# SEMI-ANNUAL FINANCIAL REPORT AS OF JUNE 30, 2018

A société anonyme à conseil d'administration (public limited company with a board of directors) with share capital of €7,785,000.60

Registered office: 218 avenue Marie Curie – Forum 2 Archamps Technopole,

74166 Saint-Julien-en-Genevois Cedex, France

Thonon-les-Bains Trade and Companies Register (RCS) 439 489 022

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# GENERAL OBSERVATIONS

## *Definitions*

In this Semi-annual Financial report, and unless otherwise specified:

- The terms "the Company" or "Genkyotex" denote Genkyotex SA whose registered office is located at 218, Avenue Marie Curie – Forum 2 Archamps Technopole, 74166 Saint-Julien-en-Genevois Cedex, France, registered in the Thonon-les-Bains Trade and Companies Register (RCS) under number 439 489 022;
- The "Group" refers to Genkyotex SA and its subsidiary, Genkyotex Suisse SA (Switzerland);
- "Financial report" denotes this semi-annual financial report as of June 30, 2018;
- "Registration Document" means the registration document filed with the French Financial Markets Authority (AMF) on April 27, 2018 under number R.18-0037;

## *About Genkyotex*

Genkyotex is a biopharmaceutical company and the market leader in NOX therapies, and is listed on the regulated Euronext Paris and Euronext Brussels markets. The leader in NOX therapies, its unique therapeutic approach is based on the selective inhibition of NOX enzymes which amplify many pathological processes, such as fibroses, inflammation, the perception of pain, the development of cancer, and neurodegeneration.

Genkyotex has a platform for identifying small molecules suitable for oral administration and capable of selectively inhibiting specific NOX enzymes. Genkyotex is developing a portfolio of drug candidates representing a new therapeutic class targeting one or more NOX enzymes. Its most advanced drug candidate, GKT831, a NOX1 and 4 enzyme inhibitors, was assessed in a Phase 2 clinical trial in primary biliary cholangitis (PBC, an orphan fibrotic disease) and in a Phase 2 clinical trial launched by researchers investigating type 1 diabetes and diabetic kidney disease (DKD). The United States National Institutes of Health (NIH) awarded Professor Victor Thannickal of the University of Alabama at Birmingham (UAB) $8.9 million in grant funding to finance a multi-year research program evaluating the role of NOX enzymes in idiopathic pulmonary fibrosis (IPF), a chronic lung disease that results in scarring (fibrosis) of the lungs. The core component of the program will be a Phase 2 trial of GKT831 in patients with IPF. This drug candidate may also be active in other fibrotic indications. Genkyotex's second candidate product, GKT771, is a NOX1 inhibitor that targets a number of pathways in angiogenesis, the perception of pain, and inflammation, and is currently undergoing preclinical tests.

Genkyotex also has a polyvalent platform, Vaxiclase, which is especially suited to the development of immunotherapies. A partnership for the use of Vaxiclase as an antigen alone (GTL003) was entered into with the Serum Institute of India Private Ltd (Serum Institute), the largest producer of vaccine doses in the world, to enable the Serum Institute to develop multivalent combination vaccines to protect against a number of infectious diseases. This partnership could generate up to €150 million in revenue for Genkyotex, before royalties on sales.

# 1. DECLARATION BY THE PERSON RESPONSIBLE FOR THE SEMI-ANNUAL FINANCIAL REPORT

## 1.1 Person responsible for the semi-annual financial report

Mr. Ilias (Elias) Papatheodorou, Chief Executive Officer

## 1.2 Declaration of the person responsible for this document

(Art. 222-3 – 4° of the General Regulations of the AMF)

"I hereby certify that, to the best of my knowledge, the condensed financial statements for the previous half-year have been prepared in accordance with applicable accounting standards and give a true and fair view of the Company's assets and liabilities, its financial situation and that of all the companies included in the scope of consolidation, and that the interim management report attached presents an accurate picture of the significant events occurring during the first six months of the year, their impact on the interim financial statements, the main transactions between related parties and a description of the main risks and uncertainties for the remaining six months of the year."

Saint-Julien-en-Genevois, September 26, 2018.

Mr. Ilias (Elias) Papatheodorou, Chief Executive Officer

# 2. REPORT OF ACTIVITY AS OF JUNE 30, 2018

## 2.1 Highlights of H1 2018

February 2018:

- GKT831, the Company's most advanced drug candidate, demonstrated its ability to inhibit tumor stimulation from fibroblasts associated with cancer in a new preclinical study.

May 2018:

- Recommendation by the independent Safety Monitoring Board (SMB) to continue the trial without changing the protocol following examination of the safety and pharmacokinetic data.

June 2018:

- Extension of the license agreement for the Vaxiclase platform with the Serum Institute of India (SIIL) to include industrialized countries in their target markets. The original agreement, signed in 2015, covered only emerging markets. As a result of the extension of the agreement, the Company may now receive an additional €100 million, bringing the total value of the agreement to around €150 million, in the form of an initial payment and milestone payments. The Company is also eligible for royalty payments as a percentage of sales.

## 2.2 Group activity and results

### 2.2.1 Activity

During the first half of 2018, the business activities of Genkyotex were focused primarily on:

- **evaluating the safety and efficacy of GKT831 in PBC, a fibrotic liver disorder.** On September 26, 2018, the Company announced the completion of patient enrollment for its Phase 2 trial of GKT831 in patients with Primary Biliary Cholangitis (PBC). The company's network of investigational centers across 9 countries delivered outstanding performance resulting in the enrollment of 111 patients, exceeding the original target of 102 patients. This Phase 2 trial is a 24-week, double-blind, placebo-controlled study, evaluating the safety and efficacy of GKT831 in patients with PBC and inadequate response to ursodeoxycholic acid (UDCA). Randomized patients were allocated to three treatment arms: UDCA plus placebo, UDCA plus GKT831 at 400mg once a day, and UDCA plus GKT831 at 400mg twice a day. Preliminary results are expected in early November 2018 and final results in spring 2019.
- **evaluating the safety and efficacy of GKT831 in diabetic kidney disease (DKD), a progressive fibrotic disorder.** In 2017, investigators launched a 48-week Phase 2 clinical trial of GKT831 in patients with type 1 diabetes and kidney disease.
- **evaluating the efficacy of GKT831 in idiopathic pulmonary fibrosis (IPF), a fibrotic lung disorder.** On July 31, 2018, Genkyotex announced that the US National Institutes of Health (NIH) had awarded Professor Victor Thannickal of the University of Alabama at Birmingham (UAB) $8.9 million in grant funding to finance a multi-year research program evaluating the role of NOX enzymes in idiopathic pulmonary fibrosis (IPF), a chronic lung disease that results in scarring (fibrosis) of the lungs. The core

component of the program will be a 24-week Phase 2 trial of the Company's lead candidate product, GKT831, in patients with IPF.

- **expanding the Company's NOX platform by continuing exploratory preclinical research programs.** Genkyotex continues to explore the therapeutic value of NOX inhibition in central nervous system disorders and oncology, and to seek opportunities for non-dilutive grant financing to support the preclinical evaluation of drug candidates in these therapeutic areas. Most recently, data in a preclinical model also showed that GKT831 efficiently targets cancer-associated fibroblasts in prostate cancer and abrogates the pro-tumorigenic influence of the tumor micro-environment. The results of this study, which was conducted by Dr. Natalie Sampson and colleagues at the Medical University of Innsbruck, were published in the International Journal of Cancer (https://doi.org/10.1002/ijc.31316).
- **continuing the partnership for Vaxiclase with the Serum Institute.** On June 25, 2018, the Company announced that it had expanded the license agreement for its Vaxiclase platform with the Serum Institute of India (SIIPL), the world's largest vaccine manufacturer, to include the developed world in their addressable markets. The original agreement, signed in 2015, covered only emerging markets. Following the expansion of the agreement to include all developed countries, the Company may now receive an additional €100 million, bringing the total value of the agreement to around €150 million[1], in the form of an initial payment and clinical and commercial milestone payments, before royalties on sales. Vaxiclase is an ideal technology platform for immunotherapies for multiple infectious diseases or cancers, and SIIPL is utilizing it to develop a pertussis vaccine.

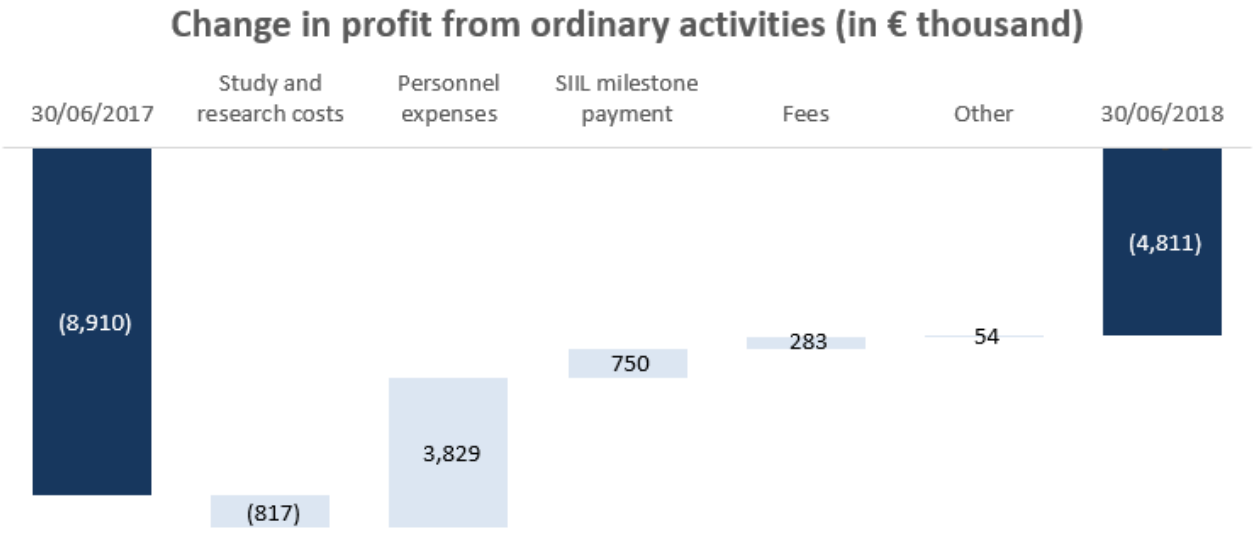
**Research activities**

The Company's exploration of the therapeutic value of NOX inhibition in oncology and Parkinson's disease is ongoing, and it continues to seek opportunities for non-dilutive grant financing to support the preclinical evaluation of drug candidates in these therapeutic areas.

[1] The total value of this agreement is provided in euros for information, and is calculated on the basis of the €/$ exchange rate on the date the expanded agreement was signed.

### 2.2.2 Profit from ordinary activities

The Group's profit from ordinary activities was -€4,811 thousand as of June 30, 2018 compared with -€8,910 thousand as of June 30, 2017.




This is explained primarily by a combination of the following:

- An increase of €817 thousand in study and research costs, in relation to the costs incurred for the Phase 2 trial of its GKT831 product in PBC and the preclinical work in progress on the GKT771 compound.

- A decrease in staff expenses (including share-based payments and expenses related to pension liabilities) of €3,829 thousand, broken down as follows:

| (amount in € thousands) | 30/06/2018 | 30/06/2017 | Change |
|---|---|---|---|
| Personnel expenses | (1,064) | (1,075) | 11 |
| Share-based payments | (247) | (3,963) | 3,716 |
| Expenses related to pension commitments | 28 | (74) | 102 |
| **TOTAL** | **(1,283)** | **(5,112)** | **3,829** |

  The decrease in staff expenses is primarily associated with costs for share-based payments (for further information, see note 8 of the notes to the condensed consolidated financial statements).

- The recognition of revenue of €750 thousand in connection with the expansion of the agreement with the Serum Institute of India (SIIL) signed in June 2018 (for further information, see note 12 of the notes to the condensed consolidated financial statements).

### 2.2.3 Non-current operating expenses

The Group did not recognize any other non-current operating income or expenses during the first half of 2018. During the first half of 2017, the Group recognized other non-current operating expenses of €11,408 thousand in connection with the merger of Genkyotex SA and Genkyotex Suisse SA.

### 2.2.4 Financial income

Financial income stood at +€35 thousand as of June 30, 2018, compared with -€26 thousand as of June 30, 2017, an increase of €61 thousand, primarily as a result of a favorable change in the euro/Swiss franc exchange rate.

### 2.2.5 Cash and liquid investments

The Group had cash and liquid investments of €9.3 million as of June 30, 2018, compared with €14.6 million as of December 31, 2017. This is explained primarily by cash consumption of €5.2 million associated with the Group's operating activities (research efforts).

## 2.3 Development and outlook

Genkyotex's aim is to develop a new approach in the treatment of various illnesses, the needs of which are not currently met at all or are only partly met. The main elements of its strategy are as follows:

- **Confirm the efficacy of GKT831 for fibrosis in a hepatic disorder.** The Company's main objective is to confirm the efficacy of its most advanced product candidate, GKT831, for the treatment of hepatic fibrosis with a study in PBC. To achieve this objective, the Company has launched a Phase II clinical trial in late June 2017 in Europe and North America. If this trial targeting fibrosis of the liver is successful, it will open a gateway for other fibrotic disorders.
- **Confirm the efficacy of GKT831 in kidney fibrosis.** The Company concluded an agreement for a Phase 2 clinical trial to evaluate the efficacy and safety of GKT831 for a period of 48 weeks with the Baker Heart and Diabetes Institute in patients with type 1 diabetes and kidney disease. This study will be carried out at the Baker Institute as well as at multiple study sites across Australia, and it is financially supported by the Juvenile Diabetes Research Foundation (JDRF), the recipient of the Australian Research Council Special Research Initiative in Type 1 Juvenile Diabetes funding. Enrollment of patients will begin during the second half of 2017.
- **confirming the efficacy of GKT831 for fibrosis in a pulmonary disorder.** On July 31, 2018, the Company announced that the NIH (National Institutes of Health) in the United States had awarded Professor Victor Thannickal of the University of Alabama at Birmingham (UAB) $8.9 million in grant funding to finance a multi-year research program evaluating the role of NOX enzymes in idiopathic pulmonary fibrosis (IPF), a chronic lung disease that results in scarring (fibrosis) of the lungs. The core component of the program will be a 24-week Phase 2 trial of the Company's lead candidate product, GKT831, in patients with IPF.
- **Conduct the Phase 1 clinical trial to confirm the positive safety profile and demonstrate the pharmacological activity of GKT771.** The second most advanced product candidate, GKT771, is a selective inhibitor of NOX1 with anti-inflammatory, anti-angiogenic, and analgesic effects, which are three major components in many rheumatic and cutaneous inflammatory disorders and in various types of inflammatory pain. Genkyotex is currently conducting preclinical studies to define high-priority clinical indications.

- **Promote the Company's NOX platform by conducting further exploratory preclinical research programs.** Genkyotex also plans to conduct NOX exploratory preclinical research programs in connection with disorders of the central nervous system and oncology.

## 2.4 Events occurring since the end of the half-year

July 2018:

- The NIH (National Institutes of Health) in the United States awards Professor Victor Thannickal of the University of Alabama at Birmingham (UAB) $8.9 million in grant funding to finance a multi-year research program evaluating the role of NOX enzymes in idiopathic pulmonary fibrosis (IPF), a chronic lung disease that results in scarring (fibrosis) of the lungs.The core component of the program will be a 24-week Phase 2 trial of the Company's lead candidate product, GKT831, in patients with IPF.

August 2018:

- The Company obtains financing enabling it to raise as much as €7.5 million by issuing convertible bonds with stock acquisition rights in favor of YA II PN, Ltd, an investment fund managed by the US management company Yorkville Advisors Global LP. The Company issues the first tranche of convertible bonds with stock acquisition rights for a nominal amount of €5 million on the date the contract was signed.

- The Company announces that 90 patients have been randomized to its Phase 2 trial of GKT831 for the treatment of primary biliary cholangitis (PBC). This is the number of patients required for conducting interim analysis as planned.

September 2018:

- The Company receives the green light from the independent Safety Monitoring Board (SMB) for the Phase 2 trial of GKT831 for the treatment of primary biliary cholangitis.

- The Company completes enrollment for its Phase 2 clinical trial of GKT831 in patients suffering from primary biliary cholangitis (PBC). A total of 111 patients were enrolled in 9 countries, exceeding the original target of 102 patients.

## 2.5 Risk factors and transactions between related parties

### 2.5.1 Risk factors

The risk factors are similar to those described in Chapter 4, "Risk factors" of the Registration Document.

The Company does not anticipate any change in these risks during the second half of 2018.

### 2.5.2 Related-party transactions

The related-party transactions are similar to those described in Chapter 19, “Related-party transactions” of the Registration Document.

# 3. CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IFRS STANDARDS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2018

## Consolidated Statement of Financial Position

| Consolidated statement of financial position | Notes | 30/06/2018 € thousand | 31/12/2017 € thousand |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets | 3.1 | 9,939 | 10,221 |
| Property, plant and equipment | 3.2 | 40 | 51 |
| Non-current financial assets | 4 | 77 | 64 |
| **Total non-current assets** | | **10,056** | **10,336** |
| Trade and related receivables | 5.1 | 750 | - |
| Other receivables | 5.2 | 2,400 | 1,932 |
| Current financial assets | 4 | - | 3,280 |
| Cash and cash equivalents | 6 | 9,342 | 11,345 |
| **Total current assets** | | **12,491** | **16,557** |
| **Total assets** | | **22,548** | **26,893** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Shareholders' equity** | | | |
| Capital | 7 | 7,785 | 7,785 |
| Additional paid-in capital | | 122,443 | 162,015 |
| Currency translation reserve | | (2,268) | (2,258) |
| Other comprehensive income | | (256) | (316) |
| Accumulated deficit attributable to owners of the parent | | (103,858) | (117,917) |
| Net income – portion attributable to shareholders of the parent | | (4,776) | (25,773) |
| **Equity attributable to owners of the parent** | | **19,069** | **23,535** |
| Non-controlling interests | | - | - |
| **Total equity** | | **19,069** | **23,535** |
| Employee benefit obligations | 10 | 742 | 822 |
| Non-current financial liabilities | 9 | - | 115 |
| **Total non-current liabilities** | | **742** | **937** |
| Current financial debt | 9 | 291 | 288 |
| Trade payables | | 1,743 | 1,312 |
| Other current liabilities | 11 | 702 | 820 |
| **Total current liabilities** | | **2,736** | **2,421** |
| **Total liabilities and shareholders' equity** | | **22,547** | **26,893** |

## Consolidated income statement

| Consolidated income statement | Notes | 30/06/2018 6 months € thousand | 30/06/2017 6 months € thousand |
|---|---|---|---|
| Revenue | | - | - |
| Cost of sales | | - | - |
| **Gross margin** | | - | - |
| Other income | 12 | 750 | |
| Net research and development expenses | | | |
| Research and development expenses | 13.1 | (4,518) | (5,665) |
| Subsidies | 13.1 | 429 | 395 |
| General and administrative expenses | 13.2 | (1,471) | (3,640) |
| **Current operating profit/(loss)** | | **(4,811)** | **(8,910)** |
| Other operating income | | - | - |
| Other operating expenses | 14 | - | (11,408) |
| **Operating profit/(loss)** | | **(4,811)** | **(20,318)** |
| Financial expenses | 15 | (65) | (116) |
| Financial income | 15 | 100 | 90 |
| **Profit/(loss) before tax** | | **(4,776)** | **(20,345)** |
| Income taxes | 16 | - | (23) |
| **Net profit/(loss) for the period** | | **(4,776)** | **(20,368)** |
| *Portion attributable to shareholders of the parent* | | (4,776) | *(20,368)* |
| *Non-controlling interests* | | - | - |
| | | **30/06/2018** | **30/06/2017** |
| **Basic earnings per share (€/share)** | 17 | **(0.06)** | **(0.38)** |
| **Diluted earnings per share (€/share)** | 17 | **(0.06)** | **(0.38)** |

## Consolidated Statement of Comprehensive Income

| Consolidated Statement of Comprehensive Income | 30/06/2018<br>6 months<br>€ thousand | 30/06/2017<br>6 months<br>€ thousand |
|---|---|---|
| **Net profit/(loss) for the period** | **(4,776)** | **(20,368)** |
| Actuarial gains and losses | 60 | 57 |
| Tax effect | - | 5 |
| **Other items of comprehensive income that will not be reclassified subsequently to profit or loss** | **60** | **62** |
| Translation differences | (10) | (188) |
| **Other items of comprehensive income that will be reclassified subsequently to profit or loss** | **(10)** | **(188)** |
| **Comprehensive income** | **(4,726)** | **(20,494)** |
| *Portion attributable to shareholders of the parent* | *(4,726)* | *(20,494)* |
| *Non-controlling interests* | - | - |

## Change in Consolidated Equity

| Consolidated Changes in Net Equity | *Genkyotex Suisse SA Capital* | *Genkyotex Suisse SA non-voting shares* | *Genkyotex SA (formerly Genticel SA) capital* | Capital Ordinary shares and preferred shares | Investment capital | Additional paid-in capital | Accumulated deficit and income (loss) attributable to owners of the parent | Treasury shares | Currency translation reserve | Other comprehensive income | Equity attributable to owners of the parent | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Number of shares* | | *Number of shares* | € thousand | | | | | | | | | |
| **At December 31, 2016** | *4,785,169* | *307,110* | | **4,242** | **274** | **44,998** | **(35,083)** | **(9)** | **(1,754)** | **(450)** | **12,217** | **-** | **12,217** |
| Net income at June 30, 2017 | | | | - | - | - | (20,368) | - | - | - | (20,368) | - | (20,368) |
| Other comprehensive income | | | | - | - | - | - | - | (188) | 62 | (127) | - | (127) |
| **Comprehensive income** | | | | **-** | **-** | **-** | **(20,368)** | **-** | **(188)** | **62** | **(20,494)** | **-** | **(20,494)** |
| Capital increase | *169,854* | | | - | 159 | - | - | - | - | - | 159 | - | 159 |
| Capital increase expenses | | | | - | - | (8) | - | - | - | - | (8) | - | (8) |
| Conversion of investment capital to ordinary shares | *307,110* | *(307,110)* | | 433 | (433) | - | - | - | - | - | - | - | - |
| Changes in scope (1) | | | | - | - | - | 33,476 | - | - | - | 33,476 | - | 33,476 |
| Capital injection, additional paid-in capital of Genkyotex SA (reverse acquisition) | *(5,262,133)* | - | *77,850,006* | 3,110 | - | 117,025 | (120,017) | (119) | - | - | - | - | - |
| Treasury shares | | | | - | - | - | - | 3 | - | - | 3 | - | 3 |
| Share-based payments 8.4 | | | | - | - | - | 3,963 | - | - | - | 3,963 | - | 3,963 |
| **At June 30, 2017** | **-** | **-** | *77,850,006* | **7,785** | **-** | **162,015** | **(138,029)** | **(126)** | **(1,942)** | **(388)** | **29,315** | **-** | **29,315** |
| | | | | | | | | | | | | | |
| **At December 31, 2017** | **-** | **-** | *77,850,006* | **7,785** | **-** | **162,015** | **(143,558)** | **(132)** | **(2,258)** | **(316)** | **23,535** | **-** | **23,535** |
| Net income at June 30, 2018 | | | | - | - | - | (4,776) | - | - | - | (4,776) | - | (4,776) |
| Other comprehensive income | | | | - | - | - | - | - | (10) | 60 | 50 | - | 50 |
| **Comprehensive income** | | | | **-** | **-** | **-** | **(4,776)** | **-** | **(10)** | **60** | **(4,726)** | **-** | **(4,726)** |
| Clearance of losses carried forward | | | | - | - | (39,572) | 39,572 | - | - | - | - | - | - |
| Treasury shares | | | | - | - | - | - | 13 | - | - | 13 | - | 13 |
| Share-based payments 8.4 | | | | - | - | - | 247 | - | - | - | 247 | - | 247 |
| **At June 30, 2018** | **-** | **-** | *77,850,006* | **7,785** | **-** | **122,443** | **(108,515)** | **(119)** | **(2,268)** | **(256)** | **19,069** | **-** | **19,069** |

(1) The term “change in scope” corresponds to the effect of the acquisition of Genkyotex SA (formerly Genticel SA), which for accounting purposes is an entity acquired by Genkyotex Suisse SA on February 28, 2017.

## Consolidated Cash Flow Statement

| Consolidated Cash Flow Statement | Notes | 30/06/2018 6 months € thousand | 30/06/2017 6 months € thousand |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Net profit/(loss) for the period** | | **(4,776)** | **(20,368)** |
| (-) Elimination of depreciation of intangible assets | 3.1 | (281) | (190) |
| (-) Elimination of depreciation of property, plant and equipment | 3.2 | (14) | (24) |
| (-) Provisions for pension commitments | 10 | 28 | 34 |
| (-) Provisions for risks and contingencies | | - | 30 |
| (-) Costs related to share-based payments | 8.4 | (247) | (3,963) |
| (-) Change in deferred tax assets and liabilities | | - | (4) |
| (-) Interest received on term deposits | | - | 6 |
| (-) Interest capitalized under the capitalization agreement | | - | 4 |
| (-) Interest expenses | | (4) | - |
| (-) Cost of listing | 14 | - | (10,898) |
| (-) Accretion of repayable advances | 9 | (4) | (6) |
| **Self-financing capacity before cost of net financial debt and taxes** | | **(4,253)** | **(5,358)** |
| (-) Change in working capital requirement | | 986 | 845 |
| **Taxes paid** | | **81** | **(81)** |
| **Cash flows from operating activities** | | **(5,158)** | **(6,283)** |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | 3.2 | (2) | (2) |
| assets | 4 | 3,283 | 4,000 |
| Interest received on term deposits | | - | 6 |
| Changes in scope (1) | | - | 3,587 |
| **Cash flows from investing activities** | | **3,281** | **7,591** |
| **Cash flows from financing activities** | | | |
| Issuance of Genkyotex Suisse SA participation certificates | | - | 159 |
| Costs of capital increase in Genkyotex SA (formerly Genticel) | | - | (32) |
| Repayment of advances | 9 | (115) | (326) |
| Purchase/sale of non-voting shares of Genkyotex Suisse SA to employees | | - | 9 |
| **Cash flows from financing activities** | | **(115)** | **(191)** |
| Impact of fluctuations in exchange rates | | (10) | (200) |
| **Increase/(decrease) in cash & cash equivalents** | | **(2,003)** | **916** |
| Cash & cash equivalents – start of the period | 6 | 11,345 | 13,937 |
| Cash & cash equivalents – end of the period | 6 | 9,342 | 14,853 |
| **Increase/(decrease) in cash & cash equivalents** | | **(2,003)** | **916** |

*(1) The change in scope corresponds to the cash and cash equivalents of Genkyotex SA (formerly Genticel SA) as of February 28, 2017.*

## Breakdown of change in working capital requirements (WCR)

| Breakdown of change in working capital requirement (WCR) (amounts in € thousand) | 30/06/2018 | 30/06/2017 |
|---|---|---|
| Trade and related receivables | 750 | - |
| Other receivables | 548 | 591 |
| Trade payables | (431) | 43 |
| Social security payables | 125 | 130 |
| Tax payables | (7) | 105 |
| Other current liabilities | 1 | (24) |
| **Total change** | **986** | **845** |

## Notes to the Consolidated Financial Statements

*(Unless otherwise stated, the amounts referred to in this appendix are in thousands of euros, except for the data relating to shares. Some amounts may be rounded up or down to calculate the financial information contained in the condensed consolidated interim financial statements. Consequently, the totals in some tables may not correspond exactly to the sum of the preceding figures.)*

### Note 1: Activity and significant events

The information below forms the notes to the condensed consolidated interim financial statements prepared in accordance with IFRS as of June 30, 2018.

The condensed consolidated interim financial statements for Genkyotex SA were adopted by the Board of Directors on September 26, 2018 and authorized for publication.

#### 1.1 The Company and its activity

Founded in October 2001, Genkyotex SA (formerly Genticel SA) is a French limited liability company (*société anonyme*) with the following corporate purpose in France and abroad: research, study, development, manufacturing and distribution of medicines and drug and health products in the field of human and animal health.

Genkyotex SA has been listed on the Euronext market in Paris and Brussels since April 8, 2014.
Registered office: 218 avenue Marie Curie – Forum 2 Archamps Technopole,
74166 Saint-Julien-en-Genevois Cedex, France
Trade and Companies Register (RCS) number: 439 489 022 RCS of Thonon les Bains.

Genkyotex SA is hereinafter referred to as the “Company”. The group formed by Genkyotex SA and Genkyotex Suisse SA is hereinafter referred to as the “Group”.

#### 1.2 Significant events during the first half of 2018

February 2018:

- GKT831, the Company’s most advanced drug candidate, demonstrated its ability to inhibit tumor stimulation from fibroblasts associated with cancer in a new preclinical study.

May 2018:

- Recommendation by the independent Safety Monitoring Board (SMB) to continue the trial without changing the protocol following examination of the safety and pharmacokinetic data.

June 2018:

- Extension of the license agreement for the Vaxiclase platform with the Serum Institute of India (SIIL) to include industrialized countries in their target markets. The original agreement, signed in 2015, covered only emerging markets. As a result of the expansion of the agreement, the Company may now receive an additional €100 million, bringing the total value of the agreement to around €150 million, in the form of an initial payment and development and commercial milestone payments. The Company is also eligible for royalty payments as a percentage of sales. The signature of this expansion resulted in income of €750 thousand being recognized during the first half of 2018.

## Note 2: Accounting principles, rules and methods

### 2.1 Principles used when preparing the financial statements

**Statement of compliance**

The condensed consolidated interim financial statements of the Company have been prepared in accordance with the international accounting standard IAS 34 "Interim financial reporting".

As condensed financial statements, they do not include the full information that would be required by the IFRS for the preparation of the annual financial statements. These notes must be read in conjunction with the consolidated financial statements of Genkyotex SA for the year ended December 31, 2017.

**Principles used when preparing the financial statements**

The Company's condensed consolidated financial statements have been prepared in accordance with the historical cost principle, except with respect to the financial instruments which are measured at fair value.

**Going concern**

The Company focuses on inventing and developing new treatments. The loss-making position over the reference periods is not unusual for a company at this stage of development.

The Company has been able to finance its activities to date and has raised funding that will enable it to cover its expenses in the short term. The Company will need additional funds to continue its development plan and this may also depend on attaining development milestones, achieving favorable clinical outcomes and/or achieving commercial success. Given that none of these factors can be guaranteed, there is substantial uncertainty regarding the Company's ability to continue its activities in the future.

Given the cash position as of June 30, 2018, the Board of Directors deems that the Company will be able to cover its needs for at least the next 12 months. As such, the financial statements were prepared on a going concern basis.

To cover its future needs, the Company will continue to seek additional funds. This could include raising additional funding from current investors, new investors and/or the conclusion of licensing agreements or collaboration contracts.

**Accounting methods**

The accounting principles used are identical to those used to prepare the IFRS consolidated financial statements for the year ended December 31, 2017, with the exception that the following new standards, amended standards and interpretations adopted by the European Union have been applied, as the Group is obliged to do with effect from January 1, 2018:

**Standards, amendments and interpretations applicable to reporting periods starting on or after January 1, 2018**

- IFRS 9 – Financial Instruments
- IFRS 15 - Revenue from ordinary course of business as part of contracts with customers
- Clarifications to IFRS 15
- IFRIC 22 - Foreign currency transactions and advance consideration
- Amendments to IFRS 2 – Classification and measurement of share-based payment transactions
- Amendments to IFRS 4 - Applying IFRS 9 with IFRS 4
- Amendments to IAS 40 – Transfers of investment property
- IFRS Improvement (2014-2016 cycle)

These new texts adopted by the European Union do not have a significant impact on the Group's financial statements.

**Standards, amendments and interpretations not yet adopted by the Group**

***Standards, amendments to standards and interpretations adopted by the European Union but not yet mandatory for 2018 interim financial statements***

- IFRS 16 – Leases
- Amendments to IFRS 9 – Prepayment Features with Negative Compensation

***Standards and interpretations adopted by IASB but not yet adopted by the European Union as of June 30, 2018***

- IFRS 14 – Regulatory Deferral Accounts
- IFRS 17 – Insurance Contracts
- IFRIC 23 – Uncertainty over Income Tax Treatments
- Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement
- IFRS Improvement (2015-2017 cycle)

The Group is currently evaluating the impacts following the first application of these new regulations and does not expect a significant impact on its financial statements, with the exception of IFRS 16.

IFRS 16 must be applied from January 1, 2019 or adopted early as of January 1, 2018, with IFRS 15. The Group does not intend to adopt IFRS 16 early. IFRS 16 removes the distinction between operating and finance leases

and provides for reporting of all leases in the lessee's balance sheet, with recognition of an asset (representing the right to use the leased asset during the term of the contract) and a liability (in respect of the obligation to pay the lease). The standard will also affect the presentation of the income statement (operating profit and financial expenses) and the cash flow statement (flows from operating activities and flows from financing activities).

Real estate rental contracts will thus be restated in applying IFRS 16.

### 2.2 Scope and methods of consolidation

**Subsidiaries**

According to IFRS 10, subsidiaries are all the entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The subsidiaries are consolidated by the full consolidation method beginning on the date on which the Group acquires control. They are deconsolidated as of the date on which control ceases to be exercised.

For the purposes of the merger of Genkyotex SA and Genkyotex Suisse SA on February 28, 2017, Genkyotex Suisse SA was considered the buyer from an accounting standpoint in light of IFRS 10. These financial statements have thus been prepared in keeping with the IFRS consolidated financial statements of Genkyotex Suisse SA.

The scope of consolidation is as follows:

| | 30/06/2018 | | 31/12/2017 | |
|---|---|---|---|---|
| | Percent interest | Percent control | Percent interest | Percent control |
| GENKYOTEX SA | Parent company*(in legal terms) | | | |
| GENKYOTEX SUISSE SA | 100.00% | 100.00% | 100.00% | 100.00% |

**Conversion of foreign companies' financial statements**

The Group prepares its consolidated financial statements in euros (EUR).
The exchange rates used to prepare the consolidated financial statements are as follows:

| EXCHANGE RATE (for 1 EUR) | 30/06/2018 | | 31/12/2017 | | 30/06/2017 | |
|---|---|---|---|---|---|---|
| | Average rate | Closing rate | Average rate | Closing rate | Average rate | Closing rate |
| CHF | 1.1696 | 1.1569 | 1.1115 | 1.1702 | 1.0764 | 1.0930 |

### 2.3 Use of judgments and estimates

In the course of preparing these 2018 interim consolidated financial statements, the main judgments made by the management and the main assumptions applied are the same as those applied in preparing the consolidated financial statements for the financial year ending December 31, 2017, namely:

- Valuation of stock options allocated to employees, executives and external service providers (see note 8)
- Defined benefit plans (see note 10)
- Non-recognition of deferred tax assets net of deferred tax liabilities (see note 16)
- Valuation of the license agreement signed with SIIL (for use of the Vaxiclase platform) and extensions to this agreement (see note 3.1)

These estimates are based on an assumption of viability as a going concern and have been drawn up on the basis of the information available at the time they were prepared. They are ongoing and are based on past experience as well as various other factors deemed to be reasonable that form the basis for assessment of the carrying amount of assets and liabilities. The estimates may be revised if the circumstances on which they were based change or as a result of new information. Actual results may differ significantly from these estimates, if they are based on different assumptions or conditions.

## Note 3: Intangible assets and property, plant and equipment

### 3.1 Intangible assets

| INTANGIBLE ASSETS (Amounts in € thousand) | Software | SIIL contract and extensions | Total |
|---|---|---|---|
| **GROSS VALUE** | | | |
| **Statement of financial position at December 31, 2017** | **17** | **10,697** | **10,714** |
| Acquisition | - | - | - |
| Disposal | (1) | - | (1) |
| Transfer | - | - | - |
| Currency translation effects | 0 | - | 0 |
| **Balance sheet as of June 30, 2018** | **16** | **10,697** | **10,713** |
| **CUMULATIVE AMORTIZATION** | | | |
| **Statement of financial position at December 31, 2017** | **17** | **476** | **493** |
| Increase | - | 281 | 281 |
| Decrease | (1) | - | (1) |
| Currency translation effects | 0 | - | 0 |
| **Balance sheet as of June 30, 2018** | **16** | **757** | **773** |
| **NET BOOK VALUE** | | | |
| **At December 31, 2017** | **(0)** | **10,221** | **10,221** |
| **At June 30, 2018** | **-** | **9,939** | **9,939** |

For the purposes of the impairment test, the Company has updated the model for evaluating the license agreement signed with SIIL (for use of the Vaxiclase platform) and expansions to this agreement as of June 30, 2018. This impairment test did not highlight any loss of value as of 30 June 2018.

The sensitivity of the assumptions used in the valuation model is as follows:

- A 1-point increase in the discount rate would not generate an impairment;
- A 5-point decrease in the probability of success of different phases would not generate an impairment;
- A 10% deterioration in the business plan would not lead to an impairment.

It is noted that there is no evidence of impairment in the valuation assumptions as of June 30, 2018.

### 3.2 Property, plant and equipment

| PROPERTY, PLANT AND EQUIPMENT (Amounts in € thousand) | Equipment and tooling | Office equipment, computer equipment, furniture | Total |
|---|---|---|---|
| **GROSS VALUE** | | | |
| **Statement of financial position at December 31, 2017** | **521** | **93** | **614** |
| Acquisition | 2 | - | 2 |
| Disposal | - | - | - |
| Transfer | - | - | - |
| Currency translation effects | 4 | 1 | 5 |
| **Balance sheet as of June 30, 2018** | **528** | **94** | **622** |
| **CUMULATIVE AMORTIZATION** | | | |
| **Statement of financial position at December 31, 2017** | **470** | **93** | **563** |
| Increase | 13 | 1 | 14 |
| Decrease | - | - | - |
| Currency translation effects | 4 | 1 | 5 |
| **Balance sheet as of June 30, 2018** | **488** | **94** | **582** |
| **NET BOOK VALUE** | | | |
| **At December 31, 2017** | **51** | **1** | **51** |
| **At June 30, 2018** | **40** | **0** | **40** |

## Note 4: Financial assets

| FINANCIAL ASSETS (Amounts in € thousand) | 30/06/2018 | 31/12/2017 |
|---|---|---|
| Liquidity contract | 62 | 49 |
| Guarantees | 15 | 15 |
| **Total non-current financial assets** | **77** | **64** |
| Capital bond | - | 3,280 |
| **Total current financial assets** | **-** | **3,280** |

The capitalization contract taken out with Natixis Life (Luxembourg) was redeemed during the first half of 2018 for a value of €3,283 thousand.

## Note 5: Other current receivables

### 5.1 Trade receivables and related accounts

Trade receivables and related accounts was €750 thousand as of June 30, 2018, linked to the invoicing of an initial payment under the expanded agreement with the Serum Institute of India (SIIL) (see note 12 for further information).

### 5.2 Other receivables

| OTHER RECEIVABLES<br>(Amounts in € thousand) | 30/06/2018 | 31/12/2017 |
|---|---|---|
| Research tax credit (1) | 987 | 558 |
| Value Added Tax | 312 | 227 |
| Statement - Income tax expenses | - | 81 |
| Social security receivables | 222 | 168 |
| Outstanding receivables, advances and installments (2) | 646 | 637 |
| Pre-paid expenses(3) | 226 | 230 |
| Other | 8 | 32 |
| **Total other receivables** | **2,400** | **1,932** |

**(1) Research tax credit ("CIR")**

- Estimated CIR as of June 30, 2018: €429 thousand
- CIR 2017: €558 thousand, repaid in July 2018.

**(2) Amounts receivable, advances and installments paid** pertain primarily to installments paid to the Contract Research Organization (CRO) responsible for studies.

**(3) Prepaid expenses** relate to the day-to-day activity of the Group

## Note 6: Cash and cash equivalents

| CASH AND CASH EQUIVALENTS<br>(Amounts in € thousand) | 30/06/2018 | 31/12/2017 |
|---|---|---|
| Bank accounts | 9,342 | 11,343 |
| Money market funds (SICAV) | - | 1 |
| **Total cash and cash equivalents** | **9,342** | **11,344** |

## Note 7: Capital

| SHARE CAPITAL | 30/06/2018 | 31/12/2017 |
|---|---|---|
| Share capital (in € thousand) | 7,785 | 7,785 |
| Number of shares | 77,850,006 | 77,850,006 |
| o/w ordinary shares | 77,850,006 | 77,850,006 |
| Par value of shares (in euro) | 0.10 € | 0.10 € |

This number of shares excludes share subscription warrants ("BSAs") and options granted to certain investors and to certain natural persons, whether or not they are employees of the Group, that have not yet been exercised.

At June 30, 2018, Genkyotex SA's share capital amounted to €7,785 thousand made up of 77,850,006 fully subscribed and paid-up ordinary shares, each with a par value of €0.10.

**Capital management**

The Group's policy is to maintain a sound capital base, to maintain the confidence of investors and creditors, and to support the Company's future growth.

Following the Company's IPO on the regulated Euronext market in Paris and Brussels, the Company signed a liquidity contract on April 18, 2014, with a view to limiting intra-day volatility in the Company's share price. For this purpose, the Company initially entrusted €200 thousand to Oddo Corporate Finance, for them to carry out purchase and sale transactions on the Company's shares. This contract was transferred to Kepler Cheuvreux on May 7, 2018.

As of June 30, 2018, under this contract, 65,870 ordinary shares were removed from equity and €62 thousand in cash was entered as non-current financial assets.

**Dividends**

The Company paid no dividends in the financial years presented.

## Note 8: Share-based payments

### 8.1 Share subscription warrants issued in favor of financial investors

Changes in the number of outstanding warrants

| | | Number of warrants outstanding | | | | |
|---|---|---|---|---|---|---|
| Type | Allocation date | 31/12/2017 | Issued | Exercised | Forfeited | 30/06/2018 |
| BSA other investors | Jul-08 | 133,334 | - | - | - | 133,334 |
| TOTAL | | 133,334 | - | - | - | 133,334 |

### 8.2 Share subscription warrants ("BSAs")

Changes in the number of outstanding warrants

| | | Number of warrants outstanding | | | | |
|---|---|---|---|---|---|---|
| Type | Allocation date | 31/12/2017 | Issued | Exercised | Forfeited | 30/06/2018 |
| BSA $_{10/2008}$ | 10/24/2008 | 30,800 | | | | 30,800 |
| BSA $_{02/2010}$ | 2/4/2010 | 155,200 | | | | 155,200 |
| BSA $_{12/2013}$ | 12/20/2013 | 116,000 | | | | 116,000 |
| BSA $_{09/2014}$ | 9/12/2014 | 35,000 | | | | 35,000 |
| TOTAL | | 337,000 | - | - | - | 337,000 |

### 8.3 Share subscription options

The following table summarizes the option plans issued during the first half of 2018 and the assumptions made for valuation in accordance with IFRS 2:

| Type | Allocation date | Plan features | | | Assumptions | | |
|---|---|---|---|---|---|---|---|
| | | Number of warrants allocated | Exercise period | Exercise price | Volatility | Risk-free rate | Total initial IFRS 2 valuation (€ thousand) (Black&Scholes) |
| **Stock option $_{01/2018}$** | 09/01/2018 | **1,159,934** | 10 years | 1.67 € | 60.68% | 0.00% | **1,096** |

Changes in the number of outstanding options

| Type | Allocation date | Number of warrants outstanding | | | | |
|---|---|---|---|---|---|---|
| | | 31/12/2017 | Issued | Exercised | Forfeited | 30/06/2018 |
| **Stock option $_{01/2018}$** | 09/01/2018 | - | 1,159,934 | - | - 14,781 | 1,145,153 |
| **TOTAL** | | - | **1,159,934** | - | - **14,781** | **1,145,153** |

### 8.4 Breakdown of charges recognized in accordance with IFRS 2 during the reference periods

| Type | Allocation date | Cost H1 2018 | CostH12017 |
|---|---|---|---|
| **Non-voting shares$_{03/2015}$** | 27/03/2015 | - | 21 |
| **Non-voting shares$_{12/2015}$** | 15/12/2015 | - | 25 |
| **Non-voting shares$_{01/2017}$** | 16/01/2017 | - | 3,917 |
| **Stock option $_{01/2018}$** | 09/01/2018 | 247 | - |
| **TOTAL** | | 247 | **3,963** |

## Note 9: Interest-bearing loans and borrowings

| CURRENT AND NON-CURRENT FINANCIAL LIABILITIES (Amounts in € thousand) | 30/06/2018 | 31/12/2017 |
|---|---|---|
| Repayable advances | - | 115 |
| **Non-current financial debts** | **-** | **115** |
| Repayable advances | 291 | 287 |
| Short-term borrowings | 0 | 1 |
| **Current financial debt** | **292** | **288** |
| **Total financial debts** | **292** | **403** |

Reconciliation between repayment value and value in the balance sheet

| RECONCILIATION BETWEEN REPAYMENT VALUE AND VALUE IN THE BALANCE SHEET (Amounts in € thousand) | Repayment value 06/30/2018 | Amortized cost | Fair value | Balance sheet value | |
|---|---|---|---|---|---|
| | | | | 30/06/2018 | 31/12/2017 |
| Repayable advances | 295 | (4) | - | 291 | 402 |
| Short-term borrowings | 0 | - | - | 0 | 1 |
| **Total financial debts** | **296** | **(4)** | **-** | **292** | **403** |

Breakdown of financial debt by maturity, in repayment value

| CURRENT AND NON-CURRENT FINANCIAL LIABILITIES BY MATURITY, IN REPAYMENT VALUE (Amounts in € thousand) | 30/06/2018 | | | |
|---|---|---|---|---|
| | Gross amount | Share < 1 year | From 1 to 5 yrs | > 5 years |
| Repayable advances | 295 | 295 | - | - |
| Short-term borrowings | 0 | 0 | - | - |
| **Total financial debts** | **296** | **296** | **-** | **-** |
| *Current financial debt* | *296* | | | |
| *Non-current financial debts* | - | | | |

## 9.1 Repayable advances

| CHANGE IN REPAYABLE ADVANCES AND SUBSIDIES (Amounts in € thousand) | OSEO 3 - ProCervix (GTL001) | Total |
|---|---|---|
| **At December 31, 2017** | **402** | **402** |
| Cash inflow | - | - |
| Repayment | (115) | (115) |
| Subsidies | - | - |
| Financial expenses | 4 | 4 |
| **At June 30, 2018** | **291** | **291** |

Breakdown of repayable advances by maturity, in repayment value

| BREAKDOWN OF REPAYABLE ADVANCES BY MATURITY, IN REPAYMENT VALUE (Amounts in € thousand) | OSEO 3 - ProCervix (GTL001) | Total |
|---|---|---|
| **At June 30, 2018** | **295** | **295** |
| Share < 1 year | 295 | 295 |
| Share 1 ≥ 5 years | - | - |
| Share > 5 years | - | - |

## Note 10: Employee benefit obligations

| EMPLOYEE BENEFIT OBLIGATIONS (Amounts in € thousand) | 30/06/2018 | 31/12/2017 |
|---|---|---|
| Swiss employees | 739 | 819 |
| French employees | 3 | 3 |
| **Employee benefit obligations** | **742** | **822** |

### 10.1 Swiss employees

The defined benefit obligation related to the 2nd pillar Swiss pension scheme is assessed using the following assumptions:

| ACTUARIAL ASSUMPTIONS | 30/06/2018 | 31/12/2017 |
|---|---|---|
| Age at retirement | Voluntary retirement 64 years of age for women/65 years of age for men | |
| Discount rate | 0.90% | 0.75% |
| Mortality table | LPP 2015 generation | LPP 2015 generation |
| Salary revaluation rate | 1.00% | 1.00% |
| Retirement pension inflation rate | 0.50% | 0.50% |
| Deposit rate on savings accounts | 0.90% | 0.75% |
| Turnover rate | 10.00% | 10.00% |

Changes in the defined benefit obligation and fair value of the plan assets are as follows:

| Amounts in € thousands | Defined benefit plan obligation | Fair value of plan assets | Employee benefit obligations |
|---|---|---|---|
| **December 31, 2017** | **1,771** | **(952)** | **819** |
| Cost of services rendered | 123 | - | 123 |
| Interest expense | 7 | (4) | 3 |
| Employee contribution | - | (77) | (77) |
| **Subtotal included in the income statement** | **129** | **(81)** | **48** |
| **Amounts paid/received** | **(40)** | **40** | - |
| Return on assets (excluding interest expenses) | - | (1) | (1) |
| Actuarial gains and losses related to changes in financial assumptions | (58) | - | (58) |
| **Subtotal included in other items of comprehensive income** | **(58)** | **(1)** | **(59)** |
| **Employer contributions** | - | **(77)** | **(77)** |
| **Currency translation effect** | **21** | **(12)** | **8** |
| **June 30, 2018** | **1,823** | **(1,084)** | **739** |

## Note 11: Other current liabilities

| OTHER CURRENT LIABILITIES (Amounts in € thousand) | 30/06/2018 | 31/12/2017 |
|---|---|---|
| Bonus (including social security contributions) | 185 | 282 |
| Payroll & related accounts | 160 | 142 |
| Social security & other welfare programs | 130 | 176 |
| Other taxes and similar | 177 | 170 |
| Other liabilities | 49 | 51 |
| **Other current liabilities** | **702** | **820** |

## Note 12: Revenue

### Accounting principles

Application of IFRS 15 has been mandatory since January 1, 2018. This standard overhauls the model used to recognize income, the fundamental principle of which is based on the transfer of control of goods and services to the customer.
The standard sets out a five-step general approach to revenue recognition:

- Step 1: Identify the contract;
- Step 2: Identify the "performance obligations" in the contract. The "performance obligations" serve as the unit of account for the recognition of revenue;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to each "performance obligation";
- Step 5: Recognize revenue when a "performance obligation" is satisfied, either at a given point in time, or over time.

The standard specifies the rules applied to licenses and distinguishes two types of license:

- those which constitute a right to access intellectual property as it will change over the term of the license as a result of future action taken by the licensor. These licenses are known as "dynamic licenses" or "rights to access" and recognition of the associated income is spread over the term of the license; and
- those which constitute a right to use "fixed" intellectual property, as it exists on the date on which the license is assigned. These licenses are called "static licenses" or "rights to use" and the associated income is recognized on a given date at the time at which control of the license is transferred unless the royalty exception applies, regardless of the type of license.

Variable consideration is recognized when it is highly probable.
IFRS 15 also provides that the revenue associated with intellectual property licenses for which royalties are received should be recognized when the later of the following two events occurs:

- - the license is subsequently sold or used by the customer (on which the calculation of royalties is based);
- - the "performance obligation" to which these royalties has been allocated has been satisfied.

In accordance with IFRS 15, the Group has reviewed the license agreement with the Serum Institute of India (SIIL) for the Vaxiclase platform. The Group considers that the license covered by this agreement constitutes a right to use (a static license).

Given the foregoing, the Company recognized revenue of €750 thousand during the first half of 2018, for the expanded license transfer signed in June 2018, which constitutes a right to use.

The contract provides for four types of variable fees:

- Development milestone payments based on the progress of work undertaken by the customer;

- Commercial milestone payments based on levels of total sales achieved by the customer;
- Milestone payments in the event that the customer grants any sub-licenses;
- Royalties.

The development milestone payments set out in the contract will be recognized when they become highly probable. Given that the various phases of the project progress at uncertain rates, the revenue associated with these staged payments is recognized on the date upon which the customer achieves these development phases.

The other two types of milestone payments are related to sales and are treated as royalties. They will therefore be recognized as income when the sale is made.

## Note 13: Breakdown of income and expenses by function

### 13.1 Research and Development

| RESEARCH AND DEVELOPMENT<br>(Amounts in € thousand) | 30/06/2018 | 30/06/2017 |
|---|---|---|
| Raw materials and consumables | (99) | (103) |
| Studies and research | (3,011) | (2,194) |
| Personnel expenses | (726) | (709) |
| Expenses related to retirement obligations | 17 | (48) |
| Lease expenses | (59) | (79) |
| Licenses and intellectual property costs | (194) | (225) |
| Amortization and depreciation | (292) | (209) |
| Share-based payments | (142) | (2,060) |
| Other | (12) | (39) |
| **Research and development expenses** | **(4,518)** | **(5,665)** |
| Research tax credit | 429 | 226 |
| Subsidies | - | 169 |
| **Subsidies** | **429** | **395** |
| **Net research and development expenses** | **(4,089)** | **(5,270)** |

Research and development expenses amounted to €4,518 thousand as of June 30, 2018 compared with €5,665 thousand as of June 30, 2017, i.e. a fall of €1,147 thousand. This decrease can be explained primarily by the correlation of the following:

- An increase of €817 thousand in study and research costs, in relation to the costs incurred for the Phase 2 trial of its GKT831 product in PBC and the preclinical work in progress on the GKT771 compound.
- A reduction of €1,918 thousand in the impact of share-based payment expenses (see note 8.4).

**Subsidies**

As of June 30, 2017, the Group had recognized operating subsidies of €169 thousand, corresponding to the balance of the Neurinox subsidy, a five-year research program entitled "NEURINOX – NOX Enzymes as mediators of inflammation-triggered neurodegeneration: modulating NOX enzymes as novel therapies".

### 13.2 General and administrative expenses

| GENERAL AND ADMINISTRATIVE EXPENSES (Amounts in € thousand) | 30/06/2018 | 30/06/2017 |
|---|---|---|
| Travel and incidental expenses | (152) | (122) |
| Lease expenses | (19) | (27) |
| Fees | (626) | (910) |
| Insurance | (45) | (35) |
| Marketing and sales expenditure | (79) | (66) |
| Taxes and duties | (7) | (28) |
| Personnel expenses | (338) | (366) |
| Expenses related to retirement obligations | 11 | (26) |
| Attendance fees | (45) | (34) |
| Amortization | (3) | (5) |
| Transaction costs | (0) | (104) |
| Share-based payments | (105) | (1,903) |
| Other | (63) | (14) |
| **General and administrative expenses** | **(1,471)** | **(3,640)** |

Overheads and administrative costs amounted to €1,471 thousand as of June 30, 2018 compared with €3,640 thousand as of June 30, 2017, i.e. a fall of €2,169 thousand. This decrease can be explained primarily by the following:

- A reduction in fees of €284 thousand in connection with the cost of one-off legal and audit fees during the first half of 2017.
- A reduction of €1,798 thousand in the impact of share-based payment expenses (see note 8.4).

## Note 14: Other operating income and expenses

The Group did not recognize any other non-current operating income or expenses during the first half of 2018. During the first half of 2017, the Group recognized other non-current operating expenses of €11,408 thousand, which breaks down as follows:

| OTHER OPERATING EXPENSES (Amounts in € thousand) | 30/06/2018 | 30/06/2017 |
|---|---|---|
| Cost of listing | - | (10,898) |
| Restructuring expenses for Genkyotex SA | - | (510) |
| **Other operating expenses** | **-** | **(11,408)** |

## Note 15: Net financial income (expenses)

| NET FINANCIAL INCOME AND EXPENSES (Amounts in € thousand) | 30/06/2018 | 30/06/2017 |
|---|---|---|
| Other financial expenses | (8) | (28) |
| Other financial income | 3 | 8 |
| Currency gains and losses | 40 | (6) |
| **Net financial income/(expenses)** | **35** | **(26)** |

## Note 16: Income taxes

According to the same rules as those of December 31, 2017, the Group did not recognize any deferred tax assets as of June 30, 2018.

## Note 17: Earnings per share

| EARNINGS PER SHARE | 30/06/2018 | 30/06/2017 |
|---|---|---|
| | Ordinary shares | Ordinary shares |
| Weighted average number of outstanding shares | 77,850,006 | 54,169,507 |
| Net income/(loss) for the period attributable to owners of the parent (in € thousand) | (4,776) | (20,368) |
| **Basic earnings per share (€/share)** | **(0.06)** | **(0.38)** |
| **Diluted earnings per share (€/share)** | **(0.06)** | **(0.38)** |

## Note 18: Related parties

### 18.1 Compensation payable to corporate officers

The compensation paid to executives breaks down as follows:

| EXECUTIVE COMPENSATION (Amounts in € thousand) | 30/06/2018 | 30/06/2017 |
|---|---|---|
| Fixed compensation due | 106 | 206 |
| Variable compensation due | 68 | 74 |
| Benefits in kind | 10 | 11 |
| Employer contributions to the retirement plan | 15 | 16 |
| Share-based payments | 126 | 3,747 |
| Attendance fees | 45 | 34 |
| **TOTAL** | **369** | **4,089** |

No post-employment benefits were granted to members of the Board of Directors or to executives, with the exception of the mandatory defined benefit scheme applicable for Swiss employees under the second pillar of the Swiss social security system.

The variable components of compensation are awarded according to performance criteria.
The methods used to calculate the fair value of share-based payments are explained in Note 8.

## Note 19: Off-balance sheet commitments

Following the signature of an extension to the license agreement for the Vaxiclase platform with the Serum Institute of India (SIIL) in June 2018, the contract provides for:

- An initial payment of €750 thousand (recognized during the first half of 2018);
- Milestone payments of up to $57 million in relation to emerging markets;
- Milestone payments of up to €100 million in relation to industrialized countries

The Company is also eligible for royalty payments "as a percentage of sales".

During the first half of 2018, there was no significant change in the other commitments in existence as of December 31, 2017.

## Note 20: Post-balance sheet events

July 2018:

- The NIH (National Institutes of Health) in the United States awards Professor Victor Thannickal of the University of Alabama at Birmingham (UAB) $8.9 million in grant funding to finance a multi-year research program evaluating the role of NOX enzymes in idiopathic pulmonary fibrosis (IPF), a chronic lung disease that results in scarring (fibrosis) of the lungs. The core component of the program will be a 24-week Phase 2 trial of the Company's lead candidate product, GKT831, in patients with IPF. Enrollment of patients for the study is expected to begin during the first half of 2019.

August 2018:

- The Company obtains financing enabling it to raise as much as €7.5 million by issuing convertible bonds with stock acquisition rights in favor of YA II PN, Ltd, an investment fund managed by the US management company Yorkville Advisors Global LP. The Company issues the first tranche of convertible bonds with stock acquisition rights for a nominal amount of €5 million on the date the contract was signed.

- The Company announces that 90 patients have been randomized to its Phase 2 trial of GKT831 for the treatment of primary biliary cholangitis (PBC). This is the number of patients required for conducting interim analysis as planned.

September 2018:

- The Company receives the green light from the independent Safety Monitoring Board (SMB) for the Phase 2 trial of GKT831 for the treatment of primary biliary cholangitis.

- The Company completes enrollment for its Phase 2 clinical trial of GKT831 in patients suffering from primary biliary cholangitis (PBC). A total of 111 patients were enrolled in 9 countries, exceeding the original target of 102 patients.

## 4. REPORT OF LIMITED AUDIT BY THE STATUTORY AUDITOR OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IFRS AS ADOPTED IN THE EUROPEAN UNION

# Statutory auditors' review report on the half-yearly financial information

# Genkyotex
# Period from January 1 to June 30, 2018

*This is a free translation into English of the statutory auditors' review report on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the group's half-yearly management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.*

To the Shareholders,

In compliance with the assignment entrusted to us by your general meetings and in accordance with the requirements of article L. 451-1-2 III of the French monetary and financial code (*Code monétaire et financier*), we hereby report to you on:

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

These condensed half-yearly financial statements are the responsibility of the board of directors. Our role is to express a conclusion on these financial statements based on our review.

## 1 Conclusion on the Financial Statements

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

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

## 2 Specific verification

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

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

Neuilly-sur-Seine and Toulouse, September 26th, 2018

The statutory auditors
*French original signed by*

**Grant Thornton**
**French member firm of Grant Thornton International**

**Sygnatures**

Samuel Clochard

Laure Mulin