



**DEINOVE**

# Half-yearly report

**1<sup>st</sup> semester 2012**

**DEINOVE SA with a registered capital of 1,973,623.60 euros**

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# 1 | Company Governance

## Board of Directors

<b>Chairman</b>	Dr. Philippe Pouletty
<b>Directors</b>	L'Université Paris V, represented by Prof. Frédéric Dardel Paul-Joël Derian The company Truffle Capital, represented by Christian Pierret Rodney Rothstein The company SAKKAB LLC, represented by Nabil Sakkab Philippe Duval Bruno Weymuller

## Management

<b>Chief Executive Officer</b>	Jacques Biton
<b>Administrative and Financial Director</b>	Julien Coste
<b>Research and Development Director</b>	Jean-Paul Leonetti
<b>Business Development Director</b>	Michael Krel
<b>Communications Director</b>	Elisabetta Castelli

# 2 | Half-yearly report on operations

## 2.1 Deinove in a few words

Deinove is a green technologies company dedicated to the development and commercial exploitation of innovative processes for the production of biofuels, bio-sourced chemical molecules and other products of industrial or pharmaceutical interest. To do this Deinove uses bacteria with exceptional natural properties, the Deinococci. The Company intends to promote its bacteria, technologies and proprietary processes by granting licences to operating industrial partners.

Deinove now employs 28 people, including 22 researchers; it relies on the advanced technologies from several associated university laboratories, and is leading a collaborative project with the Tereos industrial group, the biggest sugar producer in Europe. Its registered office is in Paris and the Company has research and development laboratories in Montpellier (Technopark Cap Alpha). It also benefits from a scientific collaboration network with national academic partners, such the CNRS and the INSA, as well as with the Finnish Technological Research Centre, the VTT.

Deinove has formed a proprietary strain library of more than 6,000 bacteria, particularly those belonging to the *Deinococcus* genus (the "Deinococci"), which it uses in multiple applications. Deinococci are bacteria which emerged more than 3 billion years ago on earth. They are very robust, and represent one of the most significant biodiversities of the living world. During their evolution in diverse and extreme ecosystems, some of them have borrowed genome fragments from other organisms (mainly rare bacteria). This has provided them with a number of powerful metabolic properties, including the ability to degrade the major components of biomass (usually difficult to degrade with conventional micro-organisms), and then to ferment the simple sugars from this degradation into interesting molecules, such as bioethanol or compounds for the chemical industry.

## 2.2 Description of the key facts and activities of Deinove for the 1<sup>st</sup> semester of 2012

During the first semester of 2012, Deinove devoted most of its activities:

- to completing its genetic engineering platform focused exclusively on thermophilic Deinococci:
- to studying the physiological and fermentative behaviour of so-called "chassis" bacteria, to meet the requirements of the second key milestone, the so-called "EC2", of the DEINOL project.

The genetic optimisation work carried out in 2011 was intensively continued in the first semester of 2012, with a very strong focus on key milestone 2 of the DEINOL project. The completion of EC2, as defined in the DEINOL agreement foresees obtaining a strain of recombinant *Deinococcus*, efficiently digesting "wheat" biomass and producing 3% ethanol as a technical milestone.

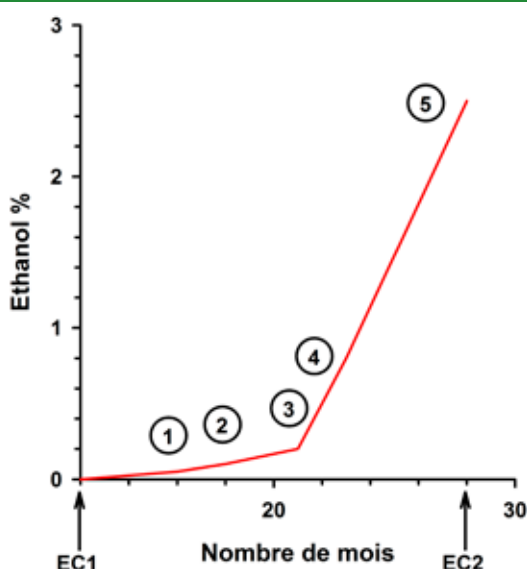
The two strains of *Deinococci* previously selected in 2011 have been modified by genetic engineering to meet the specifications required by this EC2 milestone. All the work of this semester has been on the strains called M36-7D\_21 and MX6-1E\_14.

The genetic variations made have enabled the starch degrading property for each of them to be effectively improved: they are now able to hydrolyse most of the starch content in wheat into glucose, and to completely consume this glucose. These results have all been obtained on a new technical substrate - effluent from the ethanol production plant, which is rich in starch - provided by our industrial partner, TEREOS.

Concerning the hemi-cellulose part of the effluent from the ethanol production plant, a simple acid pretreatment enables the polymers to be solubilised and to degrade them in part, thus turning the sugars into C6 and C5 sugars, such as glucose, xylose, arabinose, accessible to assimilation by the bacteria.

This work has experimentally demonstrated a key feature of *Deinococci*: once released, the glucose and xylose as well as the majority of the sugars most represented in the plant biomass, are totally co-assimilated, with the same kinetics, by the *Deinococcus*. This intrinsic property of the strains developed by Deinove presents a major interest in an industrial biological process.

### Strain improvements



- ① Introduction to the ethanol pathway + deletion of *locus pta*
- ② Optimisation of the transcript of the ethanol pathway
- ③ Introduction of the gene *ADHmo* in the ethanol pathway
- ④ Fermentation studies
- ⑤ Culture in Fedbatch + deletion of the *locus ldh*

As regards ethanol production, this semester has been marked by rapid and spectacular advances, as demonstrated on the curve opposite. These progressions, which are major for the technologies developed by Deinove, result from two complementary approaches: on the one hand, we have now mastered fermenting our *Deinococci* in small fermenters, with "fedbatch culture process" type approaches; the effectiveness of our genetic *Deinococci* approaches has on the other hand been increased. The improvement of the latter is the most important element of the first semester of 2012, with increased productivity and the availability of a number of tools specific to *Deinococci*. The establishment of the high-output cloning platform represents a major technological development tool for Deinove: the Company also has a genuine "toolbox" available enabling it to consider several positive changes in our most promising bacteria, to make real industrial tools.

These results, consistent with our roadmap, enable us to confidently consider the successful completion of the second stage of the DEINOL project.

Besides the significant funding to be received from Oseo if this key milestone is validated, achieving EC2 will enable us to start the laboratory pilot phase, the next step in the initial planning of the DEINOL project during the second semester 2012.

To recap, the aim is to lay the groundwork in 2014 for cellulosic ethanol production (2<sup>nd</sup> generation ethanol) through the Deinococci, in the existing industrial facilities and without major investments. As the leader, Deinove will have received up to €6 million by the end of the project. Tereos, the industrial leader of ethanol production in Europe and the biggest sugar producer in Europe, with its subsidiaries BENP Lillebonne and Syral, as well as two academic partners, the CPBS (CNRS - University of Montpellier 1) and the LISBP (INSA Toulouse/CNRS /INRA), are members of the DEINOL consortium.

The DEINOL project is schematically organised into two main steps:

The first step in research and development, which is carried out by Deinove and the academic partners, takes place from early 2010 to the end of 2012, and successively comprises:

- the selection of the bacterial strain entering the process phase;
- the optimisation of this candidate strain phase;
- the development of the pilot process in the laboratory phase.

A second stage will involve BENP Lillebonne and Syral (Tereos Group) taking over from Deinove and the academic laboratories, for the industrialisation of the process phase (until the industrial pilot), and the project should be finalised by a full-scale "factory" test in 2014.

This first semester of 2012 was therefore marked by a strengthening of the scientific effort on the DEINOL project. In 2011 the company devoted 70% of its resources to this project, during the reporting period, approximately 90% of its R&D resources were allocated to it. Concurrently, less work was undertaken on the Company's other two programmes but they still returned significant results:

- Concerning our "antibiotics" programme: the recently-ended DEINOPHARM project, which was receiving financial support from Oseo, the Languedoc-Roussillon Region and the ERDF (European Regional Development Fund), helped to demonstrate that it was possible to perform the screening work, of bacteria from the Deinove strain library, to select the antibiotic activities. This technological strategy has been resumed and increased in the framework of the second project, namely DEINOBIOTICS, which receives comparable financial support. The work programme of the DEINOBIOTICS project aims to enhance the screening work to select a greater number of antibiotic activities so as to identify the original antibiotic structures, after purification. Although the strategy and the preliminary results are very encouraging, during this semester we were confronted with a number of operational and technical difficulties which held the project up. This "antibiotics" line of research, which aims to combat existing antibiotic-resistant infections (a major global public health issue) is a purely pharmaceutical programme, in an industrial biotechnology company, which is not a very ideal configuration. A number of organisational and technological paths are being looked into. The Company reserves the right to collaborate with external partners to give this programme the best chance of success. Implementing the chosen solution, during the second semester 2012, should add new dynamics to this programme.

- Concerning the "green chemistry" programme: a large-scale project called DEINOCHEM was set up. Its goal is the rigorous and systematic exploration of a complete, very promising, metabolic pathway which exists naturally in Deinococci. Mastery of this metabolic pathway provides access to a wide range of compounds of industrial interest. The implementation of the work programme necessary for this ambitious programme mainly involves strengthening Deinove's technical and scientific resources. The first effects of this strengthening process are expected in the second semester of 2012.

In addition, and in a multi-disciplinary approach to these projects, we have started to make a significant effort technologically to streamline our substantial bacteria strain library, with increased automation that is fully supported by a bar code system. By 2013, our screening work should accelerate and be more reliable. This automation should also enable us to reinforce our position as the owner of the world's most extensive collection of "stress-resistant" bacteria and Deinococci. Finally, the Company has strengthened the patent-holder cover for its discoveries and technologies. Deinove's portfolio of patent applications includes 14 international patent applications to date and a patent issued covering both our technological approaches and the various potential applications of our bacteria.

## 2.3 Financial position and results: comments on the figures

The financial statements of Deinove SA at 30 June 2012 primarily reflect:

- Maintaining the R&D costs at a high-level, this is mainly related to the continuation of the Company's flagship DEINOL project. The slight decrease in R&D expenditure observed between the first semesters of 2011 and 2012, i.e. -9%, were mainly the result of a significant difference between technological sub-contracts (-€325 K, of which -€372 K relates to the timing of VTT billings), partially offset by the increase in patent-related fees (filings/extensions: +€66 K), staff costs (+€51 K) and allocations to depreciation and provisions (+€21 K).
- Keeping financial resources available on the assets side of the balance sheet enabling the financing of ongoing programmes to be envisaged until the end of 2013. The Company's net financial position at the end of June 2011 represents assets of €7,084 K, compared with €8,876 K at 12/31/2011.

The table below lists the key elements of the half-year results prepared in accordance with the French accounting standards, for the first semester of the 2011 and 2012 financial years, as well as some financial elements of the balance sheet at 30 June 2012 compared with the balances at 31 December 2011.

KEY ELEMENTS OF HALF-YEARLY ACCOUNTS	<i>in thousands of euros</i>	6-month period ending 30 June	
		2012	2011
Total operating income		1	636
Total operating costs		2,170	2,177
	<i>of which Research &amp; Development costs</i>	1,582	1,741
	<i>of which administrative and general costs</i>	588	436
Operating profit		-2,169	-1,542
Financial result		298	125
Current pre-tax profit/loss		-1,871	-1,416
Income tax (R&D tax credit)		-516	-260
Profit or loss for the period		-1,402	-1,167
		<b>at 06/30/2012</b>	<b>at 12/31/2011</b>
Net financial position		7,084	8,876
	<i>of which financial investments</i>	4,692	6,003
	<i>of which cash instruments</i>	2,402	2,750
	<i>of which cash on hand</i>	206	348
	<i>(of which financial debts)</i>	-215	-225
Total assets		9,289	10,571
Total shareholders' equity		8,057	9,342
	<i>of which equity</i>	5,912	7,197
	<i>of which conditional advances</i>	2,145	2,145



## Presentation of the results at 06/30/2012

### Operating income

Operating income results from the re-invoicing in the first semester of 2012 of scientific articles ordered on behalf of another company.

### Net operating expenses by type

	6-month period ending 30 June	
<i>in thousands of euros</i>	2012	2011
Other purchases and external expenses		
External studies, sub-contracting and scientific consultancy	313	600
Supplies	167	185
Rent, maintenance and servicing costs	100	89
Miscellaneous costs	112	27
Documentation, technological monitoring and seminars	28	31
Fees	350	245
Travelling expenses	55	57
Total Other purchases and external expenses	1,125	1,234
Taxes, duties and similar levies	12	5
Salaries and wages	656	588
Social contributions	205	209
Depreciation charges on fixed assets	149	128
Other expenses	23	13
<b>TOTAL OPERATING COSTS</b>	<b>2,170</b>	<b>2,177</b>

The net change in operating expenses between the first semesters of 2011 and 2012 is minimal, amounting to -€7 K, which is -0.3%. The change of -€109 K of other purchases and external expenses is the result of a decrease in external R&D costs (-€287 K, of which €325 K in technological subcontracting), combined with an increase in fees (+€105 K, with +€66 K related to patents, +€25 K to a legal consultation) and miscellaneous costs (+€85 K, predominantly on recruitment). On the other hand, the other expenses, which are in-company, increased by +€102 K, a direct consequence of the increase in the Company's staff, which totalled 24 members of staff in the first semester of 2011, and 28 members of staff in the first semester of 2012.

Concerning the R&D costs, which essentially include the costs of staff assigned to these activities, the costs of sub-contracting, consultancy and scientific collaborations, the costs associated with protecting the company's intellectual property, the costs of equipment and operating the Cap Alpha laboratory (Montpellier), represent 73% of operating costs (compared with 80% in the first semester of 2011).

### Financial result

	6-month period ending 30 June	
<i>in thousands of euros</i>	2012	2011
Financial income	299	176
Financial costs	1	51
<b>FINANCIAL RESULT</b>	<b>298</b>	<b>125</b>

The financial result, which more than doubled in comparison with that of the first semester of 2011, primarily resulted from:

- The partial reversal of provisions for depreciations amounting to €137 K, relating to investments in bonds amounting to €134 K, and to the liquidity agreement for €3 K. The total provision, provided at 31 December 2011, amounted to €164 K;
- Gains from disposing of Deinove shares, totalling €57 K. This relates to the complete disposal of 12,710 shares, still held at 31 December 2011 in the framework of the liquidity agreement with Invest Securities France suspended on 29 November 2011. As announced in the Annual Financial Report 2011, these disposals were completed in the first quarter of 2012.
- Interest earned under our investments in bonds and cash instruments, totalling €104 K.

### Net result

6-month period ending 30 June

<i>in thousands of euros</i>	2012	2011
Current pre-tax profit / loss	-1,871	-1,416
Profit from non-recurring items	1	
Loss from non-recurring items	48	11
<b>PROFIT/LOSS FROM NON-RECURRING ITEMS</b>	<b>-47</b>	<b>-11</b>
Income tax (R&D tax credit)	-516	-260
<b>PROFIT OR LOSS</b>	<b>-1,402</b>	<b>-1,167</b>

The change in the net of exceptional items only results (the other movements offset each other) from the allocation, in exceptional charges, of a provision for risks and charges relating to receivable 2011 R&D tax credit (see Note 4) some elements of which are disputed by the tax authorities (including time delays in taking into account certain expenses).

Receivable R&D tax credit valued for the first semester of 2012 is substantially greater than that of the first semester of 2011. This change is primarily due to the payment, mainly by Oseo, during the first semester of 2011, totalling €1,582 K of grants and repayable advances, as this amount was deducted when determining the basis for calculating the R&D tax credit. By comparison, in the first semester of 2012, the Company simply repaid Oseo, according to the planned schedule, an amount of €10 K, relating to the "DEINOL Feasibility" aid.

### Presentation of the balance sheet at 06/30/2012

At the end of the first semester of 2012, the Company's net financial position amounted to +€7,084 K, which indicates the resources available on this date to cover the needs of its R&D projects. The financial position should be compared with that at 12/31/2011, i.e. +€8,876 K. The change is mainly explained by the financing of the operating costs of the first semester of 2012, amounting to €2,170 K, and investment in laboratory equipment. It should be mentioned that in the first semester of 2012, the Company did not receive any repayable advances or grants.

The bulk of the available cash was placed in different supports:

- €2,402 K in fixed-term deposits with the Société Générale (cash instruments). The objective of these deposits is to obtain a higher return than with the EONIA.
- €4,526 K invested in bonds (Financial assets - Net value). These bonds, issued by reputable industrial and financial institutions, whose maturities are spread out until January 2014, and are indexed on the Euribor, provide more optimal yield than monetary investments. The Company's intention is to hold on to them until maturity, to benefit from the return of the nominal value. Short-term market developments have impacted on the current value of some of these assets and the accounting rules led the recognition at 12/31/2011 of a provision for depreciation of €171 K in relation to their cost value, a provision reduced to €37 K at 06/30/2012 (provision reversal of €134 K in the first semester of 2012).

### Liquidity agreement

It should be mentioned that on 6 December 2011, and for a period of 6 months renewable by tacit agreement, the FCPR Truffle Capital II, a shareholder of the Company, entrusted the implementation of a liquidity agreement to Dexia Securities France. The latter was not renewed at its due date on 5 June 2012. On the other hand, on 6 June 2012, the Company entrusted BIL Finance (formerly Dexia Securities France), with the implementation of a new liquidity agreement with a duration of 12 months and renewable by tacit agreement. A sum of €150 K has been assigned to it.

Under this contract, on 30 June 2012, the following resources featured in the liquidity account:

- 1,883 Deinove securities, valued at €14 K;
- €136 K of available cash.

### Share capital

At 30 June 2012, the share capital comprised 4,934,059 ordinary shares with a nominal value of €0.40, after the issuance of 40,959 new shares during the first semester of 2012, resulting in a capital increase of €16,383.60. Note 7 of the Appendix to the half-yearly accounts provides additional clarification on the equity and dilutive financial instruments currently valid after the new issuance of share warrants taken by the Board of Directors on 16 February 2012, the issue whose subscription by the beneficiaries has brought cash and additional equity of €101 K to the Company.

## 2.4 Main risk factors

The risk factors affecting the Company were presented in Chapter 4 of the Basic Document registered on 25 March 2010 by the Financial Markets Authority (AMF) under number I.10-014.

Since the raising of funds during its initial public offering, the additional access to public aid, already cashed and to come, has positively changed some of the risks mentioned in the Basic Document, especially, the liquidity risk. The Company considers that it currently has the means to fund ongoing research programmes until 2013. Besides the €7,084 K of positive net financial position at 06/30/2012, the Company has received repayable advance and operating grant liabilities from public bodies for €3.4 m, subject to the lifting of suspensive conditions related to the achievement of key milestones on the ongoing research projects.

The Company mentions, as was indicated in the Basic Document above, that its activities are mainly based on research and development operations in biotechnology, aimed at applications in the fields of biofuels, green chemistry and antibiotics. The success of the projects that it runs is, therefore, subject to the scientific and technological vagaries specific to this sector of activity, and also depends on its ability to industrialise the bioprocesses it develops in an economically viable way.

# 3 Condensed half-yearly accounts at 30 June 2012

## 3.1 Profit and loss account

<b>PROFIT AND LOSS ACCOUNT</b>	<i>in thousands of euros</i>	<b>Note</b>	<b>1<sup>st</sup> semester 2012</b>	<b>1<sup>st</sup> semester 2011</b>	<b>Full year 2011</b>
Operating income			1	636	637
Other purchases and external expenses			1,125	1,234	2,691
Taxes, duties and similar levies			12	5	15
Salaries and wages			656	588	1,182
Social contributions			205	209	441
Depreciation charges, amortization and provisions			149	128	254
Other expenses			23	13	45
<b>Total operating costs</b>			<b>2,170</b>	<b>2,177</b>	<b>4,628</b>
<b>OPERATING PROFIT/LOSS</b>			<b>-2,169</b>	<b>-1,541</b>	<b>-3,991</b>
Financial revenue			299	176	311
Financial costs			1	51	267
<b>Financial result</b>			<b>298</b>	<b>125</b>	<b>45</b>
<b>CURRENT PRE-TAX PROFIT/LOSS</b>			<b>-1,871</b>	<b>-1,416</b>	<b>-3,946</b>
Profit from non-recurring items			1	0	0
Loss from non-recurring items			48	11	13
<b>PROFIT / LOSS FROM NON RECURRING ITEMS</b>			<b>-47</b>	<b>-11</b>	<b>-13</b>
Income tax (R&D tax credit)		11	-516	-260	-682
<b>PROFIT OR LOSS</b>			<b>-1,402</b>	<b>-1,167</b>	<b>-3,277</b>

## 3.2 Balance sheet

<b>ASSETS</b>	<i>in thousands of euros</i>	<b>Note</b>	<b>06/30/2012</b>	<b>12/31/2011</b>
Fixed assets		3		
Intangible assets				
Concessions, patents, licences, software, rights and the like			59	59
Tangible assets				
Technical facilities, industrial equipment and tooling			364	465
Tangible assets under construction			141	
Other tangible assets			39	47
Financial assets				
Shareholdings and related receivables			3	
Other equity investments		2	4,526	5,855
Other financial investments			166	148
<b>Total</b>			<b>5,298</b>	<b>6,574</b>
<b>Current capital</b>				
Receivables incl. VAT and R&D Tax Credit		4	1,311	839
Cash instruments		5	2,402	2,750
Cash on hand		6	206	348
Pre-paid expenses			72	60
<b>Total</b>			<b>3,991</b>	<b>3,997</b>
<b>GRAND TOTAL</b>			<b>9,289</b>	<b>10,571</b>
<b>LIABILITIES</b>	<i>in thousands of euros</i>	<b>Note</b>	<b>06/30/2012</b>	<b>12/31/2011</b>
Equity		7		
Capital			1,974	1,957
Share, merger and contribution premiums			10,868	10,768
Statutory reserves				
Carry-forward			-5,528	-2,251
Profit or loss for the period			-1,402	-3,277
<b>Total</b>			<b>5,912</b>	<b>7,197</b>
<b>Other equity</b>				
Conditional advances		8	2,145	2,145
<b>Total</b>			<b>2,145</b>	<b>2,145</b>
<b>Provisions</b>				
Provisions for liabilities			47	
<b>Total</b>			<b>47</b>	<b>0</b>
<b>Liabilities</b>		9		
Loans and financial liabilities - Other			215	225
Suppliers and related accounts			657	631
Outstanding taxes and social contributions			306	371
Other liabilities			6	2
<b>Total</b>			<b>1,184</b>	<b>1,229</b>
<b>GRAND TOTAL</b>			<b>9,289</b>	<b>10,571</b>

### 3.3 Statement of changes in equity

<b>CHANGE IN EQUITY</b> <i>in thousands of euros</i>	Share capital	Issue premium and BSA (share warrants)	Reserves and Carry-forward	Profit/loss for the period	Total shareholders' proceeds
Balance at 01/01/2011	1,941	10,744	0	-2,251	10,434
Allocation of 2010 surplus			-2,251	2,251	0
Capital increase and Issue Premium (IP)	16				16
Exercise of BSA options		23			23
Profit or loss for 2011				-3,277	-3,277
12/31/2011	1,957	10,768	-2,251	-3,277	7,197
Allocation of 2011 surplus			-3,277	3,277	0
Capital increase and Issue Premium (IP)	16				16
Exercise of BSA options		101			101
Half-year 2012 profit or loss				-1,402	-1,402
<b>06/30/2012</b>	<b>1,974</b>	<b>10,868</b>	<b>-5,528</b>	<b>-1,402</b>	<b>5,912</b>

### 3.4 Table of net cashflow

<b>CASHFLOW</b> <i>in thousands of euros</i>	Note	1 <sup>st</sup> semester 2012	1 <sup>st</sup> semester 2011	12/31/2011
<b>Cashflow related to operating activities</b>				
Net profit / loss		-1,402	-1,167	-3,277
Depreciation and amortization	3	12	139	416
Provisions		47		
Working capital changes		-521	-534	-550
<b>Net cashflow used in operations</b>		<b>-1,863</b>	<b>-1,562</b>	<b>-3,411</b>
<b>Investment activity cashflow</b>				
Acquisitions of fixed assets	3	-181	-4	-177
Acquisitions of financial assets	3	1,446	-1,705	-1,656
<b>Net cashflow from / (absorbed by) investment activities</b>		<b>1,264</b>	<b>-1,709</b>	<b>-1,833</b>
<b>Financing activity cashflow</b>				
Net income from share issuance	7	117	38	40
Collection from new loans	8		947	947
Loan repayments		-10		-5
<b>Net cashflow from financing activities</b>		<b>107</b>	<b>985</b>	<b>982</b>
Change in cash and cash equivalents		-491	-2,286	-4,262
Cash and cash equivalents opening balance		3,098	7,360	7,360
<b>Cash and cash equivalents at closing</b>		<b>2,607</b>	<b>5,074</b>	<b>3,098</b>

### 3.5 Appendix to the accounts

#### Note I The Company

Deinove SA ("the Company") is a green technologies company dedicated to the development and commercial exploitation of innovative processes for the production of biofuels and other products of industrial or pharmaceutical interest.

The Company was set up in 2006 in the form of a Simplified Joint Stock company and was transformed into a Public Limited Company on 27 January 2010.

The Company has been listed on the Alternext market since 27 April 2010. Alternext is an organised market in which there is no obligation to apply IFRS standards. The accounting principles applied are therefore the generally accepted accounting principles in France.

## **Note 2 Accounting principles, regulations and methods**

The accounting principles and methods selected for preparing the half-yearly accounts comply with the French accounting standards, and are unchanged in relation to the principles and methods used to prepare the annual accounts for the financial year 2011 and described in the appendix to these accounts.

The operations of the semester which call for additional information are the following:

### **Equity investments:**

This item corresponds to the use of part of Deinove's liquidity to purchase listed bonds. The securities thus acquired have been entered in the assets at their historical cost, excluding acquisition costs recognised directly as an expense. Upon each closing, the cost value of each line of securities is compared to its inventory value, which corresponds to the stock market value when the securities are listed. A provision for depreciation is formed when the inventory value is less than the historical cost, even if the company intends to hold on to the securities until their maturity. At 30 June 2012, the provision for depreciation formed for this reason amounted to €37 K (€171 K at 31 December 2011 - Note 3).

### **Impact of the exercising of share warrants (BSA) and employee stock options (BCE):**

During the period, holders of BSA or BCE are called upon to exercise these financial securities. The accounting reporting date in equity for a capital increase resulting from the exercise of BSA/BCE is the date of final completion of the operation, which is determined by Article L225-149 sub-paragraph 2 of the French Commercial Code. Accordingly, the exercising of options is recognised in issue premiums without waiting for the subsequent intervention of the Board of Directors provided by paragraph 3 of the same article, which has the sole purpose of legally recognising, by updating the company By-Laws, the operation already previously definitively carried out. It is mentioned that on 3 May 2012 the combined general meeting of shareholders decided to divide the number of BSA and BCE issued by the Company up to that date by 10. Thus, since 3 May 2012, a BSA or a BCE gives the right to subscribe to a new share. Note 7 states that 3,425 BSA-B, 19,684 BSA-2008 and 17,850 BCE-2009-1 (after dividing the number of BSA and BCE by 10) were exercised in the first semester of 2012, resulting in the creation of 40,959 new shares issued at their nominal value of €0.40 per share, which is a share capital increase of €16,383.60.

### **Liquidity agreement and treasury shares (other financial assets):**

The operations related to the liquidity agreement that the Company has concluded with a financial intermediary are recorded in compliance with Notice CU CNC no. 98-D and with the CNCC Bulletin no. 137 - March 2005:

- treasury shares held are entered in Other financial assets - Treasury shares. A provision for depreciation is recorded in reference to the average share price from the month preceding closing if the latter is less than the purchase price. To determine the profit from the sale, the FIFO method is applied.
- cash paid to the intermediary and not yet used is entered in the account Other financial assets - Other long-term receivables.

Note 3 specifies the situation of this contract at 30 June 2012. Disposals of treasury shares carried out in the first six months have led to recognition of a gain of €57 K in the financial result.

**Note 3 Intangible, tangible and financial assets**

<b>GROSS VALUES</b>	<i>in thousands of euros</i>	<b>Gross value at 01/01/2012</b>	<b>Acquisitions</b>	<b>Reductions</b>	<b>Gross value at 06/30/2012</b>
<b>Intangible assets</b>					
Concessions, patents, licences, software, rights and the like		91	6	0	98
Other intangible assets					
<b>Total</b>		<b>91</b>	<b>6</b>	<b>0</b>	<b>98</b>
<b>Tangible assets</b>					
Technical facilities, industrial equipment and tooling		815	35	0	850
General facilities, fixtures and various amenities		25	0	0	25
Office equipment and computer hardware, furniture		58	0	1	57
Tangible assets under construction		0	141	0	141
<b>Total</b>		<b>897</b>	<b>176</b>	<b>1</b>	<b>1,073</b>
<b>Financial assets</b>					
Shareholdings and related receivables		0	3	0	3
Other equity investments		6,026	0	1,464	4,562
Other financial assets		151	315	300	166
<b>Total</b>		<b>6,177</b>	<b>318</b>	<b>1,764</b>	<b>4,731</b>
<b>GRAND TOTAL</b>		<b>7,166</b>	<b>501</b>	<b>1,765</b>	<b>5,901</b>

<b>DEPRECIATIONS</b>	<i>in thousands of euros</i>	<b>Position and movements during the period</b>			
<b>Depreciable fixed assets</b>		<b>Value at 01/01/2012</b>	<b>Allocations</b>	<b>Outflows</b>	<b>Value at 06/30/2012</b>
<b>Intangible assets</b>					
Concessions, patents, licences, software, rights and the like		33	6	0	39
Other intangible assets					
<b>Total</b>		<b>33</b>	<b>6</b>	<b>0</b>	<b>39</b>
<b>Tangible assets</b>					
Technical facilities, industrial equipment and tooling		351	134	0	485
General facilities, fixtures and various amenities		3	1	0	4
Office equipment and computer hardware, furniture		32	7	0	38
<b>Total</b>		<b>385</b>	<b>142</b>	<b>0</b>	<b>527</b>
<b>GRAND TOTAL</b>		<b>418</b>	<b>149</b>	<b>0</b>	<b>566</b>

<b>IMPAIRMENT</b>	<i>in thousands of euros</i>	<b>Position and movements during the period</b>			
<b>Financial assets</b>		<b>Value at 01/01/2012</b>	<b>Allocations</b>	<b>Outflows</b>	<b>Value at 06/30/2012</b>
<b>Financial assets</b>					
Long-term securities (bonds)		171	0	134	37
<b>Total</b>		<b>171</b>	<b>0</b>	<b>134</b>	<b>37</b>
<b>Other financial assets</b>					
Liquidity agreement		3	0	3	0
<b>Total</b>		<b>3</b>	<b>0</b>	<b>3</b>	<b>0</b>
<b>GRAND TOTAL</b>		<b>174</b>	<b>0</b>	<b>137</b>	<b>37</b>



In order to optimise its interest on cash balances, in 2011 the Company increased its investments in bonds to €1,631 K, thus complementing the €4,395 K of bonds acquired in 2010. Two of the bonds matured during the first semester of 2012, the gross value of the portfolio amounted to €4,562 K at 30 June 2012. This concerns listed bonds, issued by reputable industrial and financial issuers (Standard & Poor's BBB rating at least). These bonds are positioned on the maturities spread from 2012 to 2014, depending on future Company's needs. They offer a higher return than conventional monetary investments, being index-linked to the three month Euribor with a premium. The Company's intention is to hold on to them until maturity, to benefit from the return of the nominal value by the issuer. At 31 December 2011, a provision for depreciation of €171 K was assigned to all of these long-term securities, in order to reduce the net values at their stock market estimate. At 30 June 2012, the updating of these net values, according to the same approach, has enabled the company to partially recover this provision to a level of €134 K. On this date, it therefore amounts to €37 K.

The other financial assets comprise:

- 1,883 Deinove treasury shares, in the framework of the liquidity agreement with BIL Finance (formerly Dexia Securities France), accounted for a gross value of €14 K;
- the cash available balance in the framework of the liquidity agreement of €136 K;
- accrued interest (relating to the bonds mentioned above) of €9 K;
- deposits and guarantees for lease contracts of €8 K.

The Company established two subsidiaries in the first semester of 2012 under shareholdings and related receivables:

- The company DEINOCHEM is a Simplified Joint Stock company with share capital of €1,500, whose registered office is 22 rue Léon Jouhaux, 75010 Paris, registered in the Trade and Companies Register of Paris under the number 752 062 471 RCS Paris, and whose purpose is conducting any research, development, production and marketing activity in France and overseas, falling under biotechnology and in particular technologies, processes and products in the field of biomass processing.

Its share capital of €1,500 is divided into 1,500 shares with a nominal value of €1 each, all fully released and paid up by the Company.

- The company DEINOBIOTICS is a Simplified Joint Stock company with share capital of €1,500, whose registered office is 22 rue Léon Jouhaux, 75010, registered in the Trade and Companies Register of Paris under the number 752 226 746 RCS Paris, and whose purpose is the exercising of any research, development, production and marketing activity in France and overseas, of products, technologies and services in the field of infectious diseases.

Its share capital of €1,500 is divided into 1,500 shares with a nominal value of €1 each, all fully subscribed and paid up by the Company.

**Note 4 Receivables**

Semester closed at 30 June 2012

RECEIVABLES	<i>in thousands of euros</i>	Gross amount	Within a year	Over a year
Fixed assets				
Other financial assets		166	9	158
Total fixed assets		166	9	158
Current capital				
Customers and related accounts		2	2	0
Trade receivables		3	3	0
Income tax (R&D tax credit)		1,198	1,198	0
VAT		103	103	0
Other taxes, duties and similar levies				
Other receivables		5	5	0
Group and associates				
Total current assets		1,311	1,311	0
<b>TOTAL</b>		<b>1,478</b>	<b>1,320</b>	<b>158</b>

Year-ending at 31 December 2011

RECEIVABLES	<i>in thousands of euros</i>	Gross amount	Within a year	Over a year
Fixed assets				
Other financial assets		148	17	132
Total fixed assets		148	17	132
Current capital				
Customers and related accounts				
Trade receivables		5	5	0
Income tax (R&D tax credit)		682	682	0
VAT		146	146	0
Other taxes, duties and similar levies				
Other receivables		6	6	0
Group and associates				
Total current assets		839	839	0
<b>TOTAL</b>		<b>987</b>	<b>855</b>	<b>132</b>

Receivables from corporation income tax correspond to the R&D tax credit (CIR) for the benefit of the Company. In the absence of taxable income, and due to the Company's status as a "Young Innovative Company", this receivable is refundable the year following the year of its recognition:

- The R&D tax credit at 30 June 2012 is estimated to be €516 K.
- The R&D tax credit 2011, which is €682 K, has not been cashed in at 30 June 2012. In addition, exchanges with the tax authorities on some of the technical points relating to the calculation of this receivable led to us providing a risk on the latter valued at €47 K.

**Note 5 Cash instruments**

At 30 June 2012, this item amounted to €2,402 K and includes:

- A fixed-term "Trésor +" account opened at the Société Générale for €402 K, renewable each month, enabling us to benefit from an attractive return as well as capital guaranteed and available at any time.

- A fixed-term "Croissance +" account for €2,000 K including €1,250 K which matures on 05/10/13 and €750 K which matures on 05/10/14, guaranteeing a gradual return fixed in advance and greater than the EONIA. The funds placed in this account are available to be used at any time. Their capital is guaranteed.

The accrued interest for these two term deposits, calculated on the basis of a maturity of less than one year, amounted to €62 K.

#### Note 6 Cash on hand

This item includes cash deposited in current accounts (at Société Générale and Merrill Lynch), as well as the interest accrued to be received and cash balances.

At the end of June 2012, the company had €144 K in the current accounts, and €62 K of accrued interest in term deposits. These figures were respectively €237 K and €37 K at the end of June 2011.

#### Note 7 Equity

##### 7.1 Composition of the share capital

The only capital transactions carried out during the period resulted from the exercising of (i) 3,425 share warrants (BSA-B), (ii) 19,684 share warrants (BSA-2008) and (iii) 17,850 stock options for start-up company with tax privileges (BCE-2009-1), which has led to the recognition of a capital increase of 40,959 shares, which is €16,383.60 (40,959 new shares subscribed at the nominal value).

BREAKDOWN OF SHARE CAPITAL – SUMMARY	06/30/2012	12/31/2011
Capital	€1,973,623.60	€1,957,240.00
Number of shares	4,934,059	4,893,100
Nominal value	€0.40	€0.40

##### Analysis by share category

Up to 26 April 2010, the share capital comprised ordinary shares (category B) and preferred shares (category A). The preferred shares offered their owner the right to the benefit from the right of first refusal and terms of approval to their benefit in the event of disposing of ordinary shares from category B as well as a right of preference for the liquidation surplus.

Since 26 April 2010, following the abolition of the various classes of shares, the share capital has exclusively comprised ordinary shares.

##### 7.2 Distribution of share capital

In the first semester, the Truffle Capital funds prompted the disposal of 34,991 shares on the market. The 4,934,059 shares with a nominal value of €0.40 comprising the capital were divided as follows at 30 June 2012:

Shareholders	Number of shares	Percentage held	Semester closed at 30 June 2012	
			Voting rights	Percentage
Truffle Capital Funds	3,271,407	66.30%	6,467,216	78.72%
Tereos Internacional	120,048	2.43%	120,048	1.46%
Miroslav Radman	31,500	0.64%	63,000	0.77%
Université Paris-Descartes	20,000	0.41%	40,000	0.49%
Floating	1,491,104	30.22%	1,525,058	18.56%
<b>TOTAL</b>	<b>4,934,059</b>	<b>100.00%</b>	<b>8,215,322</b>	<b>100.00%</b>

*on a non-diluted basis*

Year-ending at 12/31/2011

Shareholders	Number of shares	Percentage held	Voting rights	Percentage
Truffle Capital Funds	3,295,191	67.34%	6,525,991	79.82%
Tereos Internacional	120,048	2.45%	120,048	1.47%
Miroslav Radman	31,500	0.64%	63,000	0.77%
Université Paris-Descartes	20,000	0.41%	40,000	0.49%
Floating	1,426,361	29.15%	1,426,361	17.45%
<b>TOTAL</b>	<i>on a non-diluted basis</i> <b>4,893,100</b>	<b>100.00%</b>	<b>8,175,400</b>	<b>100.00%</b>

### 7.3 Dilutive financial instruments

#### Share warrants (BSA)

The table below shows the status of BSA issued since the company's creation and still not exercised at 30 June 2012, as well as additional information on their status on this date. Further details on the operations of the first semester are made subsequently.

BSA	Issued	Cancelled	Exercised	Balance of exercisable warrants	Of which subscribed	Of which not allocated	Lapse
BSA-Anti-Dilution 1 SM on 12/21/2006	1	1	-	0	-	-	-
BSA-Anti-Dilution 2 SM on 12/21/2006	1	1	-	0	-	-	-
BSA-B SM on 01/30/2008	92,430	-	40,540	51,890	51,890	0	01/30/2018
BSA-2008 SM on 06/27/2008	61,620	-	19,684	41,936	41,936	0	27/06/2018
BSA-2009 SM on 05/05/2009	330,000	-	-	330,000	330,000	0	05/05/2019
BSA-2010-1 SM on 01/27/2010	34,000	-	-	34,000	34,000	0	03/22/2020
BSA-2010-2 SM on 01/27/2010	20,540	20,540	-	0	-	-	03/22/2020
BSA-2010-3 SM on 01/27/2010	22,500	-	-	22,500	22,500	0	03/22/2020
BSA-2010-4 SM on 01/27/2010	8,500	-	-	8,500	8,500	0	03/22/2020
BSA-2011-1 SM on 09/24/2010	123,240	123,240	-	0	-	-	-
BSA-2012-1 SM on 09/24/2010	123,240	20,540	-	102,700	102,700	0	02/16/-2022
<b>TOTAL BSA</b>	<b>816,072</b>	<b>164,322</b>	<b>60,224</b>	<b>591,526</b>	<b>591,526</b>	<b>0</b>	

During the first semester of 2012, the number of BSA was divided by 10 following a decision by the combined general meeting of shareholders on 3 May 2012. The figures above take account of this division.

The Board of Directors meeting on 16 February 2012, making use of the delegation of powers which were granted to it by the combined general meeting of shareholders on 24 September 2010, has issued and assigned BSA as follows, in accordance with the provisions of Article L. 228-91 of the French Commercial Code:

1,232,400 BSA-2012-1, recognised as 123,240 BSA-2012-1 as a result of the division by 10 of the number of BSA, issued at a unit price of 1% (10% after the division by 10 of the number of BSA) of the subscription price of an ordinary new share by exercising warrants, in accordance with the opinion of the independent expert appointed by the Company to proceed with the evaluation

of the options for fixing their issue price, to be subscribed in cash in full at the time of their subscription by payment in cash or by liquid receivables and which can be due to the Company; these BSA-2012-1 can be exercised at a rate of 50% as of 16 February 2014 and 50% per full monthly period, at a rate of 1/24 of the warrant per month as of 16 February 2014; the exercising of one (1) BSA-2012-1 gives the right to subscribe to one (1) ordinary new share in the Company with a nominal value of €0.40, at a price equal to the weighted average of the last five trading days preceding the date of awarding the BSA-2012-1, which is €9.802,905.

In any event, the beneficiaries will have to exercise the BSA-2012-1 which were awarded to them in the ten years following their assignment. If the BSA-2012-1 are not exercised by their owners at the expiration of this ten-year period, the BSA-2012-1 will be legally null and void.

The Board of Directors at this same meeting recognised the voiding of 1,232,400 BSA-2011-1 issued and assigned by the Board of Directors on 28 June 2011.

The Boards of Directors on 3 May 2012 and 3 July 2012 recognised the subscription, by their Beneficiaries, in accordance with the terms of the issuance contract, 102,700 BSA-2012-1 at the unit price of €0.9802905. These subscriptions have resulted in the increase in issue premiums totalling €100,675.84.

On 3 July 2012 the Board of Directors recognised the voiding of 20,540 BSA-2012-1 issued and awarded by the Board of Directors on 16 February 2012.

Furthermore, 3,425 BSA-B and 19,684 BSA-2008 were exercised in the first semester, giving rise to the creation of 23,109 new shares.

#### **Employees' share subscription warrants (BSPCE)**

The table below shows the status of BSPCE issued since the Company's creation and still not exercised at 30 June 2012, as well as additional information on their status on this date. Further details on the operations of the first semester are provided later on.

<b>BSPCE</b>	<b>Issued</b>	<b>Cancelled</b>	<b>Exercised</b>	<b>Balance of exercisable options</b>	<b>Of which subscribed</b>	<b>Of which not allocated</b>	<b>Lapse</b>
BCE 2008 SM on 01/30/2008	61,630	-	-	61,630	61,630	0	30/01/2018
BSPCE 2008 SM on 06/27/2008	20,540	20,540	-	0	-	-	05/05/2009
BCE 2009-1 SM on 05/05/2009	68,000	31,663	24,968	11,369	11,369	0	10 years after allocation
BCE 2009-2 SM on 05/05/2009	25,370	-	-	25,370	25,370	0	10 years after allocation
BCE-2010-1 SM on 01/27/2010	37,320	-	-	37,320	37,320	0	03/22/2020
BCE-2010-2 SM on 09/24/2010	43,500	-	-	43,500	43,500	0	12/02/2020
BCE-2011-1 SM on 09/24/2010	22,400	2,900	-	19,500	19,500	0	06/28/2021
<b>TOTAL BSPCE</b>	<b>278,760</b>	<b>55,103</b>	<b>24,968</b>	<b>198,689</b>	<b>198,689</b>	<b>0</b>	

During the first semester of 2012 the number of BSA was divided by 10 following a decision by the combined general meeting of shareholders on 30 May 2012. The figures above take account of this division.

17,850 BCE-2009-1 were exercised in the first semester, giving rise to the creation of 17,850 new shares.

### Note 8 Conditional advances

This item comprises the advances awarded by public bodies, and whose reimbursement is predominantly conditional to the success of the project concerned:

- A repayable advance of €100 K was granted in 2009 by Oseo Île-de-France for the "feasibility study of the DEINOL project: constitution of a bacterial strain, characterisation, selection and optimisation". Deinove received €50 K in 2009 and the balance of €50 K in 2010.

As the feasibility study was a success, €5 K was repaid on 30 September 2011. During the first semester of 2012, €5 K was repaid in January, and an additional €5 K in April. The remaining €85 K due will be repaid in full later on 30 June 2014, according to the following schedule:

- 2012: €20 K
- 2013: €40 K
- 2014: €25 K

- In 2009, Oseo Innovation and the Languedoc-Roussillon Region granted repayable advances totalling €400 K for the "extension and screening of a bacterial strain; identification and characterisation of antibiotic molecules"; €160 K was paid in 2009, and an additional €160 K in 2010. The payment of the balance, for an amount very probably less than the €80 K that could potentially be collected, will depend on the processing of the last expenditure report by Oseo which was submitted in 2011.

If the programme is successful, the entirety of the advance received will be refunded no later than 31 December 2015, according to the revised schedule below (established on the basis of the total aid, which is €400 K):

- 2013: €25 K
- 2014: €105 K
- 2015: €135 K
- 2016: €135 K

In the event of failure, the Company will repay a lump sum of €60 K.

The repayable advances related to this aid are not interest-bearing.

- The Company obtained aid from OSEO Innovation - Programme ISI, for the DEINOL project, comprising repayable advances, amounting to €4 m, and grants, up to €2 m, with the payments spread over 50 months from 2010 to 2014. This aid was subject to a condition precedent of a consortium agreement being signed between Deinove and its project partners, BENP-Lillebonne, CNRS and INSA Transfert, which was signed on 30 March 2010. The aid is released according to the progress of the project and the transmission to Oseo of reports relating to the completion of each milestone, the essential characteristics of which are as follows:

- before 02/28/2011 (milestone 1): obtaining a wild or modified strain producing ethanol and with hemicellulose or cellulolytic characteristics comparable to the reference micro-organisms;
- before 02/28/2012 (milestone 2): submission by the consortium of a report on the development of a recombinant deinococcus strain effectively digesting wheat biomass and producing 3% ethanol;
- before 02/28/2013 (milestone 3), certification by BENP-Lillebonne (Tereos group) of the receipt of a strain of deinococcus of interest for starting up the industrial pilot;
- before 02/28/14 (milestone 4), validation of ethanol production in an industrial installation.

The completion of each milestone and the achievement of the related conditions grant the right to the payment of the following aid:

<i>in thousands of euros</i>	2010	2011	2012	2013	2014	Total
Grants	498	632	576	0	301	2,007
Repayable advances	903	1,093	984	426	601	4,008
<b>TOTAL</b>	<b>1,401</b>	<b>1,725</b>	<b>1,560</b>	<b>426</b>	<b>902</b>	<b>6,015</b>

In July 2010, the Company received the amounts provided for the first instalment which amounted to €1,401 K. In May 2011, as a result of successfully completing milestone 1, the company received €632 K in grants and €947 K in repayable advances, totalling €1,579 K. A figure slightly below that expected, a difference of -€146 K, as the expenses necessary to achieve this milestone proved lower than the original budget submitted to Oseo.

In March 2012, the company submitted a summary statement of expenses to Oseo, settled at 02/28/12, and relating to milestone 2. The result of this submission is the subject of a reference in Note 15 of the report, "Events subsequent to the closing date".

In return for this aid, the Company is committed to paying Oseo Innovation, from 2016 and for a maximum of nine years, a percentage of its annual revenue derived from the commercialisation of the processes and technologies developed in the framework of this project. The repayment amount could exceed the total amount of advances received.

●●●● In September 2010, Oseo Innovation notified the Company that it had obtained €700 K of aid for the DEINOBOTICS collaborative project, relating to the identification and production of new antibiotics and antifungals to combat hospital-resistant infections. This aid is made up half of grants and half of repayable advances. The schedule of payments as provided by the aid contracts is presented as follows:

<i>in thousands of euros</i>	2010	2011	2012	2013	2014	Total
Grants	105	87.5	87.5	0	70	350
Repayable advances	105	87.5	87.5	0	70	350
<b>TOTAL</b>	<b>210</b>	<b>175</b>	<b>175</b>	<b>0</b>	<b>140</b>	<b>700</b>

The first payment instalment was made in November 2010, for €210 K. However, in 2011 as well as during the first semester of 2012, the company did not receive any payments, due to a slower rate of spending than originally envisaged for this programme.

In case of success, the company would need to make the following repayments:

- €50 K in 2015
- €80 K in 2016
- €100 K in 2017
- €120 K in 2018

In case of failure, €70 K would be required in 2015 / 2016.

The repayable advances related to this aid are not interest-bearing.

#### **Note 9** Maturities of payables at closing

<b>Statement of payables at 06/30/2012</b>	<i>in thousands of euros</i>	<b>Gross amount</b>	<b>Within a year</b>	<b>Between 1 and 5 years</b>	<b>Over 5 years</b>
Suppliers and related accounts		657	657		
Staff and related accounts		149	149		
Social security and other social organisations		148	148		
Other taxes, duties and similar levies		9	9		
Other payables		6	6		
<b>TOTAL</b>		<b>969</b>	<b>969</b>		

<b>Statement of payables at 12/31/2011</b> <i>in thousands of euros</i>	<b>Gross amount</b>	<b>Within a year</b>	<b>Between 1 and 5 years</b>	<b>Over 5 years</b>
Trade payables and related	631	631		
Staff and related accounts	182	182		
Social security and other social organisations	172	172		
Other taxes, duties and similar levies	17	17		
Other payables	2	2		
<b>TOTAL</b>	<b>1,004</b>	<b>1,004</b>		

#### **Note 10** **Contingent liabilities related to trade agreements**

##### **Research collaboration contracts with INSATransfert-SAIC**

- On 18 February 2010, Deinove entered into a collaborative agreement with the INSA to execute a collaborative research programme with the Laboratoire d'Ingénierie des Systèmes Biologiques et des Procédés (Laboratory of Engineering of Biological Systems and Processes) (LISBP-Toulouse) to study the conditions for growth and the fermentative profile of Deinococci, within the framework of the DEINOL Project. An operating agreement on the discoveries resulting from this programme was signed on 3 March 2010 between INSA and Deinove, in which INSA grants Deinove an exclusive and global licence for the commercial use of the discoveries resulting from the collaborative research programme. In return, INSA will receive a royalty based on Deinove's future earnings during the commercial use of the discoveries concerned.

##### **Collaborative research contracts with the CNRS and the University of Montpellier 1:**

- On 15 February 2010, Deinove concluded an operating agreement with the CNRS and the University of Montpellier 1 (UM1) on the discoveries generated by the cooperative laboratory established with these research organisations from 1 May 2008 to 30 April 2010, and in particular on the knowledge that was the subject of five patent applications held jointly by all three partners. The CNRS and UM1 granted an exclusive and global licence for the use of these discoveries, for commercial purposes, in the fields of cooperation, for a fee in the form of a lump sums and royalties based on Deinove's future earnings.

- On 15 July 2010, Deinove, the CNRS and the University of Montpellier 1 signed a collaboration agreement to conduct joint work in the framework of the DEINOL project. This collaboration contract extended the cooperative laboratory agreement completed on 30 April 2010 following the grouping of Deinove's employees in its Cap Alpha research facility. The operating conditions of the agreement signed on 15 February 2010 also apply to this collaboration.

##### **Research contract with the company Nosopharm:**

- On 5 November 2010, Deinove signed an operating agreement with Nosopharm, a biotechnology company specialising in the research and development of innovative therapeutic molecules, especially anti-infectious, from micro-organisms, in the framework of the DEINOBIOTICS project. In the framework of this contract, Nosopharm supports part of the completion of the work by releasing payments at the beginning and end of the contract. Nosopharm transferred all of its rights on the use of the profits from this work to Deinove.

#### **Note 11** **Income tax**

As the company is showing a deficit, it does not incur tax charges. The amount entered in profit under corporation tax relates to the R&D tax credit (CIR) and amounts to €516,337 for the first semester of 2012 (estimated amount).

Tax deficits and reportable depreciation for the company at 31 December 2011 were set at €9,575 K. At 30 June 2012, these deficit reports were not limited over time.

However, the French Financial Act for 2012 capped the profit potentially offset annually against



previous carried-over deficits at a lump sum of €1 m, increased by 60% of the profit exceeding this lump sum, with the portion not permissible remaining indefinitely reportable.

### Note 12 Associated parties for the semester closed at 30 June 2012

The expenses invoiced in the first semester of 2012 by consultant holders of BSA amounts to €97.5 K. In the same period Deinove entered a net amount of expenses of €23 K for attendance fees, paid to the members of the Board of Directors (compared with €45 K for the financial year 2011). This amount included a total of €4 K to Mr Rothstein, a shareholder with 0.20%.

### Note 13 Contingent liabilities

#### Severance benefits upon retirement

Refer to the Appendix of the accounts closed at 12/31/2011.

#### Individual right to training

Refer to the Appendix of the accounts closed at 12/31/2011.

#### Firm orders

The company made commitments to the following providers:

- Nosopharm: sub-contract concluded, of which €105 K remains to be invoiced.
- CNRS Montpellier: collaborative research contract concluded, of which €2 K remains to be invoiced.
- INSA Toulouse: collaborative research contract concluded, of which €16 K remains to be invoiced.
- Bgene (Floralis): sub-contract concluded, of which €26 K remains to be invoiced.
- VTT: sub-contract concluded, of which €204 K remains to be invoiced.

### Note 14 Staff

AVERAGE STAFF	06/30/2012	12/31/2011
Executives	14	15
Supervisors and technicians	5	3
Employees	9	6
Operatives		
<b>TOTAL</b>	<i>staff</i> <b>28</b>	<b>24</b>

The company enjoys the status of a "Young Innovative Company" (JEI) which awards the following benefits:

- During the first seven years of its activity, a business qualified as a "JEI" is exempt from employers' social security contributions for the researchers, technicians, R&D project managers, lawyers responsible for protecting industrial and technological agreements related to the project, and the personnel responsible for pre-competitive testing. This exemption is also available for company representatives under the general social security system.
- It also benefits from tax breaks, in respect of corporation tax. The tax break consists of a total exemption of profits under its first profitable financial year, followed by a partial exemption of 50% in the second year.
- The company also benefits from a fixed annual tax exemption (IFA), and throughout the whole of the period for which it retains the status of "JEI".
- In addition, after the deliberation of the local authorities, a certified "Young Innovative Company" can benefit from seven years of exemption from corporation tax and land tax on property. The "JEIs" finally benefit from early repayment of R&D tax credit (CIR).

The qualification of "JEI" was validated by the tax authorities through an exemption formulated in 2008 in favour of the Company.

As of 1 January 2012, Article 37 of the amending French Financial Act for 2011 dated 12/28/2011 came into force in addition to Article 175 of the French Financial Act 2011, which altered the terms of application of this scheme by introducing the capping of allocated corporate exemptions. As of then the terms are as follows:

- Application of a gross monthly earnings cap per person set at 4.5 times the SMIC (Index-Linked Guaranteed Minimum Wage) amounted to €6,292.66 per month in the first semester 2012. Beyond this amount, the exemption does not apply.
- Application of an annual cap on eligible contributions per calendar year and per establishment set at 5 times the social security cap, amounting to €181,860 in 2012.
- Application of a gradual reduction of the exemption:

At the full rate until the last day of the 3rd year following the year the company was set up;

At the rate of 80% in the 4th year;

At the rate of 70% in the 5th year;

At the rate of 60% in the 6th year;

At the rate of 50% until the last day of the 7th year following the year in which the company was set up.

In 2012, the Company was in its 6th year of existence, until 15 September, the anniversary of the start of its activity.

Thus, the exemption under the "JEI" corporate status will be capped for the Company, on an annual basis and under the current legal conditions, at €109,116 per establishment, which is €218,232 for the whole Company.

#### **Note 15** Events post-closing

On 13 September 2012 the Company announced having received a payment of €1,152 K in August 2012 from Oseo, following the validation by this body of the completion of milestone 2 of the DEINOL ISI programme by the consortium led by Deinove.

# 4 Statement from the person responsible for the half-yearly financial report

I certify, to my knowledge, that the accounts presented for the past semester in the half-yearly financial report have been prepared in accordance with the applicable French accounting standards and that they provide an accurate image of the Company's assets, financial position and result. I also certify that the half-yearly report on operations (featured in pages 5 to 7) presents, to my knowledge, an accurate picture of the significant events that have occurred during the first six months of the financial year and their impact on the half-yearly accounts, the main transactions between related parties, as well as a description of the principal risks and uncertainties for the remaining six months of the year.

Jacques Biton  
Chief Executive Officer.

## **Financial Information Officer**

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