, acquired in July 2018 against the sale of the 50% stake in the joint venture along with the patent rights on TG1050 for Greater China.

The valuation of non-consolidated investments without significant influence is based on an analysis using the fair value method. This valuation is periodically reviewed at each balance sheet date. Any impact resulting from this periodic valuation is recognized in the income statement.

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

At December 31, 2018, investments in associates correspond to the stakes held by Transgene in ElsaLys Biotech SA (8.25% held), which are accounted for using the equity method.

ElsaLys Biotech SA
Due to ElsaLys Biotech SA's financial problems, the Company completely impaired its stake and the receivables held on this company.

Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.
On July 10, 2018, Transgene assigned its 50% interest in the Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. joint venture to Tasly BioPharmaceutical. This assignment was made pursuant to other agreements which allowed BioPharmaceutical to benefit directly from the rights of research, development and commercialization of T601 and T101 in China, two immunotherapies developed in China which include TG6002 and TG1050 technologies, respectively.

Under the terms of these agreements, Transgene obtained shares in Tasly BioPharmaceuticals for the amount of US$48 million, in return for the assignment of a portion of its interest in the joint venture, which held the rights to T601, and the assignment of T101 patent rights in Greater China.

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 Company'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.

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 IRFS 9, based on discounted expected future reimbursements. The reimbursement of advances is subject to the fulfillment of a revenue threshold on TG4010 and TG4001 products predetermined for the following five years, and in proportion to the revenue from these products until a reimbursement ceiling is reached, or up until 2035. The application of IFRS 9 had no impact on the measurement of conditional advances.

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.

Employee benefits

In accordance with the prevailing laws and practices in France, Transgene 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.

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 June 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

Revenue is recognized in accordance with IFRS 15. Under IFRS 15, revenue is recognized when the Company fulfills a performance obligation by supplying distinct goods or services (or a series of goods or services) to a client, i.e. when the client obtains control of these goods or these services. An asset is transferred when the client obtains control of this asset (or service). Given the wide range of research and development opportunities in the therapeutic field, in addition to the fields in which the Company carries out research and development activities with its own scientific and financial resources, the Company concludes license and partnership agreements with third parties in certain specific fields that generate revenue. Consequently, each contract is analyzed, case by case, to determine whether it contains performance obligations towards the other party and, if so, to identify their nature in order to determine the appropriate accounting of the amounts that the Company received or is entitled to receive from the other party, according to the principles of IFRS 15. For example:

- development services provided by the Company to create or improve intellectual property controlled by the client, for which revenue is progressively recognized, as and when the services are provided;
- transfer of control of the Company's intellectual property as it exists at the moment of sale, for which revenue is recognized at the time control is transferred;
- a license,
  - if it is considered to be a right to access the Company's intellectual property over the lifetime of the license, the revenue is recognized over this lifetime; or
  - if it is a right to use the intellectual property of the Company as it exists at the time of sale (in terms of form and functionality), revenue is recognized when the other party is able to use and benefit from the license.

Potential revenue from attainment of project milestones or royalties on sales are not recognized prior to reaching the milestone or the completion of the sale.

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.

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 is recognized as a decrease under Employee benefits expenses.

NOTE 2 CASH, CASH EQUIVALENTS AND OTHER CURRENT FINANCIAL ASSETS

(in € thousands)	12/31/2018	12/31/2017
Cash	864	627
Cash equivalents	1,021	1,016
Cash and cash equivalents	**1,885**	**1,643**
Other current financial assets	**15,015**	**39,762**
TOTAL	**16,900**	**41,405**
Impact of applying the fair value recognized in financial income to the income statement	-	-

Cash equivalents consist of a time deposit account.

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

NOTE 3 OTHER CURRENT ASSETS

(in € thousands)	12/31/2018	12/31/2017
Tax credits, current portion	8,041	9,218
State – recoverable VAT and tax receivables	312	140
Accrued credit notes	101	250
Employee benefits expense	26	29
Grant receivable	-	30
Exchange rate differences	3	-
Prepaid expenses, current portion	3,144	3,005
Receivables from the sale of participating interests, current portion	-	1,825
Receivables from the sale of fixed assets, current portion	-	-
TOTAL	**11,627**	**14,497**

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

Prepaid expenses are primarily related to batch manufacturing contracts at ABL Europe. Contracts are signed several months prior to manufacturing in order to guarantee the production date. The batches produced are then released by the Responsible Pharmacist some months after their production following several tests to confirm the quality of the batch.

As of December 31, 2017, the receivable for the sale of equity interests corresponds to the current portion of the earn-out due on the sale of the interest in Jennerex Inc. (see Note 8). In the absence of payment from SillaJen, Fortis, which represents the former shareholders of Jennerex Inc., decided to institute legal proceedings in Delaware, USA, in September 2018. According to the timetable of the legal proceedings, the Company considers that payments due to Transgene will not be made before 2020. The receivable has been therefore reclassified as Other non-current accounts (see Note 8).

NOTE 4 ASSETS AVAILABLE FOR SALE AND DISCONTINUED OPERATION

Transgene Tasly (Tianjin) BioPharmaceuticals Co. Ltd. 50%-owned was sold on July 10, 2018, as reported in the half-year report of June 30, 2018.

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

(in € thousands)	12/31/2017	Increase	Decrease	12/31/2018
GROSS CARRYING VALUE				
Land	1,771	-	-	1,771
Buildings and fixtures	15,793	482	-	16,275
Laboratory equipment	9,751	998	(56)	10,693
Office and computer equipment	1,605	58	(49)	1,614
Assets in progress	357	-	(286)	71
Total	**29,277**	**1,538**	**(391)**	**30,424**
DEPRECIATION				
Buildings and fixtures	(8,073)	(928)	-	(9,001)
Laboratory equipment	(6,213)	(569)	39	(6,743)
Office and computer equipment	(1,387)	(121)	45	(1,463)
Total	**(15,673)**	**(1,618)**	**84**	**(17,207)**
NET BOOK VALUE	**13,604**	**(80)**	**(307)**	**13,217**

(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
Transport, 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				
Buildings and fixtures	(7,155)	(920)	2	(8,073)
Laboratory equipment	(6,199)	(443)	429	(6,213)
Transport, 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**

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

(in € thousands)	12/31/2018	12/31/2017
Research and development expenses	1,713	1,636
General and administrative expenses	67	69
TOTAL DEPRECIATION EXPENSES FOR PROPERTY, PLANT AND EQUIPMENT	**1,780**	**1,705**

NOTE 6 INTANGIBLES ASSETS

(in € thousands)	12/31/2017	Increase	Decrease	12/31/2018
GROSS CARRYING VALUE				
Intangible assets	4,244	45	(55)	4,234
Intangible assets in progress	-	-	-	-
Total	**4,244**	**45**	**(55)**	**4,234**
DEPRECIATION				
Intangible assets	(3,994)	(115)	55	(4,054)
Total	**(3,994)**	**(115)**	**55**	**(4,054)**
NET BOOK VALUE	**250**	**(70)**	**0**	**180**

(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**

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

(in € thousands)	12/31/2018	12/31/2017
Research and development expenses	99	176
General and administrative expenses	18	28
TOTAL AMORTIZATION OF INTANGIBLE ASSETS	**117**	**204**

NOTE 7 NON-CURRENT FINANCIAL ASSETS

FINANCIAL FIXED ASSETS

(in € thousands)	12/31/2017	Increase	Decrease	12/31/2018
GROSS CARRYING VALUE				
Financial assets	3,714	924	(938)	3,700
Equity interest receivables	257	-	(257)	-
Non-consolidated equity securities without significant influence	-	41,458	-	41,458
Investments in non-consolidated companies	29	-	-	29
Total	**4,000**	**42,382**	**(1,195)**	**45,187**
Provisions for impairment	(29)	-	-	(29)
NET BOOK VALUE	**3,971**	**42,382**	**(1,195)**	**45,158**

(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**

The €924 thousand increase in financial assets in 2018 relates mainly to the holdback on the financing of the 2017 research tax credit (CIR) in the amount of €810 thousand and the 2018 CICE in the amount of €17 thousand.

The €938 thousand decrease in financial assets mainly relates to the repayment, in 2018, of the holdback guarantees for the 2014 research tax credit and the tax credit for competitiveness and employment.

The 41,458 thousand euros of non-consolidated equity securities without significant influence refer to the shares in Tasly BioPharmaceuticals obtained in July 2018 in exchange for the rights held in the Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. Joint venture and the rights to the product TG1050 for Greater China. Transgene owns 2.53% of Sillajen, which should be listed on the Hong-Kong Stock Exchange in 2019. This transaction occurred at the time of the capital increase, to which institutional funds made a contribution in cash, at the same subscription price as the Company.

Transgene, the institutional funds, Tasly BioPharmaceuticals and its parent company Tasly Holding Group have signed a shareholders' agreement to manage their relations in the period preceding the IPO. In addition to the usual provisions such as a right of first refusal in case of disposal by a shareholder, Tasly Holding Group undertakes to buy the shares subscribed by Transgene in the event the IPO does not take place within two years, at the initial subscription price plus an annual contractual rate.

These securities were valued at fair value with an offsetting entry in the income statement at the balance sheet date.

The main assumptions used by management in measuring fair value as at December 31, 2018 were based on the assumptions obtained from Tasly BioPharmaceuticals that were used to value the company at the time of its pre-listing refinancing in July 2018 during which the Company became a shareholder, and concern:

- the estimation of the future cash flows that will be generated by the companies held and notably by the products being developed;
- the probability of technical success and approval by the regulatory authorities of the products being developed;
- the market potential for these products being developed;· the value of the securities according to the latest capital transactions; and
- the discount rate used by management.

The Company had an independent consulting firm review and update the assumptions at the closing date, on the basis of the information provided by Tasly BioPharmaceuticals. The valuation of these securities was directly impacted by the fluctuation of the euro/US dollar parity as well as the WACC used. A 10% rise in the US dollar would decrease the value of the securities by 9%. A 10% fall in the US dollar would increase the value by 11%. A 0.50% increase in the WACC would have a negative impact of 6% on the value of these securities and a decrease of 0.50% in the WACC would have a positive impact of 7% on the securities.

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

(in € thousands)	12/31/2017	Increase	Decrease	12/31/2018
GROSS CARRYING VALUE				
Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.	7,668	-	(7,668)	-
ElsaLys Biotech SA	1,437	257	-	1,694
Total	**9,105**	**257**	**(7,668)**	**1,694**
Share of profit/(loss) of Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.	(4,752)	(504)	5,256	-
Share of profit/(loss) of ElsaLys Biotech SA	(1,437)	(257)	-	(1,694)
Total share of profit/(loss) attributable to Transgene	**(6,189)**	**(761)**	**5,256**	**(1,694)**
Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.	2,916	(504)	(2,412)	-
ElsaLys Biotech SA	-	-	-	-
NET VALUE OF EQUITY SECURITIES	**2,916**	**(504)**	**(2,412)**	**-**

(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 SECURITIES	**3,923**	**(1,007)**	**-**	**2,916**

Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.

In July 2018 Transgene sold its 50% of the Transgene Tasly Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. joint venture to Tasly BioPharmaceuticals for a value of 5,847 thousand euros. The net value of these equited-accounted shares at the sale date was 2,412 thousand euros. The Company created a capital gain on disposal of 3,435 thousand euros.

ElsaLys Biotech SA

At December 31, 2018, Transgene held 8.25% of ElsaLys Biotech SA and the net valuation of its equity-accounted shares was zero. The Company also held receivables of €1,301 thousand from the sale of rights for the TG3003 product and service provision invoices. Due to the financial difficulties faced by this company, these receivables have been depreciated in full. The Company has not recognized any additional provision for losses in excess of the amount of its equity interest because the Company has no financial support commitments to ElsaLys Biotech SA.

NOTE 8 OTHER NON-CURRENT ASSETS

(in € thousands)	12/31/2018	12/31/2017
RTC – Non-current portion	17, 484	19,453
CICE, non-current portion	362	535
Prepaid expenses, non-current portion	135	876
Receivables from the sale of participating interests, non-current portion	2,253	532
OTHER NON-CURRENT ASSETS	**20,234**	**21,396**

Research tax credits and CICE

At December 31, 2018, the Company had a receivable of €25,243 thousand (the non-current portion of which was €17,484 thousand) for the research tax credits (RTC) from 2015 to 2018, and a receivable of €644 thousand on the competitiveness and employment tax credit (CICE) from 2015 to 2018 (including €362 thousand for the non-current portion). 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	12/31/2018	12/31/2017
CURRENT PORTION			
2014	2018	-	8,943
2015	2019	7,759	-
Total current portion		**7,759**	**8,943**
NON-CURRENT PORTION			
2015 with adjustment	2019	-	7,758
2016	2020	6, 297	6,298
2017	2021	5,397	5,397
2018	2022	5, 790	-
Total non-current portion		**17,484**	**19,453**
TOTAL RTC		**25,243**	**28,396**
CURRENT PORTION			
2014	2018	-	275
2015	2019	282	-
Total current portion		**282**	**275**
NON-CURRENT PORTION			
2015	2019	-	282
2016	2020	120	120
2017	2021	133	133
2018	2022	109	-
Total non-current portion		**362**	**535**
TOTAL CICE		**644**	**810**

Receivables from the sale of participating interests

In 2014, the Company 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, 2018, receivables from the sale of participating interests was valued at €2,252 thousand. The receivable from the sale of participating interests of €2,253 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 presented in other non-current assets. 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%. The change in fair value at each balance sheet date is recorded in Financial income/(expense).

A 1% increase in the WACC would have a negative impact of about 2% on the value of the receivable. A 1% decrease in the probability used for the occurrence of future payments would have a negative impact of approximately 18% 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.

In the absence of payment by SillaJen of the price supplements due since 2017, Fortis, which represents the former shareholders of Jennerex Inc., decided to institute legal proceedings in Delaware, USA, in September 2018. According to the timetable of the legal proceedings, the Company considers that payments due to Transgene will not be made before 2020. The Company considers that there is no risk of non-recovery of this receivable given the contractual analysis that was undertaken.

NOTE 9 FINANCIAL LIABILITIES

The following table breaks down financial liabilities by maturity:

(in € thousands)	12/31/2018	12/31/2017
Financial liabilities, current portion	11,207	10,283
Financial liabilities, non-current portion	48,369	51,717
FINANCIAL LIABILITIES	**59,576**	**62,000**

As of December 31, 2018, the main financial liabilities relate to the European Investment Bank (EIB) loan of €10,000 thousand, the financing of the research tax credits for 2015 to 2017 and the competitiveness and employment tax credits (CICE) for 2015 to 2018, property leasing (headquarters and main research and development laboratories), and conditional Bpifrance advances under the ADNA subsidized program.

FINANCIAL LIABILITIES, CURRENT PORTION

(in € thousands)	12/31/2018	12/31/2017
Property leasing	1,107	1,061
Equipment leasing	171	40
Financing of RTC and CICE	8,033	9,182
Interest on bank loan	1,896	-
FINANCIAL LIABILITIES, CURRENT PORTION	**11,207**	**10,283**

FINANCIAL LIABILITIES, NON-CURRENT PORTION

(in € thousands)	12/31/2018	12/31/2017
Property leasing	5,093	6,199
Equipment leasing	543	4
Interest rate swaps – fair value (see Note 23)	256	341
Conditional advances	20,446	19,485
Financing of the research tax credit	11,654	14,015
Financing of the competitiveness and employment tax credit	377	527
Bank loan	10,000	11,146
FINANCIAL LIABILITIES, NON-CURRENT PORTION	**48,369**	**51,717**

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, 2018 is recognized in Current financial liabilities (€1,896 thousand, not capitalizable).

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, 2018 was €6,199 thousand compared to €7,261 thousand at December 31, 2017. The following table shows the breakdown of this debt, based on the maturity, financial costs and present value of individual payments:

	12/31/2018		12/31/2017	
	Minimum payments	Present value of the payments	Minimum payments	Present value of the payments
Due within one year	1,177	1,160	1,144	1,126
Due in one to five years	4,148	3,948	4,302	4,075
More than five years	1,094	1,004	2,116	1,906
Total future minimum lease payments	6,418	6,112	7,562	7,107
Finance costs included in the total	217	211	301	288
Outstanding principal:	6,199	5,901	7,261	6,819
of which current	1,106	1,090	1,060	1,044
of which non-current	5,093	4,811	6,199	5,775

Equipment leasing

Transgene acquired laboratory equipment under a financial lease, notably in 2018. The outstanding financial obligation under these financial leases totaled €715 thousand at December 31, 2018.

Conditional advances

At December 31, 2018, conditional advances referred mainly to repayable advances received under the ADNA ("Advanced Diagnostics for New therapeutic Approaches") program, which receives public funding from Bpifrance for the development of the TG4010 and TG4001 products. This program ended on December 31, 2016 and the Company received the remaining sum of €1,667 thousand in July 2017. Transgene received a total of €15,942 thousand of repayable advances under this program.

As at December 31, 2018, the liability consisting of reimbursable advances in the Company's balance sheet amounts to €20,446 thousand. At closing, the Company re-values its reimbursable advances received under the ADNA program in accordance with the discounted expected future reimbursements as discussed in Note 1 to the Annual financial statements.

The reimbursement of advances is subject to the fulfillment of a revenue threshold on TG4010 and TG4001 products predetermined for the following five years, and in proportion to the revenue from these products until a reimbursement ceiling is reached, or up until 2035. The expected discounted future reimbursements are thus estimated on the basis of an evaluation of future direct and indirect revenue associated with the TG4010 and TG4001 products being developed. The remaining assumptions used by Management in the measurement of the liability from reimbursable advances primarily concern:

- the schedule for the development and marketing of the products;
- the probability of success of the clinical phases;

- the target market, the penetration rate and the treatment price;
- the schedule and financial terms of a development and marketing partnership (payment on signature, payment based on milestones, royalties); and
- the discounted cash flow rate.

As at December 31, 2018, the discounted cash flow rate was 7.5%. A 1% increase in this discount rate would have a negative impact of about 10% on the value of this 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		Total
	Gross Amount	Bank Financing	Current Portion	Non-current Portion	Non-current financial assets	Current Portion	Assets	Current Portion	Non-current Portion	Liabilities
RTC 2015	7,759	Yes	7,759	-	1,164	-	8,923	7,759	-	7,759
RTC 2016	6, 297	Yes	-	6,297	939	-	7,236	-	6,256	6,256
RTC 2017	5,397	Yes	-	5,397	809	-	6,206	-	5,397	5,397
RTC 2018	5,790	No	-	5,790	-	-	5,790	-	-	-
TOTAL RTC	**25,243**	**-**	**7,759**	**17,484**	**2,912**	**-**	**28,155**	**7,758**	**11,654**	**19,412**
CICE 2015	282	Yes	282	-	41	-	323	275	-	275
CICE 2016	120	Yes	-	120	21	-	141	-	141	141
CICE 2017	133	Yes	-	133	18	-	151	-	118	118
CICE 2018	109	Yes	-	109	17	-	126	-	118	118
TOTAL CICE	**644**	**-**	**282**	**362**	**97**	**-**	**741**	**275**	**377**	**652**

NOTE 10 PROVISIONS FOR RISKS

(in € thousands)	12/31/2017	Provisions	Retained earnings	Reversals not applicable	Use of the provision	12/31/2018
Risk of charge	352	72	4	-	(352)	76
TOTAL PROVISIONS FOR RISKS	**352**	**72**	**4**	**-**	**(352)**	**76**

At December 31, 2017 the provision for risks consisted of the remainder of the provision for restructuring. It was used during the first half of 2018. At December 31, 2018 the provision related mainly to the risk of an adjustment of the payroll taxes recognized in prior years.

NOTE 11 OTHER LIABILITIES

OTHER CURRENT LIABILITIES

(in € thousands)	12/31/2018	12/31/2017
Tax and social liabilities	2,967	2,973
Prepaid income	333	368
Of which:		
Revenue from collaboration and licensing	333	368
Research and development grants	-	-
Other	-	-
Other short-term payables	163	18
TOTAL	**3,463**	**3,359**

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, 2018, the current portion amounted to €333 thousand and the non-current portion to €158 thousand. The application of IFRS 15 did not affect the treatment of this agreement.

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:

	12/31/2018	12/31/2017
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:		
▪ managers	Age 65	Age 65
▪ other grades	Age 63	Age 63

The duration of these commitments is 10.2 years.

The following table summarizes the conditions and amounts of actuarial pension obligations at December 31, 2018 and 2017 according to IAS 19 revised:

(in € thousands)	12/31/2018	12/31/2017
CHANGE IN THE VALUE OF COMMITMENTS		
Projected benefit obligation at January 1	3,710	3,725
Cost of services rendered for the year	241	237
Cost of discounting	58	62
Services paid	(285)	(136)
Change in assumptions	-	-
Reductions/terminations	-	(71)
Actuarial (gain)/loss	54	(107)
Projected benefit obligation for retirement	3,778	3,710
DEFINED BENEFIT COST FOR THE YEAR		
Cost of services rendered for the year	241	237
Cost of discounting	58	62
Reductions/terminations	-	-
Cost of services and discounting	299	299
REVALUATIONS OF NET LIABILITIES/(ASSETS)		
Actuarial losses (gains) related to changes in demographic assumptions	-	-
Actuarial losses (gains) related to changes in financial assumptions	-	-
Actuarial losses (gains) related to experience	54	(107)
Total	**54**	**(107)**
CHANGES IN NET LIABILITIES/(ASSETS)		
Liability/(asset) at beginning of year	3,710	3,724
Changes in scope	-	(71)
Amount recognized in the income statement	299	299
Disbursements	(285)	(136)
Amount recognized in other comprehensive income/(loss)	54	(106)
Liability/(asset) at end of year	3,778	3,710
ACCUMULATED AMOUNTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME		
Accumulated amounts recognized at beginning of year	(28)	78
Revaluations of net liabilities/(assets) for the year	54	(106)
Accumulated amounts recognized at end of year	26	(28)
Deferred taxes	(6)	10
Net cumulative amounts recognized as income/(loss) at end of year	19	(18)

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 2.6% and in the cost of services of 3.0% for the year;
- a discount rate of 1.95% would cause a decrease in the obligation of 2.5% and in the cost of services of 2.8% for the year.

NOTE 13 EQUITY

Share capital

62,275,923 Transgene shares were in issue as of December 31, 2018, amounting to a share capital of €62,275,923.

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.

Earnings per share

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

	12/31/2018	12/31/2017
BASIC EARNINGS PER SHARE		
Available net profit *(in € thousands)*	8,026	(32,274)
Average number of shares outstanding	62,275,923	62,075,190
Basic earnings per share *(in €)*	0.13	(0.52)
Diluted earnings per share *(in €)*	0.13	(0.52)

As of December 31, 2018, there was a potential dilution of 726,463 shares as a result of stock options that theoretically remain to be exercised or outstanding bonus shares. Deleted earnings however remained identical to basic earnings.

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 stockoptions have been awarded since 2012. The status of these plans at December 31, 2018 is summarized in the following table.

Grant date	Exercise start date	Expiration date	Exercise price	Number of options granted	Number of options exercised in 2018	Number of options remaining to be exercised at 12/31/2018*
10/4/2007	10/5/2012	10/5/2017	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	0
12/9/2009	12/10/2015	12/10/2019	17,122	76,907	0	72,316
12/7/2010	12/8/2015	12/8/2020	14,198	321,054	0	214,419
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**	**328,063**

* *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.*

	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 granted in 2018	-	-
Options forfeited in 2018	176,266	11.10
Options exercised in 2018	-	-
Outstanding options at December 31, 2018	**328,063**	**14.04**
Options exercisable at December 31, 2017	504,329	13.01
Options exercisable at December 31, 2018	328,063	14.04
Outstanding options at December 31, 2018	**328,063**	**14.04**

Expenses calculated on stock option plans

The cost of services rendered is recognized as an expense over the vesting period. The expense was zero in 2018, compared with €69 thousand in 2017.

Free share plans

Two free share plans allocations of shares were outstanding at the date of this Registration Document, adopted by the Board of Directors in 2017 and 2018 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, and on May 24, 2018, 200,733 newly issued shares were definitively attributed to the beneficiaries of the plan adopted by the Board of Directors on May 24, 2016 subject to holding periods. In total, 401,183 shares in the share capital of Transgene were issued under free allocations of shares.

The status of these plans at December 31, 2018 is summarized in the following table:

			2016 plan
General Meeting date			5/24/2016
Total number of shares authorized by the meeting			600,000
	2016 allocation	**2017 allocation**	**2018 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	34,600
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	85,000
Board of Directors meeting date	05/24/2016	3/17/2017	3/21/2018
Total number of bonus shares allocated	207,550	183,000	220,600
Balance at 12/31/2018	200,733	179,800	218,600
Of which: number of shares allocated to corporate officers and members of the Executive Committee	92,800	72,000	104,600
Final grant date	05/24/2018	3/17/2019	3/21/2020
Expiration date of the lock-up period	05/24/2020	3/17/2021	3/21/2022
Share value on the date of allocation (opening price on the date of allocation)	€2.71	€2.63	€3.15

As at the date of this report, the bonus shares awarded and not issued represent a potential dilution of 398,400 shares; the shares and options awarded and not exercised represent a potential dilution of 328,063 shares, giving a total of approximately 1.2% of the Company's share capital. The free shares are definitively granted two years after their allocation to employees who are still with the Company.

Expense calculated for share-based payments

The cost of services rendered is recognized as an expense over the vesting period. The expense amounted to €467 thousand in 2018 and €366 thousand in 2017.

NOTE 14 OPERATING INCOME

REVENUE FROM COLLABORATIVE AND LICENSING AGREEMENTS

(in € thousands)	12/31/2018	12/31/2017
Revenue from research and development collaboration	1,300	896
License fees and royalties	35	1,203
TOTAL	**1,335**	**2,099**

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

Revenue from licences concerns income related to the commercial use of technologies provided under license by Transgene amounting to €35 thousand in 2018 (€1,203 thousand in 2017 including €1,000 thousand from ElsaLys Biotech SA for the sale of the rights of TG3003 product).

PUBLIC FUNDING FOR RESEARCH EXPENSES

(in € thousands)	12/31/2018	12/31/2017
Research and development grants	-	3
Research tax credit (RTC)	5,749	5,355
TOTAL	**5,749**	**5,358**

The net amount of the research tax credit was €5,749 thousand in 2018 compared to €5,355 thousand in 2017 (see Note 8).

NOTE 15 OTHER INCOME AND EXPENSES FROM OPERATIONS

(in € thousands)	12/31/2018	12/31/2017
Income from sale of fixed assets	2	4
Other income	35,833	683
Total income	**35,835**	**687**
Net carrying value of disposals of fixed assets	(22)	(61)
Other expenses	(1,189)	(93)
Total expenses	**(1,211)**	**(154)**
TOTAL	**34,624**	**533**

Other income

Other income mainly comprises the income from the sale of rights in TG1050 in Greater China to Tasly BioPharmaceuticals for €35,611 thousand ($41 million) in July 2018.These rights had not been activated by the Company and were recognized as expenses in previous years. This income was recognized according to IAS 38.

As a reminder, the total value of the transactions with Tasly BioPharmaceuticals amounted to €41,458 thousand:

- €35,611 thousand for the rights in TG1050 owned by Transgene; and
- €5,847 thousand ($7 million) for the securities in the Transgene Tasly joint venture, for which the valuation mainly comprises the rights to TG6002, recognized in income from equity affiliates.

In consideration for these transactions, the Company received shares in Tasly BioPharmaceuticals

Other expenses

Other expenses amounted to €105 thousand in 2018 versus €93 thousand in 2017. They consist primarily of a provision for the amortization of ElsaLys Biotech SA debt of €1,084 thousand.

NOTE 16 FINANCIAL INCOME/(LOSS)

(in € thousands)	12/31/2018	12/31/2017
Investment income	126	177
Debt servicing costs	(1,031)	(1,079)
Borrowing costs net of investments	**(905)**	**(902)**
Other financial income and expenses	(1,116)	(1,300)
Foreign exchange gains/(losses)	4	(85)
Total	**(1,112)**	**(1,385)**
NET FINANCE COST	**(2,017)**	**(2,287)**

€750 thousand of debt servicing costs correspond to the accrued interest on the EIB loan for 2018 (as in 2017).

Financial expenses primarily consist of:

- the present discounting of the contingent proceeds on the sale of Jennerex, Inc. stock to SillaJen, Inc. in 2014 (€252 thousand vs. €775 thousand in 2017);
- the present discounting of the debt owed to Bpifrance on the advances received under the ADNA program (€961 thousand versus €654 thousand in 2017).

NOTE 17 INCOME TAX EXPENSES

Current taxes

At December 31, 2018, the income tax expense at the standard rate was at less than 35,690 thousand euros. The 15% capital gain from the sale of the Tasly rights amounted to 35,611 thousand euros.

The difference between the standard corporate income tax rate in France and the Company's effective tax rate can be explained as follows:

	Base
IFRS earnings before taxes	8,026
Deduction of tax credits	(5,935)
Other impacts	(2,171)
Net taxable income at 15% before applying prior losses	**(80)**

The net taxable income after allocation of prior losses was negative. The Company will, therefore, not pay any corporate income tax in respect of fiscal year 2018.

Deferred taxes

At December 31, 2018 Transgene had tax loss carryforwards (indefinitely carryable) totaling 667,657 thousand euros.

Transgene has no tax loss carryforwards from its US and Chinese subsidiaries.

NOTE 18 PERSONNEL

Personnel

The Company's registered workforce totaled 147 employees at December 31, 2018, including one with Transgene Inc. The Company already had 147 employees as of December 31, 2017.

As of December 31, 2018	Men	Women	Total at 12/31/2018
Managers	40	67	107
Other grades	12	28	40
TOTAL	**52**	**95**	**147***

* *Including 132 open-ended contracts at 12/31/2018.*

Payroll costs

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

(in € thousands)	12/31/2018	12/31/2017
Research and development expenses	11,187	11,160
General and administrative expenses	3,276	2,980
TOTAL EMPLOYEE BENEFITS EXPENSES	**14,463**	**14,140**

Expenses relating to share-based payments amounted to:

(in € thousands)	12/31/2018	12/31/2017
Research and development expenses	298	254
General and administrative expenses	169	181
TOTAL EMPLOYEE BENEFITS EXPENSES	**467**	**435**

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 €15.0 million at December 31, 2018; the resulting interest income was €114 thousand at December 31, 2018.

The table below does not include these cash items.

		12/31/2018	
(in € thousands)	*Type of related party*	Receivables	Payables
ABL Europe SAS	Company in the Mérieux Group	28	358
ABL Lyon	Company in the Mérieux Group	200	8
bioMérieux SA	Company in the Mérieux Group	-	(1)
bioMérieux, Inc.	Company in the Mérieux Group	-	109
ElsaLys Biotech SA	Equity-Method	1,301	-
Institut Mérieux	Company in the Mérieux Group	-	-
Mérieux Université	Company in the Mérieux Group	-	7
Thera Conseil	Company in the Mérieux Group	-	-
Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.	JV/Equity-Method	-	-
TOTAL		**1,529**	**482**

		12/31/2018	
(in € thousands)	*Type of related party*	Revenue	Expenses
ABL Europe SAS (1)	*Company in the Mérieux Group*	195	1,580
ABL Lyon (2)	*Company in the Mérieux Group*	-	64
bioMérieux SA	*Company in the Mérieux Group*	-	(6)
bioMérieux, Inc. (3)	*Company in the Mérieux Group*	-	518
ElsaLys Biotech SA (4)	*Equity-Method*	85	-
Institut Mérieux (5)	*Company in the Mérieux Group*	-	308
Mérieux Université	*Company in the Mérieux Group*	-	6
Thera Conseil	*Company in the Mérieux Group*	-	5
Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. (6)	*JV/Equity-Method*	59	-
TOTAL		**339**	**2,475**

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

NOTE 20 OFF-BALANCE SHEET COMMITMENTS

On April 1, 2009, Transgene signed an occupancy agreement with Lyonbiopôle for its Lyon space, the premises will be vacated in April 2019.

Breakdown of the rental expense:

(in € thousands)	12/31/2018	12/31/2017
Lyonbiopôle rent (charges included)	321	329
TOTAL RENTAL EXPENSE	**321**	**329**

As part of the application of IFRS 16 concerning leases, the Company took the view that its application would not have a significant impact in the presentation of its financial statements, including with the release of the premises in Lyonbiopôle during the 1st half of 2019:

Breakdown of lease commitments at December 31, 2018:

(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)	107	107	-	-
TOTAL RENTAL COMMITMENTS	**107**	**107**	**-**	**-**

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.

As part of the agreements with Tasly BioPharmaceuticals in July 2018, Transgene received 27.4 million shares, that is 2.53% of its capital. The assets contributed by Transgene were valued by the parties at US$48 million, and the unit price of the shares received is that negotiated by the institutional funds during a capital increase. On this occasion, Transgene, the institutional funds, Tasly BioPharmaceuticals and its parent company Tasly Holding Group have signed a shareholders' agreement to manage their relations in the period preceding the IPO. In addition to the usual provisions such as a right of first refusal in case of assignment by a shareholder, Tasly Holding Group undertakes to buy the shares subscribed by Transgene in the event the IPO does not take place within two to three years, at the initial subscription price plus an annual contractual rate.

Transgene is also bound by contracts with subcontractors. That could have an impact over several accounting periods. At December 31, 2018, the Company considered its financial commitments under these contracts to be approximately €15 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 service provider customer, with whom it generates revenue, is Servier. 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, in line with the level of review by the main decision maker for operations, the Chairman and Chief Executive Officer.

NOTE 22 BREAKDOWN OF ASSETS AND LIABILITIES BY MATURITY

DECEMBER 31, 2018

Assets (in € thousands)	*Gross amount*	*One year or less*	*More than one year*
Financial fixed assets	3,699	1,205	2,494
Trade receivables	1,868	1,868	-
Research tax credits and CICE	25,887	8,041	17,846
Government, VAT and other local authorities	312	312	-
Personnel and related accounts	26	26	-
Prepaid expenses	3,279	3,144	135
Grant receivable	-	-	-
Receivables from the sale of equity investment	2,253	-	2,253
Other receivables	301	301	-
TOTAL	**37,625**	**13,596**	**24,029**

Liabilities *(in € thousands)*	**Gross amount**	**One year or less**	**More than one year and less than or equal to five years**	**More than five years**
Trade payables	4,791	4,791	-	-
Property leasing	6,199	1,106	5,093	-
Equipment leasing	715	172	543	-
Conditional advances	20,446	-	-	20,446
Financing of research tax credit and CICE	20,064	8,034	12,030	-
Bank loan	11,896	1,896	10,000	-
Provisions for risks and liabilities	76	76	-	-
Provisions for retirement	3,778	157	911	2,710
Accrued employee benefits and tax expense	2,967	2,967	-	-
Prepaid income	491	333	158	-
Other liabilities	419	163	256	-
TOTAL	**71,842**	**19,695**	**28,991**	**23,156**

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 9), according to the following terms:

- nominal value: €5.9 million (depreciable);
- hedging instrument: interest rate swap contract;
- residual maturityat December 31, 2018: 5 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, 2018, the market value of this hedging instrument was €256 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, 2018.

Exchange rate risk

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

The Company has US dollar bank accounts. Net dollar disbursements totaled $2.8 million in 2018.

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, 2018 and 2017 (before tax and any hedging):

	12/31/2018	12/31/2017
Expenditures denominated in US dollars	2,817	7,205
Equivalent in euros on the basis of an exchange rate of €1 = $1.145	2,460	6,008
Equivalent in euros in the event of an increase of 10% USD vs. EUR	2,734	6,675
Equivalent in euros in the event of a decrease of 10% USD vs. EUR	2,237	5,462

The Company's foreign exchange position as at December 31, 2018 is as follows:

(in thousands)	USD
Assets	50,727
Liabilities	300
Net position	50,427
Adjusted	50,427
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, 2018 in mutual funds, directly or through the centralized management of the Institut Mérieux group, amounted to €16.0 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 its 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 by issuing new shares or through debt instruments when circumstances allow it.

Financial instruments

December 31, 2018 *(in € thousands)*	Assets and liabilities at fair value through profit or loss	Receivables, payables, borrowings, at amortized cost	Derivative instruments	Carrying amount	Fair value	Level
FINANCIAL ASSETS						
Cash and cash equivalents	1,885	-	-	1,885	1,885	1
Other current financial assets	15,015	-	-	15,015	15,015	2
Trade receivables	-	784	-	784	784	-
Financial assets	41,458	3,700	-	45,158	45,158	3
Receivable on non-current financial assets	-	-	-	-	-	2
Other non-current assets		2,253	-	2,253	2,253	3
TOTAL FINANCIAL ASSETS	**58,358**	**6,737**	**-**	**65,095**	**65,095**	**-**
FINANCIAL LIABILITIES						
Borrowings from credit institutions, long-term portion	-	22,030	-	22,030	22,030	2
Lease commitment, long-term portion	-	5,636	-	5,636	5,636	2
Conditional advances	-	20,446	-	20,446	20,446	3
Other non-current financial liabilities	-	-	256	256	256	2
Non-current financial liabilities	-	48,112	256	48,368	48,368	-
Borrowings from credit institutions, short-term portion	-	9,929	-	9,929	9,929	2
Finance leasing, short-term portion	-	1,278	-	1,278	1,278	2
Current financial liabilities	-	-	-	-	-	-
Trade payables	-	3,591	-	3,591	3,591	-
TOTAL FINANCIAL LIABILITIES	**-**	**62,910**	**256**	**63,166**	**63,166**	**-**

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 liabilit

NOTE 24 COMPENSATION PAID TO MEMBERS OF ADMINISTRATIVE AND MANAGEMENT BODIES

The total expense recorded for fiscal year 2018 in respect of compensation paid to members of the Board of Directors and the Executive Committee was €2,844 thousand.

(in € thousands)	12/31/2018	12/31/2017
Base salaries	1,706	1,699
Variable compensation	685	675
Payments in kind	30	30
Free shares	221	213
Director's fees	202	183
TOTAL	**2,844**	**2,800**

NOTE 25 STATUTORY AUDITORS' FEES

	Ernst & Young et Autres				Grant Thornton			
	Amount (pre-tax)		%		Amount (pre-tax)		%	
(in € thousands)	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Audit	-	-	-	-	-	-	-	-
STATUTORY AUDITORS, CERTIFICATION, EXAMINATION OF INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS								
Issuer	64	66	81%	67%	50	50	100%	100%
Fully consolidated subsidiaries	-	-	-	-	-	-	-	-
OTHER DUE DILIGENCE AND SERVICES DIRECTLY RELATED TO THE AUDIT								
Issuer	15	32	19%	33%	-	-	-	-
Fully consolidated subsidiaries	-	-	-	-	-	-	-	-
Sub-total	**79**	**98**	**100%**	**100%**	**50**	**50**	**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	**79**	**98**	**100%**	**100%**	**50**	**50**	**100%**	**100%**

NOTE 26 POST-CLOSING EVENTS

In March 2019, the Company signed an engagement letter with Natixis, which allowed it to obtain a revolving credit facility of up to €20 million, which may be drawn on one or more occasions, provided that the agreement is signed with the appropriate supporting documents before April 30, 2019. The agreement was signed on the date of this report. As part of this credit agreement, Transgene must pledge its shares in Tasly BioPharmaceuticals prior to the first draw. The outstanding amount (excluding interest) may not exceed the equivalent of 60% of the value of the pledged Tasly BioPharmaceuticals shares or a ceiling of €20 million. If the outstanding amount drawn exceeds 60% of the value of the shares, the Company must immediately reimburse the difference. The interest on the outstanding amount drawn and a make-ready fee for the undrawn part are payable quarterly. This loan agreement runs for two and a half years until July 2021 and, as is typical of revolving loans, the amounts drawn must be repaid in full by the end of the program at the latest.

4.1.3 Date of latest financial information

December 31, 2017 and June 30, 2018.

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 regulations 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, 2018

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, 2018.

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, 2018 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, 2018 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 Note 1 "Accounting principles" to the consolidated financial statements relating to the application of IFRS 9 and IFRS 15 from January 1, 2018. 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 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.

MEASUREMENT AND RECOVERABILITY OF THE EARN-OUT ASSET RELATING TO THE SALE OF THE JENNEREX, INC. EQUITY SECURITIES

Risk identified

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, 2018, this receivable was valued at MEUR 2.3, taking into account 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. As the milestones are payable in US dollars, the valuation of the receivable is directly impacted by fluctuations in the euro/dollar exchange rate.

In addition, as stated in Note 8 to the consolidated financial statements, in the absence of payment by SillaJen of the earn-outs owed since 2017, Fortis, the representative of the former Jennerex shareholders, decided in September 2018 to take legal action against SillaJen. Based on the timing of the judicial inquiry, your Company considers that the payments owed to it will not be made before 2020.
We considered the valuation of this receivable to be a key audit matter, as:

- the determination of the recoverable amount of this receivable requires the use of assumptions, estimates and assessments;
- this receivable represents a material amount as at December 31, 2018;
- and in view of the dispute described above.

Our response

We analysed the methods of implementation of the valuation model applied and we assessed the main estimates and assumptions used. Our work consisted notably in:

- comparing the valuation model used with that applied the previous year;
- assessing the qualitative and quantitative criteria triggering the milestone payments used in the valuation model on the basis of those provided for contractually;
- 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 Group level concerning the progress of the various milestones;
- assessing the discount rate used by management, by comparing it with our own estimate of this rate, including our valuation specialists and through analysis of the various parameters;
- assessing the dollar to euro rate used for the valuation.

In addition, regarding the dispute with SillaJen, we obtained an understanding of the risk analysis performed by the Group and their advisers, the corresponding documentation and the proceedings conducted by Fortis, and we assessed the position adopted by management.
Lastly, we also assessed the appropriateness of the information disclosed in the notes to the consolidated financial statements, in particular the sensitivity analyses presented.

MEASUREMENT OF SHARES HELD IN A NON-LISTED COMPANY

Risk identified	Our response
On July 10, 2018, your Group received shares in Tasly Biopharmaceuticals amounting to MUSD 48, in return, firstly, for the transfer of its investment in the joint venture which owned the T601 rights, and secondly, for the transfer of the T101 patent rights for Greater China. As at December 31, 2018, the fair value of the shares held in Tasly Biopharmaceuticals (a non-listed company) recorded in your Company's balance sheet amounts to MEUR41.5 and represents 2.53% of the entity's capital. As stated in Notes 1, 7 and 15 to the consolidated financial statements, the valuation of the shares held is based on an analysis according to the expected fair value of the assets. The valuation of these shares requires management to exercise judgment in its choice of the elements to be taken into account, corresponding to forecasts. The main assumptions taken into account by management in the measurement of fair value are based on assumptions obtained from Tasly Biopharmaceuticals, used to value the Company on the occasion of the pre-IPO refinancing in July 2018, during which Transgene S.A. became a shareholder, and concern: • The estimate of the future cash flows that will be generated by the companies held and notably by the products being developed; • The probable technical success of the products being developed and their approval by the regulatory authorities; • The market potential for these products being developed; • The value of the shares according to the latest capital transactions; • The discount rate used by management. The company had an independent advisory firm review and update the model used and the assumptions at year-end, based on the information provided by Tasly Biompharmaceuticals. 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 the shares held to be a key audit matter as it involves significant exercise of judgment on the part of management.	Our work consisted in assessing the methods and assumptions used by the group to determine the fair value, in particular: • we compared the valuation model applied and the assumptions used with those used when the initial acquisition price was fixed in July 2018; • 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 used in the valuation of the initial acquisition price, 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; • 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. 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 REPAYABLE ADVANCES

Risk identified	Our response
As at December 31, 2018, the fair value of the liability consisting of repayable advances recorded in your company's balance sheet amounts to MEUR 20.45. At year-end, the Group re-values its conditional advances liability under the ADNA program to match the amount of the expected repayments, as described in Note 1 to the consolidated financial statements. The repayment of these advances is subject to the achievement of a certain threshold of revenue with the TG4001 and TG4010 products, and will be made based on a predetermined fixed amount over the following five years, and then in proportion to the revenue generated by these products until a repayment limit is reached or until 2035. The fair value of the expected future repayments is thus estimated by management based on the estimated future direct and indirect revenue generated by the TG4001 and TG4010 products being developed. The other assumptions used by management to measure the fair value of the repayable advances liability notably concern: • the probabilities of success of the clinical phases; • the timing and conditions of a partnership concerning the development and marketing of these products; • the discount rate used by management. The measurement of the repayable advances liability therefore requires management to exercise judgment in its choice of the elements to be taken into account, in particular as regards forecasts. Any error in the assessment of these assumptions would have an impact on the estimation of the debt to be repaid. We considered the measurement of the ADNA repayable advances to be a key audit matter as it involves significant exercise of judgment on the part of management.	Our work consisted in analyzing the methods and assumptions used by the Company to measure the fair value of the ADNA repayable advances, 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, acquired notably 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 assessed the appropriateness of the information disclosed in the notes to the consolidated financial statements.

Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations of the information pertaining to the Group presented in the Board of Directors' management report.

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, 2018, GRANT THORNTON was in its third year of total uninterrupted engagement and ERNST & YOUNG et Autres was in its twenty-third year of total uninterrupted engagement (including twenty-one 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 to the Audit Committee a report 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) 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 2, 2019

The Statutory Auditors

GRANT THORNTON
FRENCH MEMBER OF GRANT THORNTON INTERNATIONAL
Françoise Méchin

ERNST & YOUNG ET AUTRES
Cédric Garcia

4.3 ANNUAL FINANCIAL STATEMENTS AND NOTES

4.3.1 Annual financial statements

BALANCE SHEET – ASSETS

(in € thousands)	*Notes*	12/31/2018	12/31/2017
Intangible assets, at cost		4,384	4,394
(accumulated depreciation and provisions)		(4,204)	(4,144)
Intangible assets – net	*12*	**180**	**250**
Property, plant and equipment:			
Land		584	584
Fixtures and fittings		1,314	832
Laboratory equipment		9,625	9,358
Office and computer equipment		1,614	1,606
Assets in progress		71	357
Total property, plant and equipment, at cost		13,208	12,737
(accumulated depreciation and provisions)		(8,390)	(7,718)
Property, plant and equipment – net	*11*	**4,818**	**5,019**
Financial assets – net	*13*	**45,399**	**14,581**
Total fixed assets		**50,397**	**19,850**
Inventories	*7*	443	270
Trade receivables	*8*	784	2,564
Research tax credits and competitiveness and employment tax credits due	*22*	25,887	29,206
Recoverable VAT and income tax receivables and other tax receivables		312	140
Other receivables, including centralized treasury	*9*	15,144	40,071
Available cash, cash equivalents	*6*	1,858	1,610
Total current assets		**44,428**	**73,861**
Prepaid expenses	*19*	3,279	3,880
Currency translation difference		-	-
TOTAL ASSETS		**98,104**	**97,591**

BALANCE SHEET – LIABILITIES

(in € thousands)	*Notes*	12/31/2018	12/31/2017
Subscribed capital	*14*	62,276	62,075
Share premiums	*28*	506,990	507,206
Reserves	*28*	652	637
Retained earnings		(537,927)	(507,456)
Profit/(loss) for the period		1,043	(30,471)
Statutory provisions		-	-
Equity	***14***	**33,034**	**31,991**
Conditional advance	*15*	20,446	19,485
Financial Liabilities	*16*	31,960	34,869
Provisions for pensions		4,178	4,172
Other provisions for risks and charges		74	356
Provisions for risks and charges	***17***	**4,252**	**4,528**
Payables		4,791	2,868
Accrued employee benefits and tax expense		2,967	2,972
Other liabilities		163	19
Payables		**7,921**	**5,859**
Prepaid income	*19*	491	859
Currency translation difference		-	-
Liabilities		**65,070**	**65,600**
TOTAL LIABILITIES AND EQUITY		**98,104**	**97,591**

INCOME STATEMENT

(in € thousands)	*Notes*	12/31/2018	12/31/2017
OPERATING INCOME			
Revenue from collaborative and licensing agreements	*3*	1,817	2,473
Research and development grants		-	3
Reversals of depreciation and provisions, transfers of expenses		650	1,310
Total operating income		**2,467**	**3,786**
OPERATING EXPENSE			
Purchases of raw materials and other purchases		(1,108)	(1,031)
Other purchases and external expenses		(16,597)	(16,094)
Income tax, duties and other levies		(455)	(464)
Salaries and wages		(9,459)	(9,611)
Social security expenses		(4,607)	(4,437)
Depreciation, amortization and provisions		(3,327)	(1,263)
Other expenses		(534)	(4,217)
Total operating expenses		**(36,089)**	**(37,117)**
Operating loss		**(33,622)**	**(33,331)**
Net finance cost	*4*	(3,477)	(2,322)
Current income/(loss) before tax		**(37,099)**	**(35,653)**
Net extraordinary income/(expenses)	*5*	32,318	(248)
Research tax credit (RTC)	*22*	5,790	5,397
Income tax expense	*22*	34	33
PROFIT/(LOSS) FOR THE PERIOD		**1,043**	**(30,471)**

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, 2018 show a balance sheet total of €98,104 thousand and a net income of €1,043 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 annual financial statements for fiscal year 2018 are presented in accordance with the legal and regulatory requirements in effect in France as described in the national general chart of accounts (French GAAP), and in accordance with generally accepted principles which are the principles of prudence, continuity of operations, consistency in accounting methods, and independence of fiscal years.

Regarding the Company's going concern, it considers that obtaining a revolving credit of €20 million in March 2019 allows it to continue operating until mid-2020 as of the closing date.

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 2015 to 2018 research tax credits will be reimbursed respectively from 2019 to 2022. 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

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 2018.

Other intangible assets

Intangible assets mainly comprise licenses, acquired patents and computer software.

4

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.

Equity Securities

Equity securities are recorded at cost and depreciated, as needed, if their carrying value exceeds their recoverable amount as estimated by the Company. They correspond to the shares in Tasly Biopharmaceuticals, acquired in July 2018 as counterparty in the sale of the 50% stake held in the joint venture Transgene Tasly (Tianjin) Bioppharmaceuticals Co. Ltd, along with the patent rights for TG1050 for Greater China. At each balance sheet date, the Company performs an impairment test. These shares were valued by an independent firm as at December 31, 2018, which confirmed the absence of impairment.

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 June 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 predetermined for the following five years, and in proportion to the revenue from these products until a reimbursement ceiling is reached, or up until 2035.

The Company regularly evaluates direct and indirect revenue linked to each of the products to estimate future cash flows from the reimbursement of advances. This revenue is evaluated based on business plans that have been discounted for these two products and by a applying a comparable rate for this type of debt. The impact of this regular re-estimate is recorded in Net financial cost at the end of the fiscal year.

The main assumptions reviewed in the product business plans are as follows:

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

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.

The Company does not have a foreign currency hedging instrument.

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

None.

NOTE 3 OPERATING INCOME

REVENUE

(in € thousands)	12/31/2018	12/31/2017
Research and development services	1,300	896
Licenses	35	1,203
Other income from ancillary activities	482	374
TOTAL	**1,817**	**2,473**

NOTE 4 FINANCIAL INCOME/(LOSS)

(in € thousands)	12/31/2018	12/31/2017
FINANCIAL INCOME		
Income from other securities and fixed asset receivables	12	5
Other interest and related income	136	297
Reversals of provisions and transfers of expenses	4	301
Positive exchange rate differences	9	2
Total financial interest income	**161**	**605**
FINANCIAL EXPENSE		
Financial amortization and provisions	1,700	1,245
Interest and related expenses	1,935	1,655
Negative exchange rate differences	3	27
Total financial expenses	**3,638**	**2,927**
FINANCIAL INCOME/(LOSS)	**(3,477)**	**(2,322)**

Expenses for depreciation, amortization and provisions refer to the 1,694 thousand euro provision for impairment of the ElsaLys Biotech SA stock.

Interest and related expense mainly involves bank interest on the loan received from the EIB (750 thousand euros in 2018) and the present discounting of the debt owed Bpifrance for reimbursable advances under the ADNA program (961 thousand euros in 2018).

NOTE 5 NON-RECURRING ITEMS

(in € thousands)	12/31/2018	12/31/2017
EXTRAORDINARY INCOME		
Extraordinary income on management operations	26	147
Extraordinary income on equity operations	35,665	75
Reversals of provisions and transfers of expenses	1,240	89
Total extraordinary income	**36,931**	**311**
EXTRAORDINARY EXPENSES		
Extraordinary expenses on management operations	300	103
Extraordinary expenses on equity operations	4,313	367
Provisions and transfers of expenses	-	89
Total extraordinary expenses	**4,613**	**559**
NON-RECURRING ITEMS	**32,318**	**(248)**

On July 10, 2018, Transgene obtained shares in Tasly Biopharmaceuticals for the amount of US$48 million, in return for the assignment of a portion of its interest in the joint venture Transgene Tasly (Tianjin) Biopharmaceuticals Co. Ltd., which held the rights to T601, and the assignment of T101 patent rights in Greater China.

This US$48 million equaled €41,458 thousand and broke down as follows:

- €35,611 thousand corresponding to the sale of rights to TG1050 in Greater China to Tasly Biopharmaceuticals;
- €5,847 thousand corresponding to the disposal of the interest in the joint venture Transgene Tasly (Tianjin) Biopharmaceuticals Co. Ltd.

Thus, extraordinary income consist largely of proceeds from sale of rights on TG1050 in Greater China to Tasly BioPharmaceuticals for 35,611 thousand euros and the 1,240 thousand euro reversal of provisions for impairment of its shares.

Extraordinary expenses connected with this transaction were 4,286 thousand euros. The Company had invested 10,133 thousand euros in the Transgene Tasly (Tianjin) BioPharmaceuticals Co. Ltd. joint venture and sold its stake for 5,847 thousand euros.

NOTE 6 CASH AND MARKETABLE SECURITIES

	12/31/2018	12/31/2017
Cash	837	594
Marketable securities	1,021	1,016
TOTAL	**1,858**	**1,610**
Unrecognized unrealized gains or losses	-	-

In 2018, marketable securities were composed of short-term mutual fund units.

NOTE 7 STOCKS

	12/31/2018	12/31/2017
Raw materials	327	203
Laboratory supplies	116	67
Total gross	**443**	**270**
Provision for obsolescence	-	-
NET TOTAL	**443**	**270**

NOTE 8 TRADE RECEIVABLES

	12/31/2018	12/31/2017
Total gross	1,868	2,564
Provisions for impairment	1,084	-
NET TOTAL	**784**	**2,564**

The provisions for impairment correspond to the impairment of the receivables of ElsaLys Biotech SA.

NOTE 9 OTHER RECEIVABLES

	12/31/2018	12/31/2017
Institut Mérieux centralized cash (cash pool)	15,015	39,762
Accrued credit notes (trade credit)	101	251
Employee benefits expense	26	28
Grant receivable	-	-
Other receivables	2	30
TOTAL	**15,144**	**40,071**

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 +0.25% 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

	12/31/2018	12/31/2017
Accrued income – customers	438	1,242
VAT credit	271	265
VAT on accrued invoices	108	136
Social organizations – accrued revenue	-	4
TOTAL	**438**	**1,894**

NOTE 11 PROPERTY, PLANT AND EQUIPMENT

(in € thousands)	12/31/2017	Increase	Decrease	12/31/2018
ACQUISITION COSTS				
Land	584	-	-	584
Buildings and fixtures	832	482	-	1,314
Laboratory equipment	9,358	324	(57)	9,625
Office and computer equipment	1,606	58	(49)	1,614
Assets in progress	357	529	(815)	71
Total	**12,737**	**1,393**	**(921)**	**13,208**
DEPRECIATION AND PROVISIONS				
Buildings and fixtures	(452)	(81)	-	(533)
Laboratory equipment	(5,879)	(555)	40	(6,394)
Office and computer equipment	(1,387)	(121)	45	(1,463)
Assets in progress	-	-	-	-
Total	**(7,718)**	**(757)**	**85**	**(8,390)**
NET TOTAL	**5,019**	**636**	**(836)**	**4,818**

NOTE 12 INTANGIBLES ASSETS

(in € thousands)	12/31/2017	Increase	Decrease	12/31/2018
ACQUISITION COSTS				
Licenses and acquired patents	1,788	-	-	1,788
Other intangible assets	2,606	45	(55)	2,596
Assets in progress	-	-	-	-
Total	**4,394**	**45**	**(55)**	**4,384**
DEPRECIATION AND PROVISIONS				
Licenses and acquired patents	(1,707)	(17)	2	(1,722)
Other intangible assets	(2,437)	(100)	55	(2,482)
Total	**(4,144)**	**(117)**	**57**	**(4,204)**
NET TOTAL	**250**	**(72)**	**2**	**180**

NOTE 13 FINANCIAL ASSETS

(in € thousands)	12/31/2017	Increase	Decrease	12/31/2018
Investments in non-consolidated companies				
▪ Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.	10,133	-	(10,133)	-
▪ Transgene BioPharmaceutical Technology (Shanghai) Co. Ltd.	875	-	-	875
▪ ElsaLys Biotech SA	1,437	257	-	1,694
▪ Transgene, Inc.	23	-	-	23
▪ Access Investment, Inc.	29	-	-	29
Total	**12,497**	**275**	**(10,133)**	**2,621**
Guarantees and deposits	3,971	3,658	(3,711)	3,918
Tasly BioPharmaceuticals securities	-	41,458	-	41,458
ElsaLys Biotech SA current account	257	-	(257)	-
Depreciation	(2,144)	(1,694)	1,240	(2,598)
TOTAL (AT ACQUISITION COST)	**14,581**	**43,679**	**(12,861)**	**45,399**

Equity securities

Transgene Tasly (Tianjin) BioPharmaceuticals Co. Ltd. Joint-venture

In July 2018, Transgene obtained shares in Tasly Biopharmaceuticals for the amount of US$48 million, in return for the assignment of a portion of its interest in the joint venture Transgene Tasly (Tianjin) Biopharmaceuticals Co. Ltd., which held the rights to T601, and the assignment of T101 patent rights in Greater China.This US$48 million equaled €41,458 thousand and broke down as follows:

- €35,611 thousand corresponding to the sale of rights to TG1050 in Greater China to Tasly Biopharmaceuticals;
- €5,847 thousand corresponding to the disposal of the interest in the joint venture Transgene Tasly (Tianjin) Biopharmaceuticals Co. Ltd.

This transaction explains the derecognition of securities for 10,133 thousand euros and the reversal of the provision on securities for 1,240 thousand euros that it had recognized in the past.

ElsaLys Biotech SA

In 2018 the Company participated in the capital increase of ElsaLys Biotech SA by converting its 257 thousand euro current receivable into equity.

As at December 31, the Company fully depreciated its stake in ElsaLys Biotech SA for an amount of 1,694,000, due to the the financial difficulties encountered by the latter.

Transgene BioPharmaceutical Technology (Shanghai) Co. Ltd.

The Company has an investment in Transgene BioPharmaceutical Technology (Shanghai) Co. Ltd. In the amount of 875 thousand euros. This investment is fully impaired and the entiy is currently being wound up..

Access Investment, Inc.

The Company has an investment in Access Investment In the amount of 29 thousand euros. This investment is fully impaired.

Transgene, Inc.

The Company has an investment in Transgene, Inc. in the amount of 23 thousand euros.

Equity Securities

As part of the agreements with Tasly BioPharmaceuticals in July 2018, Transgene received 27.4 million shares in this company, that is 2.53% of its share capital, which is valued at $48 million (€41,458,000) as at the date of the transaction. This transaction occurred on the occasion of a capital increase, to which institutional funds contributed cash, at the same subscription price as the Company.

Transgene, the institutional funds, Tasly Biopharmaceuticals and its parent company Tasly Holding Group have signed a shareholders' agreement to manage their relations in the period preceding the IPO. In addition to the usual provisions such as a right of first refusal in case of disposal by a shareholder, Tasly Holding Group undertakes to buy the shares subscribed by Transgene in the event the IPO does not take place within two years, at the initial subscription price plus an annual contractual rate.

The Company believes that no sign of impairment existed as at December 31, 2018.

The main assumptions used by Management in measuring value-in-use as at December 31, 2018 were based on the assumptions obtained from Tasly Biopharmaceuticals that were used to value the company at the time of its pre-listing refinancing in July 2018 during which the Company became a shareholder, and concern:

- the estimation of the future cash flows that will be generated by the companies held and notably by the products being developed;
- the probability of technical success and approval by the regulatory authorities of the products being developed;
- the market potential for these products being developed;
- the value of the securities according to the latest capital transactions; and
- the discount rate used by management.

The Company had an independent consulting firm review and update the assumptions at the closing date, on the basis of the information provided by Tasly Biopharmaceuticals. Impairment is recognized when the net carrying amount of that holding exceeds its recoverable amount. The valuation of these securities was directly impacted by the fluctuation of the euro/US dollar parity as well as the WACC used. A 10% rise in the US dollar would decrease the value of the securities by 9%. A 10% fall in the US dollar would increase the value by 11%. A 0.50% increase in the WACC would have a negative impact of 6% on the value of these securities and a decrease of 0.50% in the WACC would have a positive impact of 7% on the securities.

NOTE 14 EQUITY

General information

At December 31, 2018, the number of outstanding shares of Transgene was 62,275,923, representing share capital of €62,275,923.

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, 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 stockoptions have been awarded since 2012. The status of these plans at December 31, 2018 is summarized in the following table.

Grant date	Exercise start date	Expiration date	Exercise price	Number of options granted	Number of options exercised in 2018	Number of options remaining to be exercised at 12/31/2018*
10/4/2007	10/5/2012	10/5/2017	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	*0*
12/9/2009	12/10/2015	12/10/2019	17,122	*76,907*	0	*72,316*
12/7/2010	12/8/2015	12/8/2020	14,198	*321,054*	0	*214,419*
12/13/2012	12/14/2017	12/14/2022	7,859	*92,578*	0	*41,238*
TOTAL	**N/A**	**N/A**	**N/A**	**N/A**	**0**	**328,063**

* *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.*

Free share plans

Two free allocations of shares were outstanding at the date of this Registration Document, adopted by the Board of Directors in 2017 and 2018 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, and on May 24, 2018, 200,733 newly issued shares were definitively attributed to the beneficiaries of the plan adopted by the Board of Directors on May 24, 2016, subject to holding periods. In total, 401,183 shares in the share capital of Transgene were issued under free allocations of shares.

The status of these plans at December 31, 2018 is summarized in the following table:

	2016 PLAN		
General Meeting date			5/24/2016
Total number of shares authorized by the meeting			600,000
	2016 allocation	**2017 allocation**	**2018 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	34,600
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	85,000
Board of Directors meeting date	5/24/2016	3/17/2017	3/21/2018
Total number of bonus shares allocated	207,550	183,000	220,600
Balance at 12/31/2018	200,733	179,800	218,600
Of which: number of shares allocated to corporate officers and members of the Executive Committee	92,800	72,000	104,600
Final grant date	5/24/2018	3/17/2019	3/21/2020
Expiration date of the lock-up period	5/24/2020	3/17/2021	3/21/2022
Share value on the date of allocation (opening price on the date of allocation)	€2.71	€2.63	€3.15

As at December 31, 2018, the bonus shares awarded and not issued represent a potential dilution of 398,400 shares; the shares and options awarded and not exercised represent a potential dilution of 328,063 shares, giving a total of approximately 1.2% of the Company's share capital. The free shares are definitively granted two years after their allocation to employees who are still with the Company.

4

Changes in equity

(in € thousands)	Share capital	Premiums and reserves	Retained earnings	Result	Statutory provisions	Equity
At 12/31/2017	**62,075**	**507,843**	**(507,456)**	**(30,471)**	**-**	**31,991**
Appropriation of loss	-	-	-	-	-	-
Net income/(loss) 2017	-	-	(30,471)	30,471	-	-
Pension obligations	-	-	-	-	-	-
Net income/(loss) 2018	-	-	-	1,043	-	1,043
Capital reduction	-	-	-	-	-	-
Increase in capital (exercise of stock options and final allocation of free shares)	201	(201)	-	-	-	-
At 12/31/2018	**62,276**	**507,642**	**(537,927)**	**1,043**	**-**	**33,034**

NOTE 15 CONDITIONAL ADVANCES

At December 31, 2018, conditional advances referred to repayable advances received under the ADNA ("Advanced Diagnostics for New therapeutic Approaches") program, which receives public funding from Bpifrance to develop 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.

As at December 31, 2018, the liability consisting of reimbursable advances in the Company's balance sheet amounts to €20,446 thousand. At closing, the Company re-values its reimbursable advances received under the ADNA program in accordance with the discounted expected future reimbursements as discussed in Note 1 to the Annual financial statements.

The reimbursement of advances is subject to the fulfillment of a revenue threshold on TG4010 and TG4001 products predetermined for the following five years, and in proportion to the revenue from these products until a reimbursement ceiling is reached, or up until 2035. The expected discounted future reimbursements are thus estimated on the basis of an evaluation of future direct and indirect revenue associated with the TG4010 and TG4001 products being developed. The remaining assumptions used by Management in the measurement of the liability from reimbursable advances primarily concern:

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

As at December 31, 2018, the discounted cash flow rate was 7.5%. A 1% increase in this 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, 2018 related to bank financing of the 2015 research tax credit (current liabilities), the 2016 and 2017 research tax credits (non-current liabilities), and the competitiveness and employment tax credit (CICE) for 2015 (current portion) and 2016 to 2018 (non-current portion). Transgene received the amount of the tax receivable, less a financing cost and a holdback of 10 to 15%.

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, 2018 were reclassified as due within one year. This interest is not capitalizable.

No guarantee was provided by the Company for this loan.

NOTE 17 PROVISIONS FOR RISKS AND CHARGES

(in € thousands)	12/31/2017	Provisions	Retained earnings	Reversals not applicable	Use of the provision	12/31/2018
Exchange rate differences	-	2	-	-	-	2
Risk of charge	356	67	-	-	(351)	72
Pension obligations	4,172	300	-	(294)	-	4,178
Total provisions for charges	**4,528**	**369**	**-**	**(294)**	**(351)**	**4,252**
Of which allocations and reversals:						
Operating	(44)	367	-	(294)	(351)	(322)
Financial	125	2	-	-	-	127
Extraordinary	-	-	-	-	-	-

At December 31, 2017 the provision for expense risks related to the remaining restructuring provision, which was used in the first half of 2018. At December 31, 2018 the provision related mainly to the risk of an adjustment of the payroll taxes recognized in prior years.

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, 2018:

	12/31/2018	12/31/2017
Discount rate	1.70%	1.70%
Rate of future salary increases	1.50%	1.50%
Retirement age:		
▪ managers	age 65	age 65
▪ 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, 2018 and 2017:

	12/31/2018	12/31/2017
CHANGE IN THE VALUE OF COMMITMENTS		
Projected benefit obligation at January 1	3,710	3,725
Cost of services rendered for the year	241	237
Cost of discounting	58	62
Change in assumptions	-	-
Reductions/terminations	-	(71)
Actuarial (gain)/loss	54	(107)
Benefits paid during the year	(285)	(136)
Projected benefit obligation for retirement	**3,778**	**3,710**
Unrecognized actuarial losses	400	462
Unrecognized past service cost	-	-
Total unrecognized items	-	-
PROVISIONS FOR PENSIONS	**4,178**	**4,172**

Changes in actuarial commitments recognized on the liabilities side of the balance sheet for 2018 and 2017 break down as follows:

(in € thousands)	12/31/2018	12/31/2017
DEFINED BENEFIT COST FOR THE YEAR		
Cost of services rendered for the year	241	237
Cost of discounting	58	62
Net actuarial loss recognized in the year	(8)	-
Reductions/terminations	-	-
COST OF SERVICES AND DISCOUNTING	**291**	**299**

NOTE 18 EXPENSES PAYABLE

	12/31/2018	12/31/2017
Suppliers – accrued invoices	4,170	2,214
Accrued credit notes	-	-
Personnel and related accounts	756	759
Social organizations	898	908
VAT on accrued income	251	203
VAT on trade receivables	-	-
Other liabilities	68	78
TOTAL	**6,143**	**4,162**

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 €15.0 thousand at December 31, 2018; the resulting interest income was €114 thousand at December 31, 2018.

The table below does not include these cash items.

	2018	
(in € thousands)	Receivables	Payables
ABL Europe SAS	28	358
ABL Lyon	200	8
bioMérieux SA	-	(1)
bioMérieux Shanghai	-	-
ElsaLys Biotech SAS	1,301	-
Institut Mérieux	-	-
Mérieux Université	-	7
Thera Conseil	-	-
Transgene, Inc.	-	110
Transgene Biomedical Technology (Shanghai) Co. Ltd	-	-
Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd.	-	-
TOTAL	**1,529**	**482**

(in € thousands)	2018 Revenue	2018 Expenses
ABL Europe SAS (1)	195	1,580
ABL Lyon (2)	-	64
bioMérieux SA	-	(6)
ElsaLys Biotech SA (3)	85	-
Institut Mérieux (4)	-	308
Mérieux Université	-	6
Thera Conseil	-	5
Transgene Inc. (5)	-	527
Transgene Tasly (Tianjin) BioPharmaceutical Co. Ltd. (6)	59	-
TOTAL	**339**	**2,484**

(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 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 (Tianjin) BioPharmaceutical Co. Ltd.

NOTE 21 MATURITIES OF RECEIVABLES AND PAYABLES

Receivables *(in € thousands)*	Gross amount	One year or less	More than one year
	3,918	1,874	2,044
Trade receivables	1,868	567	1,301
Research tax credit and tax credit for Competitiveness and Employment	25,887	8,041	17,846
Government, VAT and other local authorities	312	312	-
Personnel and related accounts	26	26	-
Prepaid expenses	3,279	3,144	135
Research and development grants	-	-	-
Receivables from the sale of fixed assets	-	-	-
Other receivables	301	301	-
TOTAL	**35,591**	**14,265**	**21,326**

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	20,446	-	-	20,446
Financing of tax credits	20,064	8,034	12,030	-
Bank loan	11,896	1,896	10,000	-
Trade payables	4,791	4,791	-	-
Pension obligations	4,178	157	911	3,110
Accrued employee benefits and tax expense	2,967	2,967	-	-
Prepaid income	491	333	158	
Other liabilities	163	163	-	-
TOTAL	**64,996**	**18,341**	**23,099**	**23,556**

NOTE 22 INCOME TAX EXPENSES

Current taxes

Research tax credit

The research tax credit was €5,790 thousand euros in 2015 (versus 5,397 thousand euros in 2017).

The Company had a credit with the French government of €25,243 thousand as of December 31, 2018 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:

	Research tax credit (in € thousand)	
Year of expectef reimbursement	2018	2017
2018	-	8,943
2019	7,759	7,759
2020	6,297	6,297
2021	5,397	5,397
2022	5,790	-
TOTAL	**25,243**	**28,396**

Deferred taxes

At December 31, Transgene has loss carryforwards in France, which can be carried forward indefinitely, for a total of €667,657,000.

NOTE 23 EXECUTIVE COMPENSATION AND OBLIGATIONS

Directors' fees paid to members of the administrative bodies amounted to €202 thousand.

Philippe Archinard, Chairman and Chief Executive Officer of Transgene, has been mainly employed by the Company since April 2015. As of December 31, 2018, he remained an employee of Institut Mérieux.

In 2018, the Company did not pay any compensation to TSGH and its permanent representative. In 2018, the Company paid its Chairman and Chief Executive Officer, Mr. Philippe Archinard, gross compensation of €743 thousand.

In 2018, Philippe Archinard received gross compensation of €278.9 thousand (including €135 thousand in variable compensation and €9 thousand in benefits in kind corresponding to the use of a Company car) from Institut Mérieux.

In 2018 the Company paid to the Responsible Pharmacist acting as Deputy Chief Executive Officer, Christophe Ancel, total compensation amounting to €131 thousand, including €25 thousand in variable compensation.

The Company paid a gross amount of €1,972 thousand in compensation to its Executive Committee in 2018.

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)	2018	2017
Property leasing:		
▪ outstanding charges	5,317	6,460
▪ 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: 5 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, 2018, the market value of this hedging instrument was €256 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, 2018.

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 €331 thousand (including charges) in 2018.

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)	6,199	1,106	5,093	-
Finance lease obligations (non-real estate)	715	172	543	-
Other long-term obligations (reimbursable advances)	20,446	-	-	20,446
TOTAL	**27,360**	**1,278**	**5,636**	**20,446**

Transgene is also bound by contracts with subcontractors. That could have an impact over several accounting periods. At December 31, 2018, the Company considered its financial commitments under these contracts to be approximately €15 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.

As part of the agreements with Tasly BioPharmaceuticals in July 2018, Transgene received 27.4 million shares in this company, or 2.53% of its capital. The assets contributed by Transgene were valued by the parties at $48 million, and the per share value of the stock received was the price negotiated by the institutional funds during a capital increase. On this occasion, Transgene, the institutional funds, Tasly BioPharmaceuticals and its parent company Tasly Holding Group have signed a shareholders' agreement to manage their relations in the period preceding the IPO. In addition to the usual provisions such as a right of first refusal in case of assignment by a shareholder, Tasly Holding Group undertakes to buy the shares subscribed by Transgene in the event the IPO does not take place within two to three years, at the initial subscription price plus an annual contractual rate.

At the date of this document, 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, 2018, the same as at December 31, 2017.

	Men	Women	Total	Including reclassified personnel or internal transfers
Managers	39	67	106	
Other grades	12	28	40	
TOTAL	**51**	**95**	**146***	

* *Including 132 open-ended contracts at 12/31/2018.*

Employee benefits expense (salaries, payroll taxes, pension costs and related expenses) for 2017 and 2018 totaled €14,048 thousand and €14,632 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 POST-CLOSING EVENTS

In March 2019, the Company signed an engagement letter with Natixis, which allowed it to obtain a revolving credit facility of up to €20 million, which may be drawn on one or more occasions, provided that the agreement is signed with the appropriate supporting documents before April 30, 2019. The agreement was signed on the date of this report. As part of this credit agreement, Transgene must pledge its shares in Tasly BioPharmaceuticals prior to the first draw. The outstanding amount (excluding interest) may not exceed the equivalent of 60% of the value of the pledged Tasly BioPharmaceuticals shares or a ceiling of €20 million. If the outstanding amount drawn exceeds 60% of the value of the shares, the Company must immediately reimburse the difference. The interest on the outstanding amount drawn and a make-ready fee for the undrawn part are payable quarterly. This loan agreement runs for two and a half years until July 2021 and, as is typical of revolving loans, the amounts drawn must be repaid in full by the end of the program at the latest.

NOTE 28 PREMIUMS AND RESERVES

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

(in € thousands)	Total	Reimbursable or available for distribution	Not available for distribution
Premiums	506,990	506,990	-
Legal reserve	248	-	248
Unavailable reserve	404	-	404
TOTAL	**507,642**	**506,990**	**652**

NOTE 29 SUBSIDIARIES AND EQUITY INTERESTS

Financial information *(in local currency)*		Transgene, Inc. 5 Cambridge Center Suite 0802 Cambridge Massachusetts 02142 U.S.	Transgene BioPharmaceutical Technology (Shanghai) Co. Ltd. Rm 317, 379 Bao Tun Lu Shanghai 200011 China	Sas ElsaLys Biotech 321, avenue Jean-Jaurès 69007 Lyon
Share capital		30,000 USD	7,206,186 RMB	349,439 EUR
Share capital other than capital		-	(7,070,471) RMB	490,111 EUR
Proportion of capital held *(%)*		100%	100%	8,25%
Carrying value of securities held *(in euros)*	Gross	23,114	875,000	1,694,050
	Net	23,114	-	-
Loans and advances granted by the Company not yet reimbursed		None.	None	None
Amount of guarantee and undertakings given by the Company		None.	None	None
Revenues excl. tax of the period just past		None.	None	19.273 EUR
Income (profits or losses for the previous fiscal)		-	(65,675) RMB	(3,645,841) EUR
Dividends received during the year		None.	None	None
Comments		-	-	-

NOTE 30 STATUTORY AUDITORS' FEES

	Ernst & Young et Autres				Grant Thornton			
	Amount (pre-tax)		%		Amount (pre-tax)		%	
(in € thousands)	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Audit	-	-	-	-	-	-	-	-
STATUTORY AUDITORS, CERTIFICATION, EXAMINATION OF INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS								
Issuer	64	66	81%	67%	50	50	100%	100%
Fully consolidated subsidiaries	-	-	-	-	-	-	-	-
OTHER DUE DILIGENCE AND SERVICES DIRECTLY RELATED TO THE AUDIT								
Issuer	15	32	19%	33%	-	-	-	-
Fully consolidated subsidiaries	-	-	-	-	-	-	-	-
Sub-total	**79**	**98**	**100%**	**100%**	**50**	**50**	**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	**79**	**98**	**100%**	**100%**	**50**	**50**	**100%**	**100%**

4.4 STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

This is a translation into English of the statutory auditors' report on the 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 regulations and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to the shareholders.

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, 2018

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, 2018.

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, 2018 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, 2018 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 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.

MEASUREMENT OF INVESTMENT SECURITIES HELD IN TASLY BIOPHARMACEUTICALS

Risk identified	Our response
On July 10, 2018, your Company received shares from Tasly Biopharmaceuticals amounting to MUSD 48, in return, firstly, for the transfer of its investment in the joint venture which owned the T601 rights, and secondly, for the transfer of the T101 patent rights for Greater China. As at December 31, 2018, the net value of the shares held in the Tasly Biopharmaceuticals (non-listed company) recorded in your Company's balance sheet amounts to MEUR 41.5 and represents 2.53% of that Entity's capital. As stated in Notes 1, 13 and 24 to the financial statements, the valuation of the shares held is based on an analysis according to the expected fair value of the assets. The valuation of these shares requires management to exercise judgment in its choice of the elements to be taken into account, corresponding to forecasts. The main assumptions taken into account by management in the measurement of value in use are based on assumptions obtained from Tasly Biopharmaceuticals, used to value the Company on the occasion of the pre-IPO refinancing in July 2018, during which your Company became a shareholder, and concern: • the estimate of the future cash flows that will be generated by the companies held and notably by the products being developed; • the probable technical success of the products being developed and their approval by the regulatory authorities; • the market potential for these products being developed; • the value of the shares according to the latest capital transactions; • the discount rate used by management. The Company had an independent advisory firm review and updated the model used and the assumptions at year-end, based on the information provided by Tasly Biompharmaceuticals. Impairment is recognized when the net carrying amount of this investment is higher than its recoverable amount. 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 the shares held to be a key audit matter as it involves significant exercise of judgment on the part of management.	Our work consisted in assessing the methods and assumptions used by the Company to determine the recoverable amount, in particular: • we compared the valuation model applied and the assumptions used with those used when the initial acquisition price was fixed in July 2018. • 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 used in the valuation of the initial acquisition price, 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. • 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. Lastly, we also assessed the appropriateness of the information disclosed in the notes to the financial statements, in particular the sensitivity analyses presented.

VALUATION OF ADNA REPAYABLE ADVANCES

Risk identified	Our response
As at December 31, 2018, the value of the liability consisting of repayable advances recorded in your Company's balance sheet amounts to MEUR20.45. At year-end, the Company re-values its repayable advances liability under the ADNA program to match the amount of the expected repayments, as described in Note 1 to the financial statements. The repayment of these advances is subject to the achievement of a certain threshold of revenue with the TG4001 and TG4010 products, and will be made based on a predetermined fixed amount over the following five years, and then in proportion to the revenue generated by these products until a repayment limit is reached or until 2035. The expected future repayments are thus estimated by management based on the estimated future direct and indirect revenue generated by the TG4001 and TG4010 products being developed. The other assumptions taken into account by management to measure the repayable advances liability notably concern: • the probabilities of success of the clinical phases; • the timing and conditions of a partnership concerning the development and marketing of these products; • the discount rate used by management. The measurement of the repayable advances liability therefore requires management to exercise judgment in its choice of the elements to be taken into account, in particular as regards forecasts. Any error in the assessment of these assumptions would have an impact on the estimation of the debt to be repaid. We considered the measurement of the ADNA repayable advances to be a key audit matter as it involves significant exercise of judgment on the part of management.	Our work consisted in analyzing the methods and assumptions used by your Company to measure the fair value of the ADNA repayable advances, 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 on the other hand, our knowledge of the sector, acquired notably 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 assessed the appropriateness of the information disclosed in the notes to the financial statements.

Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations.

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

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 with respect to the financial position and the financial statements provided to the shareholders.

We attest that the information relating to payment terms referred to in Article D. 441-4 of the French Commercial Code (*Code de commerce*) is fairly presented and consistent with the financial statements.

Report on Corporate Governance

We attest that the Board of Directors' Report on Corporate Governance sets out the information required by Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code (*Code de commerce*).

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 and 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, 2018, GRANT THORNTON was in its third year of total uninterrupted engagement and ERNST & YOUNG et Autres was in its twenty-third year of total uninterrupted engagement (including twenty-one 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 risks 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 to the Audit Committee a report 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 2, 2019

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.

ANNUAL FINANCIAL STATEMENTS AT DECEMBER 31, 2018

5

INFORMATION ABOUT THE COMPANY AND ITS CAPITAL

5.1 SHARE CAPITAL

5.1.1 Amount of equity subscribed

€62,275,923, fully paid in, at December 31, 2018 and €62,449,098 recognized as of the date of this Registration Document.

5.1.1.1 Number of shares issued

62,275,923 shares at December 31, 2018 and 62,449,098 recognized as of the date of this Registration Document, all of the same class and all fully paid in. No unpaid shares have been issued. The nominal value per share is 1 euro.

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 29, 2019.

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, 2018, 75,343 shares were held on behalf of the Company (see Section 5.6).

5.1.4 Convertible securities, exchangeable securities or securities with warrants

None.

5.1.5 Conditions governing any right of acquisition and/or any obligation attached to the capital subscribed but not paid-in, or any undertaking to increase the share capital

Capital authorized and not issued

At March 29, 2019 the number of shares that could be issued against outstanding stock options (328,063) and free share awards (622,200) was 946,263, or around 1.49% of the Company's capital on a fully diluted basis (or 63,398,361 shares).

The following table shows the powers delegated to the Board of Directors by the Extraordinary General Shareholders' Meeting of May 23, 2018 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	31.5 million shares in one or more tranches Expiration: July 23, 2020	None.
Capital increase without preferential subscription rights for shareholders	25 million shares in one or more tranches (included in the ceiling of 31.5 million shares) Expiration: July 23, 2020	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% Expiration: July 23, 2020	None.
Setting the price of issuance of shares in the event of the waiver of preferential subscription rights in accordance with Article L. 225-136 1 paragraph 2 of the French Commercial Code	10% of share capital per year Expiration: July 23, 2020	None.
Capital increase with cancellation of pre-emptive subscription rights to compensate share tenders, in the case of an exchange offer or contribution in kind applicable to corporate securities.	10% of share capital Expiration: July 23, 2020	None.
Capital increase with cancellation of pre-emptive subscription rights of shareholders for the benefit of categories of persons	25 million shares in one or more tranches (included in the ceiling of 31.5 million shares) Expiration: July 23, 2020	None
Award of free shares in the Company to Company and Group employees without preferential subscription rights	1,200,000 existing or new shares Expiration: July 23, 2021	414,800

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 to share capital

CHANGE IN EQUITY OVER THE PAST THREE YEARS

Fiscal year	Type of transaction	Number of securities	Issue of *shares* *(in euros)*	Issue premium per share *(in euros)*	Total issue premiums *(in euros)*	Amount of equity *(in euros)*	Total number of shares
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
2018	Capital increase (1)	200,733	200,733	-	-	62,275,923	62,275,923

(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.

On March 17, 2019, the Company definitively allocated 173,175 free shares to Company employees, resulting in a share capital of €62,449,098 divided into 62,449,098 shares as at the date of this Registration Document.

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, 2018 based on an analysis of bearer share ownership conducted at the Company's request following the capital increases of November 2017 and the distribution as of the end of 2016. There is no shareholder apart from the majority shareholder TSGH that owns more than 5% of share capital.

	As at 12/31/2016			As at 12/31/2017			As at 12/31/2018		
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]	33,863,363	60.0	69.1	35,431,991	57.1	67.2	35,431,991	56.9	66.98
Dassault Belgique aviation	2,783,142	4.9	3.7	2,924,221	4.7	3.6	2,924,221	4.7	3.53
Other shareholders [3]	19,785,486	35.1	27.2	23,718,978	38.2	29.2	23,919,711	38.4	29.49
Total	**56,431,991**	**100**	**100**	**62,075,190**	**100**	**100**	**62,275,923**	**100**	**100**
Dilutive impact stock-options + free shares awarded [4]	774,102	1.3		888,062	1.4		726,463	1.2	
TOTAL DILUTED	**57,206,093**			**62,963,252**			**63,005,586**		

(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, 2018, the total number of shares was 62,275,923; the total theoretical number of voting rights was 82,745,779 of which the number of exercisable voting rights was 82,670,436. 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, 2018, the Company held 75,343 of its own shares through a liquidity program. The total percentage of employee ownership is less than 1%. 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.) At December 31, 2018, there were 328,063 options outstanding and 398,400 free shares were vesting.

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 56.7% (66.9% of the 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 (3.5% 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 2018

The share buyback program in force in 2018 was authorized by the Shareholders' Meeting of May 23, 2018.

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 €20 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 2018, 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 2018, under the liquidity contract, Kepler Cheuvreux:

- bought 458,344 shares for a total of €1,366,104.33, representing a weighted average value of €2.9805 per share; and
- sold 476,049 shares for a total of €1,452,703.72, representing a weighted average value of €3.0516 per share.

At December 31, 2018, the Company directly held 75,343 shares for the purposes of creating liquidity under the liquidity contract (which represented around 0.12% of the capital, whose measured value at the purchase price (€2.73) was €205,686). At that same date, none of the 75,343 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 22, 2019.

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

At December 31, 2018 the total number of shares held by Transgene was 75,343, representing 0.12% 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, 2018

At December 31, 2018 Transgene's treasury shares were allocated as follows:

75,343 shares allocated with a view to liquidity.

The liquidity contract signed with Kepler Cheuvreux was renewed in January 2019. 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 22, 2019:

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, spin off 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 75,343 shares (or 0.12% of the share capital) already directly held by Transgene at December 31, 2018;
- the 62,275,923 shares in the share capital at December 31, 2018;
- that the buyback at this time could only involve 6,220,058 shares (9.88% of the share capital), based on a maximum share price of €25 per share for a maximum total amount of € 20,000,000

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 the 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 22, 2019, this buyback program may be carried out during an 18-month period starting on the date of the Shareholders' Meeting of May 22, 2019, *i.e.* no later than November 22, 2020. 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 22, 2019) over a 24-month period starting with the adoption of the tenth resolution proposed to the Combined Shareholders' Meeting of May 22, 2019, *i.e.* no later than May 22, 2021.

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.

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, 2018, 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

We hereby inform you that we have not been notified of any agreements or commitments authorized and concluded during the year ended December 31, 2018 to be submitted to the Annual General Meeting for approval in accordance with Article L. 225-38 of the French Commercial Code (*Code de commerce*).

None

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, 2018

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, 2018.

1. With Institut Mérieux

Persons concerned

Mssrs 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 plus 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 beneficiary employee was transferred within the Institut Mérieux group during the vesting period. The Institut Mérieux group 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, 2018, your Company recorded an expense amounting to € 146,992. In addition, an adjustment in respect of the year 2017 amounting to € 302 was recognized in 2018.

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

Persons concerned

Mssrs Alain Mérieux, Jean-Luc Bélingard and Philippe Archinard and Mrs Dominique Takizawa.

a) 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, 2018, your Company recorded income amounting to € 169,272 in respect of the sublease agreement concerning a part of the quality control laboratory located at the Company's head office.

b) 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 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, 2018, your Company recorded an expense amounting to €1,320,266.

Agreements and commitments approved in prior years, which were not implemented during the year ended December 31, 2018

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, 2018.

1. With ABL Europe S.A.S. (100% owned by ABL Inc., itself 100% owned by ABL H S.A.S., which is in turn 100% owned by Institut Mérieux

Persons concerned

Mssrs Alain Mérieux, Jean-Luc Bélingard, Philippe Archinard and Jean-Luc Bélingard and Mrs Dominique Takizawa.

Nature and purpose

Within the scope of the sale of your company's bioproduction asset to ABL Europe S.A, your Company signed a Social Agreement concerning the redeployment of employees.

Conditions

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

Amount for the year

This agreement did not five rise of any effect for the year ended December 31, 2018.

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

Persons concerned

Mssrs Alain Mérieux, Jean-Luc Bélingard and Philippe Archinard and Mrs Dominique Takizawa.

a) 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 employment contracts of employees who have worked in several companies of the 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 remaining largely unchanged.

Amount for the year

This agreement did not give rise to any effect for the year ended December 31, 2018.

b) Nature and purpose

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

Conditions

For employees who have worked in group companies and whose length of service 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 the companies concerned according to an equitable economic allocation key. These costs will

henceforth be allocated in proportion to the remuneration paid by each Mérieux group company that has benefited from the employees' services, excluding remuneration having served as a base for the payment of a previous termination indemnity.

Amount for the year

This agreement did not give rise to any effect for the financial year ended December 31, 2018.

Lyon and Paris-La Défense, April 2, 2019

The Statutory Auditors

GRANT THORNTON **FRENCH MEMBER OF GRANT THORNTON INTERNATIONAL**	**ERNST & YOUNG ET AUTRES**
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.

INFORMATION ABOUT THE COMPANY AND ITS CAPITAL

6

ADDITIONAL INFORMATION

6.1 PERSONS RESPONSIBLE

6.1.1 Persons responsible for information

Philippe Archinard
Chief Executive Officer

Jean-Philippe Del
Chief Financial Officer

John Felitti Vice-President
Corporate Secretary

Telephone: 03 88 27 91 21
Fax: 03 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 198 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.

Philippe Archinard
Chief Executive Officer

6.2 PERSONS RESPONSIBLE FOR AUDITING THE FINANCIAL STATEMENTS

6.2.1 Statutory Auditors

STATUTORY AUDITORS

ERNST & YOUNG et Autres 1/2, place des Saisons 92400 Courbevoie – Paris-La Défense represented by Cédric Garcia	**Grant Thornton** 44, quai Charles de Gaulle 69006 Lyon represented by Françoise Méchin

Ernst & Young et Autres is a member of the Compagnie Régionale des Commissaires aux Comptes de Versailles and of the Ernst & Young network. **Grant Thornton** is a member of the Compagnie Régionale des Commissaires aux comptes de Lyon and of the Grant Thornton International Ltd network.

DATES OF APPOINTMENT AND EXPIRATION OF TERM	
Appointed May 29, 1996 and renewed February 16, 1998, and again on June 9, 2004, on June 17, 2010 and on May 24, 2016 until the General Shareholders' Meeting called to approve the 2021 financial statements.	Appointed May 24, 2016, until the General Shareholders' Meeting called to approve the 2021 financial statements.

ALTERNATE STATUTORY AUDITORS

Auditex Tour Ernst & Young 1/2, place des Saisons 92400 Courbevoie – Paris-La Défense 1	**IGEC** 3, rue Léon-Jost 75017 Paris

DATES OF APPOINTMENT AND EXPIRATION OF TERM	
Appointed June 17, 2010 and renewed May 24, 2016 until the General Shareholders' Meeting called to approve the 2021 financial statements.	Appointed May 24, 2016, until the General Shareholders' Meeting called to approve the 2021 financial statements.

6.2.2 Auditors' Fees

	Ernst & Young et Autres				Grant Thornton			
	Amount (pre-tax)		%		Amount (pre-tax)		%	
(in € thousands)	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Audit		-		-		-		-
STATUTORY AUDITORS, CERTIFICATION, EXAMINATION OF INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS								
Issuer	64	66	81%	67%	50	50	100%	100%
Fully consolidated subsidiaries	-	-	-	-	-	-	-	-
Other due diligence and services directly related to the audit	-	-	-	-	-	-	-	-
Issuer	15	32	19%	33%	-	-	-	-
Fully consolidated subsidiaries	-	-	-	-	-	-	-	-
Sub-total	**79**	**98**	**-**	**100%**	**50**	**50**	**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	**79**	**98**	**100%**	**100%**	**50**	**50**	**100%**	**100%**

6.3 THIRD PARTY INFORMATION AND STATEMENT BY EXPERTS AND DECLARATIONS OF ANY INTEREST

None.

6.4 DOCUMENTS ON DISPLAY

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 consulted on the website : www.transgene.fr requested or from Jean-Philippe Del, CFO.

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 809/2004/CE		Sections
1.	**PERSONS RESPONSIBLE**	**6.1**
1.1.	Persons responsible for information	6.1.1
1.2.	Declaration by the responsible person	6.1.2
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	1.4.6
4.4.	Legal risks	1.4.7
4.5.	Insurance and risk hedging	1.4.8
4.6.	Regulatory risks	1.4.5
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 developments in the Company's activities	1.3.1
5.2.	Investments	1.3.5
6.	**ACTIVITIES**	**1.2, 1.3**
6.1.	Principal activities	1.2.2
6.2.	Principal markets	1.2.3
6.3.	Extraordinary events	1.3.6.3
6.4.	Dependence of Company on patents, licenses and commercial 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, plant and equipment	1.2.8
8.2.	Environment	3.3
9.	**REVIEW OF FINANCIAL CONDITION AND RESULTS**	**1.3**
9.1.	General information	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 809/2004/CE		Sections
12.	**INFORMATION ON TRENDS**	**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 provisions for retirement	2.2.2
16.	**FUNCTIONING OF ADMINISTRATIVE AND MANAGEMENT BODIES AND CONFLICTS OF INTEREST**	**2.1, 2.3**
16.1.	Dates and expiration of terms	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 Appointments and Compensation Committee	2.1.3
16.4.	Corporate Governance	
	Statutory Auditors' report, prepared in accordance with Article L. 225-235 of the French	
	Commercial Code, on the report of the Chairman of the Board of Directors of Transgene SA	2.3
17.	**EMPLOYEES**	**3.2, 2.2, 5.8**
17.1.	Workforce	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, 5.7 4.3.2 - Notes 20 and 29**
20.	**FINANCIAL INFORMATION CONCERNING COMPANY ASSETS AND LIABILITIES, FINANCIAL POSITION AND EARNINGS**	**4**
20.1.	Background 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.	Annual financial statements and Notes for Transgene SA	4.3
	Statutory Auditors' 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" of this Registration Document.	1.4.7.4
20.9.	Significant change in the Company's financial or trading position	1.3.6.3

Headings required by Annex 1 of European regulation 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 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 AND STATEMENT BY EXPERTS AND DECLARATIONS OF ANY INTEREST**	**6.3**
24.	**DOCUMENTS ON DISPLAY**	**6.4**
25.	**INFORMATION ON INVESTMENTS IN AFFILIATES**	**1.2.7.2**
26.	**ADDITIONAL INFORMATION**	**6**
26.1.	Statutory Auditors' fees	6.2.2
27.	**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.

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.

T cells or T lymphocytes: type of white blood cells belonging to the immune system and developing from stem cells in bone marrow. They help protect the body from infections and can help fight cancer. Transgene immunotherapies are designed to increase the immune response primarily by activating these T-lymphocytes.

Cytokine: a large category of small proteins involved in the immune defense system. Some cytokines boost or inhibit the immune system, as needed.

Cytolysis – cytolytic: tending to dissolve (destroy) cells. The cytolysis may be caused by the T-lymphocytes (a specific immune response) or by an oncolytic virus like Pexa-Vec.

Orphan drug designation: a classification that regulatory authorities (the *Food and Drug Administration* in the USA, the European Medicines Agency in Europe) may apply to a drug or biological product for the treatment of a rare, fatal or chronically debilitating disease.

Gene: the functional and physical unit of heredity, transmitted from parent to child. Genes are components of DNA and most of them contain the information necessary to manufacture a specific protein.

GM-CSF: CSF (*granulocyte-macrophage colony stimulating* factor): a cytokine that acts as a growth factor on white corpuscles, especially granulocytes, macrophages and cells that become platelets. Pexa-Vec contains a sequence that codes for GM-CSF.

ICI, Immune checkpoint inhibitor or *blocker*: new immunotherapy 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.

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.

Objective tumor response: an objective tumor response is measurable. It is most often evaluated with medical imaging and is one of the major indicators in evaluating a cancer therapy.

Stage: the level of growth of a cancer. Stage is generally determined by the volume of the tumor, whether or not the lymph nodes have been affected and by the extent to which the cancer has spread from the original site to other areas of the body. Stages run from 0 to IV, with IV being the most advanced stage.

Targeted therapy: a treatment that uses drugs to specifically identify, block or destroy cancer cells, with less damage to normal cells.

Solid tumor: an abnormal mass of tissue that usually does not contain cysts or liquid areas. Solid tumors can be benign (non-cancerous) or malignant (cancerous).

Therapeutic vaccines: their purpose is to induce innate and adaptive immune responses by triggering a cascade of immune reactions that result in the production of T-lymphocytes that specifically destroy the tumor/infected cells.

Vascularization: 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).

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.

Some definitions were adapted from the online dictionary of the National Cancer Institute at www.cancer.gov.

6.7 APPENDIX: MANAGEMENT REPORT FOR THE PERIOD ENDED DECEMBER 31, 2018

Ladies and Gentlemen,

We have called this Ordinary General Shareholders' Meeting to approve the financial statements for the fiscal year ended December 31, 2018 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 2019.

In 2018, Transgene continued to advance its clinical development plan, with clinical trials conducted on its five products.

At the same time, the Company affirmed its ability to innovate with the expansion of its Invir.IO™ platform, by continuing the development of new-generation oncolytic viruses, and the launch of *myvac*™, its new personalized vaccination platform, for which a collaboration was entered into with NEC.

In addition, the Company sold the Chinese rights of two of its products — TG1050 and TG6002 — for $48 million to the Chinese company Tasly BioPharmaceuticals.

A positive 2018 and an expanded portfolio for 2019

2018 was an intense year for Transgene, during which significant progress was made in all aspects of our activities.

We continued to make progress in our promising clinical assets and are looking forward to announcing the results of our key clinical trials during the second half of 2019. Our R&D efforts, focused on our worldwide expertise in viral vectors, were applied to our two cutting-edge technology platforms: oncolytic viruses and therapeutic vaccines, which were designed to improve the treatment of solid tumors.

With our Invir.IO™ platform, we develop new viruses that have a more significant oncolytic effect and are armed with powerful immunomodulators able to treat tumors that are currently resistant to existing therapies. In 2018, positive data was presented at the Annual Society for Immunotherapy of Cancer (SITC) Conference. We have an ambitious program in pre-clinical development that we are committed to bringing to clinic in the first half of 2020.

In September, we launched *myvac*™, a particularly innovative individualized immunotherapy based on a viral vector that combines the identification of tumor neoantigens with the expertise of the Transgene viral vectors in order to create a new treatment for solid tumors that is specific to each patient. We signed a strategic collaboration agreement with NEC to leverage its artificial intelligence capabilities to identify targets for neoantigen candidates. With NEC's know-how and highly qualified experts, in addition to those of Institut Curie, HalioDx and Traaser, we aim to launch two clinical studies in the second half of 2019 with TG4050, our first *myvac*™-based candidate.

This is an exciting period for Transgene in transforming the fight against solid tumors.

Sale of rights in TG1050 and TG6002 in Greater China

On July 10, 2018, Transgene signed a group of agreements with Tasly BioPharmaceuticals Co., Ltd. ("Tasly") under the terms of which Transgene sold both its patent rights to T101 in Greater China and all of its 50% interest in the joint venture Transgene-Tasly (Tianjin), which held the patent rights to T601 in Greater China. Following these agreements, Tasly now holds all the research, development and marketing rights to T601 and T101 in Greater China.

In exchange, Transgene received a total of 27.4 million new shares in Tasly with a value of $48 million (€41 million) based on the subscription price during a financing round prior to the introduction of Tasly on the stock market, which took place at the same time as the transaction with Transgene. Transgene's investment represents 2.53% of the increased share capital of Tasly. Tasly BioPharmaceuticals has announced its intention to conduct an IPO on the Hong Kong Stock Exchange.

The transactions were finalized in August 2018.

NB: T601 and T101 are products developed in China and incorporate, respectively, Transgene's patented technologies TG6002 and TG1050.

Products in clinical development

The key events and progress in 2018 of products in clinical development are outlined below:

- **TG4010:**

– treatment of the first patient in the phase 2 clinical trial for TG4010 combined with nivolumab and standard chemotherapy, for the first-line treatment of non-small cell lung cancer (NSCLC), as part of a collaboration agreement with Bristol-Myers Squibb, who supplied the nivolumab

- **Pexa-Vec:**

– phase 3 trial in advanced liver cancer – first-line treatment (HCC), comparing the effectiveness of Pexa-Vec + sorafenib compared to sorafenib alone. Continued recruitment; treatment of the first patient in China (September 2018)

– phase 2 trial in advanced liver cancer – first-line treatment, combining Pexa-Vec and nivolumab. Continued recruitment of patients in 2018

- **TG4001:**

– confirmation of TG4001's tolerability and safety, in combination with Avelumab, in part 1b of phase 1/2 of the trial in human-papillomavirus-positive (HPV) cancers, particularly head and neck cancers within the framework of a clinical collaboration agreement with Merck KGaA and Pfizer, and treatment of the first patients in phase 2 of the trial;

- **TG6002:**

– recruitment of the first patient for phase 1/2a of TG6002's clinical trial in advanced gastro-intestinal tumors by intravenous administration;

- **TG1050:**

– presentation of results to the AASLD (American Association for the Study of Liver Disease), the complete results of phase 1/1b of the clinical trial confirmed the product's robust safety profile for single and repeated injections and the triggering of an immune response specific to the virus-encoded antigens,

– presentation at the same AASLD meeting of encouraging preclinical data to plan the development of the product in combination with antivirals or immunomodulators,

– continuation of a clinical trial of TG101 (product including the sequences of TG1050) in China.

In 2018, 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 2019 regarding products under development are as follows:

- **TG4010:**

– interim results from the trial as a first line treatment for lung cancer;

- **Pexa-Vec:**

– interim results from the trial combining Pexa-Vec and nivolumab as a first-line treatment for advanced liver cancer,

– confirmation that phase 3 of the trial assessing Pexa-Vec and sorafenib was not futile;

- **TG4001:**

– first results from the trial in HPV-positive cancers, particularly head and neck cancers;

- **TG6002:**

– initial results from the trial on the treatment of advanced gastro-intestinal tumors,

– first patient treated in a new study on metastatic colon cancers for the same indication with intrahepatic administration;

- **TG1050:**

– search for partners to continue the product's development;

- **TG4050:**

– first patient treated in a phase 1 study of patients with ovarian cancer,

– first patient treated in a phase 1 study of patients with HPV-negative head and neck cancers.

Invir.IO™: the next generation of multifunctional oncolytic viruses for the treatment of advanced solid tumors

With Invir.IO™, Transgene is making good progress in the increasingly attractive field of new oncolytic viruses. These viruses are a new category of targeted cancer treatments designed to infect, duplicate and lyse malignant cells without damaging normal and healthy tissue. In addition to their direct oncolytic activity, oncolytic viruses have proven to be doubly promising immunotherapy agents: on the one hand, the viral infection immunogenically kills tumor cells and triggers natural and adaptive immune responses that cause additional damage to the tumor, and on the other hand, these viruses can also deliver very powerful immunotherapy agents directly in the tumor micro-environment. Transgene believes that its viruses from Invir.IO™ will introduce radical change in these two fields.

The Invir.IO™ platform is designed to generate multifunctional novel oncolytic viruses based on stronger oncolytic viral strain and that incorporate several transgenes encoding for a specific anti-cancer arsenal, capable of better modulating the tumor microenvironment, with an aim to improve the effectiveness of treatments for patients with solid tumors.

In November 2018, Transgene presented positive data on its oncolytic virus vaccine virus to the Society for Immunotherapy of Cancer (SITC) conference. This oncolytic virus demonstrated its ability to ensure the expression of BioInvent's anti-CTLA-4 antibody in tumors with low systemic exposure. It also proved in preclinical models to be more effective and had an improved safety profile compared with the combination of antibodies and corresponding unarmed viruses.

The Company is making excellent progress in developing its broad candidate portfolio. We are committed to launching clinical trials for the oncolytic virus encoding for the anti-CTLA-4 antibody (in cooperation with BioInvent), as well as at least one other virus encoding for an anti-cancer agent, in the first half of 2020.

A new generation of individualized immunotherapy: *myvac*™

In September 2018, Transgene announced the launch of its *myvac*™ platform, designed to produce personalized MVA-based immunotherapies that stimulate and educate patients' immune systems to recognize and destroy tumor cells.

This personalized immunotherapy product is based on mutations identified in the patient's own tumor. These mutations are relevant targets because they lead to the expression of known tumor neoantigens to trigger an immune response that is more powerful than the antigens associated with the tumors.

In March 2019, Transgene finalized a strategic collaboration agreement with NEC on the treatment of solid tumors. NEC's artificial intelligence algorithms will be used to predict which tumor neoantigens, identified by the sequencing of the solid tumor of a given patient, are the most appropriate to integrate in the MVA viral vector genome. Transgene will design and manufacture a personalized vaccine for the treatment of this patient, by utilizing the *myvac*™ platform.

NEC will co-finance the first two clinical studies led by Transgene for TG4050, the first vaccine using *myvac*™.

These two clinical trials will be conducted in Europe and in the United States, in patients with HPV-negative head and neck cancer and ovarian cancer. These trials will begin in the 4th quarter of 2019.

Transgene has developed and validated a PilotClin manufacturing unit in order to efficiently produce GMP batches and its personalized vaccines. Several research opportunities are also being pursued in order to further optimize the immunogenicity of our *myvac*™ therapeutic vaccines.

In March 2019, the NEOVIVA project, which supports development of the *myvac*™ platform, obtained financing within the framework of Bpifrance's "Investments for the Future" program. Under this agreement, Transgene will receive €2.6 million over the five years of the program. The NEOVIVA project is aimed at developing this innovative technology in cooperation with its three partners: HalioDx, Traaser and the Institut Curie. The NEOVIVA project complements the existing collaboration between Transgene and NEC.

Intellectual property

In 2018, 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, 2018, Transgene SA's available cash and available-for-sale financial assets totaled €16.8 million. Transgene forecasts net cash outflows for 2019 to be between €25 and 30 million.

The 2018 corporate financial statements, which will be put to the Ordinary General Shareholders' Meeting for approval, show a profit of €1 million and shareholders' equity of €33 million.

Significant events after the balance sheet date

In March 2019, the Company signed an engagement letter with Natixis, which allowed it to obtain a revolving credit facility of up to €20 million, which may be drawn on one or more occasions, provided that the agreement is signed with the appropriate supporting documents before April 30, 2019. As part of this credit agreement, Transgene must pledge its shares in Tasly BioPharmaceuticals prior to the first draw. The outstanding amount (excluding interest) may not exceed the equivalent of 60% of the value of the pledged Tasly BioPharmaceuticals shares or a ceiling of €20 million. If the outstanding amount drawn exceeds 60% of the value of the shares, the Company must immediately reimburse the difference. The interest on the outstanding amounts drawn as well as an availability commission for the undrawn part are payable on a quarterly basis. This loan agreement runs for two and a half years until July 2021 and, as is typical of revolving loans, the amounts drawn must be repaid in full by the end of the program at the latest.

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 401,183 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, 2018, the Company held 75,343 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 12/31/2018		At 12/31/2017	
Maturity	Euros	% of total	Euros	% of total
Past due	148,074	30%	294,224	61%
Between 1 and 30 days	327,496	68%	170,666	36%
Between 31 and 45 days	1,440	1%	15,112	3%
Between 46 and 60 days	2,207	1%	-	-
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	**479,217**	**100%**	**480,002**	**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 TRANCHE										
Number of invoices	-	-	-	-	52	-	-	-	-	17
Total amount of invoices with tax	76,007	5,723	4,002	62,342	148,074	651	3,727	6,205	7,180	88,763
Percentage of the total amount of purchases for the financial year with tax	0.38%	0.03%	0.02%	0.31%	0.75%	-	-	-	-	-
Percentage of financial year revenue specify with tax	-	-	-	-	-	0.04%	0.24%	0.39%	4.95%	5.61%
(B) INVOICES EXCLUDING (A) INVOLVING DISPUTED OR NON-RECOGNIZED LIABILITIES AND RECEIVABLES										
Number of invoices	-	-	-	-	-	-	-	-	-	-
(C) REFERENCE PAYMENT PERIODS USED (CONTRACTUAL OR LEGAL PERIODS - 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 or researchers (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 the ethics organization's officer.

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 2018.

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.

This risk analysis is updated annually and presented to the Audit Committee

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.

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 2018 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 2018), and Transgene BioPharmaceutical Technology (Shanghai) Co. Ltd., currently being liquidated (no employees as at December 31, 2018). The Company's interest in ElsaLys Biotech SA (France) is 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
	2018 corporate financial statements	Section 4.3
Annual financial statements	2018 consolidated financial statements	Section 4.1
	List of corporate offices	Paragraph 2.1.1
Corporate officers	Compensation	Section 2.2
Subsidiaries and investments		Paragraph 4.3.2 Note 27
	Risk factors	Section 1.4.2
	Table of authorizations for the Board to increase the capital	Paragraph 5.1.5
	Shareholders structure	Section 5.2
Other information	Corporate Social Responsibility	Chapter 3 6
	Stock options report	Paragraph 2.2.3
Special reports	Report on free shares awards	Paragraph 2.2.4

TABLE OF TRANSGENE FINANCIAL RESULTS OVER THE LAST FIVE FISCAL YEARS

(Articles R. 225-81, R. 225-83 and R. 225-102 of the French Commercial Code)
(in thousands of euros except number of shares and earnings per share)

Category	2014	2015	2016	2017	2018
1. FINANCIAL POSITION AT YEAR-END					
A) Capital stock	88,156	88,196	56,432	62,075	62,276
b) Number of shares issued	38,527,968	38,545,397	56,431,991	62,075,190	62,275,923
2. COMPREHENSIVE OPERATING NET INCOME/(LOSS)					
a) Revenue excl. VAT	2,340	1,821	3,984	2,099	1,335
b) Profit before tax, depreciation, amortization and provisions	(56,685)	(41,646)	(35,378)	(35,004)	(2,647)
c) Income tax	8,463	7,943	6,337	5,430	5,824
d) Profit after tax, depreciation, amortization and provisions	(50,884)	(45,006)	(22,056)	(30,471)	1,043
e) Earnings distributed	-	-	-	-	-
3. OPERATING INCOME REDUCED TO A SINGLE SHARE					
a) Profit after tax but before amortization, depreciation and provisions	(1.25)	(1.08)	(0.63)	(0.56)	0.05
b) Profit after tax, amortization, depreciation and provisions	(1.32)	(1.17)	(0.39)	(0.49)	0.02
c) Dividend per share	-	-	-	-	-
4. PERSONNEL					
a) Number of employees	284	256	176	146	146
b) Total payroll	14,055	12,341	13,502	9,497	9,459
c) Amount paid in social benefits (social security, welfare plans, etc.)	7,216	6,670	5,402	4,550	4,607

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