ERYTECH Pharma S.A.

HALF-YEAR FINANCIAL REPORT

June 30, 2018

I. KEY FACTS OVER THE PERIOD

- Cash position of €165.4 million at the end of June 2018.

- The Group has started construction of its production site in the United States, at Princeton in New Jersey and increases its production capacities in Lyon, France.

- The Group announced that it plans to cease its development program for eryaspase in acute lymphoblastic leukemia (ALL), and to realign its product development activities for its eryaspase product candidate for the potential treatment of certain selected indications of solid tumors.

- In February 2018, the Group selected triple negative breast cancer as the next indication for eryaspase and will launch a Phase II clinical study (TRYbeCA2), which is currently being prepared, with recruitment of the first patients expected around year end.

- In April 2018, the Group announced the presentation of the Phase I study conducted in the United States evaluating eryaspase in combination with chemotherapy for the treatment of acute lymphoblastic leukemia (ALL), and the presentation of preclinical data on the erymethionase program, at the annual AACR (American Association for Cancer Research) conference in Chicago, USA.

- In May 2018, the Group:
  - announced the appointment of Alex Dusek as Vice President of Commercial Strategy and member of its management team to prepare the market launch of its product;
  - announced the finalization of the protocol for the Phase III clinical trial (TRYbeCA1) in pancreatic cancer with eryaspase as a second-line treatment.

- In June 2018, the Group:
  - announced the realignment of its product development activities for its eryaspase product candidate for the potential treatment of certain selected indications of solid tumors.
  - Confirmed intended launch of company-sponsored randomized Phase II trial in first-line pancreatic cancer, in addition to ongoing launch of Phase 3 trial in second-line pancreatic cancer.
  - The Company also announced that it was planning to cease its development program in ALL, including withdrawal of the marketing authorization application (MAA) that had been resubmitted for eryaspase in the treatment of relapsed or refractory ALL in Europe.

II. ACTIVITY REPORT

A. Group's situation and results from activities

a. Clinical trials

➔ GRASPA® in Europe (eryaspase)

As a reminder, in September 2015 the Group submitted a marketing authorization application to the European Medicines Agency (EMA) for the treatment of relapsed or refractory ALL. In November 2016 the Group announced the withdrawal of this application and that it was working on resubmitting it. The Group had launched the process for resubmitting this application to the EMA, which was done in October 2017. As mentioned in "Key facts over the period", the Group has been working on realigning its activities in solid tumors and has suspended developments in leukemias.

As a reminder, in pancreatic cancer, ERYTCH had announced positive results in its Phase IIb clinical study evaluating its eryaspase (GRASPA®) product candidate in combination with chemotherapy for the second-line treatment of metastatic pancreatic cancer. This multicentric and randomized Phase IIb study had met its two main predetermined evaluation criteria, showing significant progress both in terms of progression-free survival (PFS) and overall survival (OS) in patients treated with eryaspase in combination with chemotherapy. This Phase IIb study evaluated eryaspase, from L-asparaginase encapsulated in red blood cells, as second-line treatment in combination with chemotherapy for patients with metastatic cancer. In this study of 141 patients, conducted in France, eryaspase was added to the standard treatment (gemcitabine or FOLFOX) in comparison with standard treatment only, in a 2:1 randomization.
A Phase III study is currently being prepared for launch in 2018. This Phase III study, named TRYbeCA1, will aim to evaluate eryaspase as a second-line treatment in combination with a standard chemotherapy protocol compared to chemotherapy alone, in around 500 patients at 120-130 sites in the United States and Europe. The main evaluation criterion will be the overall survival rate (OS).
The Group also confirmed its intention to launch a Phase II proof-of-concept study with eryaspase as a first-line treatment of pancreatic cancer with approximately 120 patients, with patient enrollment expected to start in 2019.

The Group also selected triple negative breast cancer as the next therapeutic indication for the eryaspase product-candidate. A Phase II study, named TRYbeCA2, is currently being prepared for launch around the end of 2018.

➔ Eryaspase in the United States

ERYTECH has completed its Phase I clinical study. As mentioned in the "Key facts of the period", the Group has announced to cease its development program for eryaspase in acute leukemia and to focus its development efforts on solide tumors indications.

As part of the Phase III study into metastatic pancreatic cancer, the Group intends to launch this study in Europe and the United States. Discussions are now in progress with the FDA (US Food and Drug Administration).

b. Research & Development

➔ TEDAC

Alongside the development of eryaspase/GRASPA®, ERYTECH has conducted extensive research to identify additional therapeutic enzymes that could treat tumor metabolism and whose encapsulation in red blood cells would be relevant. The Group has received €7 million in funding from BPI France for this research program.

Under this project, a second drug candidate (erymethionase) is currently under development, which consists in the encapsulation of methionine gamma-lyase (MGL) in red blood cells.

The Group also announced new preclinical data on the combination of erymethionase with eryaspase.

Subject to ongoing preclinical toxicity studies which are progressing, the Group could launch the clinical development of erymethionase.

As at June 30, 2018, the TEDAC project had not yet reached milestone N°5, thus the Group did not receive any subsidy for the six-month period.

➔ Other ongoing projects

To meet the demand for eryaspase in new clinical studies and to ensure the supply of eryaspase for the initial marketing phases in the event of approval, the Company is in the process of building a new large-scale production site at Princeton (New Jersey) in the United States and increasing its production capacity at its Lyon site in France. ERYTECH expects these two capacity extensions to be operational for the production of clinical batches in 2019.

To complement its technology platform, the Company is developing the ERYMMUNE project in preclinical phase, which aims to treat cancers through immunotherapy, and the ERYZYME project that aims to treat rare metabolic diseases. The Company aim to obtain additional data from the proof of concept pre-clinical studies for ERYMMUNE which are also progressing.

c. Industrial property

As at June 30, 2018, ERYTECH owned 14 patent families, in France and in the rest of the world. The Group also has a license from the National Institutes of Health (USA) covering a diagnostic method for determining the effectiveness of L-asparaginase in patients.

d. Employees

As at June 30, 2018, the Group had 135 employees.

e. Finance

Results and losses
The net loss for the first six months of 2018 was €18,970 thousand, i.e. an increase of €4,889 thousand compared to the first half of 2017. Several factors explain this change:

- an increase in research and development expenses on potential indications in solid tumors;
- an increase in general and administrative expenses related to recruitment costs and development costs of the US subsidiary;
- an increase in clinical costs and particularly in the fees of consultants and scientific experts due to the preparation of the launch of the Phase III study in metastatic pancreatic cancer and in the preparation of the Phase II study into triple negative breast cancer;
- the cross-functional increase in personnel expenses related to the increase in the number of employees.

The total expenses related to R&D and clinical trials was €16,752 thousand for the first half of 2018, compared to €12,082 thousand for the first half of 2017.

Financial income over the period is favorably impacted with a €2,4 million financial gain due the conversion of the USD bank account.

Cash consumption amounted to €20,093 thousand for the first half of 2018.

Cash and cash equivalents

Cash and cash equivalents stood at €165.4 million at June 30, 2018.

B. Forecasts

The second half of 2018 will be a major semester regarding clinical developments with:

- ➔ the launch of the TRYbeCA1 Phase III clinical study into metastatic pancreatic cancer, with the recruitment of the first patient planned for the end of the third quarter;
- ➔ the launch of the TRYbeCA2 Phase II clinical study into triple negative breast cancer, with the recruitment of the first patient around year end.

C. Significant events between July 1, 2018 and preparation of this report

Not applicable

D. Information concerning related parties

Transactions with related parties during the first half of 2018 are available in the notes to the interim condensed consolidated statements issued in compliance with IAS 34 hereafter (see Note 5.10 – Related parties).

E. Risks and uncertainties

The risks and uncertainties likely to have a significant impact on the Company's financial situation and results are described in "Risk factors" section, of the 2017 20-F Document filed with the US financial markets authority (*Securities and Exchange Commission* – SEC) on May 23, 2018.

The Group does not anticipate any changes in these risk factors over the half-year, either in their nature or their level, and has not identified, as at the date of this document, any other risks and uncertainties for the first six months of the fiscal year that had not already been indicated in this chapter.

III. UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2018

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF NET INCOME (LOSS) AND UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(Amounts in thousands of euros)	Notes	For the six-months period ended June 30, 2018	2017
		€'000	€'000
Operating income			
Revenues			
Other income	**5.1**	2,265	1,788
Total operating income	**5.1**	**2,265**	**1,788**
Operating expenses			
Research and development	**5.2, 5.3**	(16,752)	(12,082)
General and administrative	**5.2, 5.3**	(7,393)	(3,895)
Total operating expenses		**(24,145)**	**(15,977)**
Operating loss		**(21,880)**	**(14,189)**
Financial income	**5.5**	2,966	160
Financial expenses	**5.5**	(42)	(47)
Financial income		**2,924**	**114**
Income tax		(14)	(5)
Net loss		**(18,970)**	**(14,081)**
Elements that may be reclassified subsequently to income (loss)			
Foreign subsidiary – Currency translation adjustment		14	(30)
Elements that may not be reclassified subsequently to income (loss)			
Remeasurement of defined benefits liabilities		(46)	54
Tax effect		16	(19)
Other comprehensive income (loss)		**(17)**	**6**
Total comprehensive income (loss)		**(18,987)**	**(14,075)**
Basic / Diluted loss per share (€/share)		**(1.06)**	**(1.42)**

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in euros '000)	Notes	As of June 30, 2018 €'000	As of December 31, 2017 €'000
ASSETS			
Non-current assets			
Intangible assets	**6.1**	1,629	53
Property, plant and equipment, net	**6.1**	2,759	3,406
Other non-current financial assets	**6.1**	852	234
Total non-current assets		**5,241**	**3,693**
Current assets			
Inventories		259	176
Trade and other receivables	**6.2**	-	76
Other current assets	**6.3**	11,237	5,791
Cash and cash equivalents	**6.4**	165,421	185,525
Total current assets		**176,916**	**191,568**
TOTAL ASSETS		**182,156**	**195,261**

	Notes	As of June 30, 2018	As of December 31, 2017
LIABILITIES AND SHAREHOLDERS' EQUITY		**€'000**	**€'000**
Shareholders' equity			
Share capital		1,794	1,794
Premiums related to share capital		281,745	281,785
Reserves		(100,567)	(68,346)
Translation reserve		(190)	(203)
Net loss for the period		(18,970)	(33,530)
Total shareholders' equity	**6.5**	**163,812**	**181,419**
Non-current liabilities			
Long-term provisions	**6.6**	322	214
Financial liabilities – non-current portion	**6.7**	1,630	2,019
Deferred tax		-	3
Total Non-current liabilities		**1,952**	**2,236**
Current liabilities			
Financial liabilities – current portion	**6.7**	796	824
Trade and other payables		12,366	8,076
Other current liabilities	**6.8**	3,231	2,706
Total current liabilities		**16,392**	**11,606**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**182,156**	**195,261**

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS'EQUITY

(Amount in thousands of euros, except number of shares)

	Share Capital						
	Numbers of shares	**Amount**	**Premiums related to the share capital**	**Reserves**	**Translation reserve**	**Net (income) loss**	**Total shareholders' equity**
At January 1, 2017	**8,732,648**	**873**	**105,090**	**(48,247)**	**(165)**	**(21,913)**	**35,638**
Net loss for the period	-	-	-	-	-	(14,081)	(14,081)
Other comprehensive income	-	-	-	36	(30)	-	6
Total comprehensive income (loss)	-	-	-	**36**	**(195)**	**(14,081)**	**(14,075)**
Allocation of prior period loss	-	-	-	(21,913)	-	21,913	-
Issue of ordinary shares [(1)]	3,011,800	301	65,069	-	-	-	65,370
Treasury shares [(2)]	-	-	-	-	-	-	-
Share-based payment	-	-	-	738	-	-	738
At June 30, 2017	**11,744,448**	**1,174**	**170,159**	**(69,386)**	**(195)**	**(14,081)**	**87,672**
At January 1, 2018	**17,937,559**	**1,794**	**281,745**	**(68,386)**	**(203)**	**(33,530)**	**181,419**
Net loss for the period	-	-	-	-	-	(18,970)	(18,970)
Other comprehensive income	-	-	-	(30)	14	-	(17)
Total comprehensive income (loss)	-	-	-	**(30)**	**14**	**(18,970)**	**(18,987)**
Allocation of prior period loss	-	-	-	(33,530)	-	33,530	-
Issue of ordinary shares [(1)]	2,476	1	1	-	-	-	1
Treasury shares [(2)]	-	-	-	-	-	-	-
Share-based payment	-	-	-	1,380	-	-	1,380
At June 30, 2018	**17,940,035**	**1, 794**	**281,745**	**(100,567)**	**(190)**	**(18,970)**	**163,812**

(1) THE COMPANY COMPLETED A FOLLOW-ON OFFERING IN APRIL 2017, AND AN INITIAL PUBLIC OFFERING IN NOVEMBER 2017 IN THE US.
(2) AT JUNE 30, 2018, THE COMPANY HELD 2,500 TREASURY SHARES, UNCHANGED FROM DECEMBER 31, 2017.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS'EQUITY

(Amount in thousands of euros)	Notes	For the six-months period ended June 30, 2018	2017
		€'000	€'000
Cash flows from operating activities			
Net loss		(18,970)	(14,081)
Reconciliation of net loss and the cash used for operating activities			
Loss on exchange		(2,413)	-
Amortization and depreciation		458	252
Provision – non-current portion		62	57
Expense related to share-based payments		1,380	738
Interest expense		5	7
Income tax expense		14	(19)
Change in trade and payables in foreign currency		14	
Operating cash flow before change in working capital		**(19,449)**	**(13,047)**
Increase in inventories		(82)	(25)
Increase in trade and other receivables		76	(118)
Increase in other current assets	**6.3**	(5,447)	(2,824)
Increase in trade and other payables		4,290	1,331
Increase in other current liabilities	**6.8**	524	594
Decrease in provision – current portion		-	-
Change in working capital		**(638)**	**(1,041)**
Net cash flow used in operating activities		**(20,088)**	**(14,088)**
Cash flows from investing activities			
Acquisition of property, plant and equipment	**6.1**	(1,402)	(722)
Acquisitions of intangible assets	**6.1**	-	(1)
Acquisitions of non-current financial assets	**6.1**	(618)	2
Net cash flow used in investing activities		**(2,020)**	**(720)**
Cash flows from financing activities			
Capital increases, net of transaction costs	**6.5**	-	65,370
Proceeds from borrowings	**6.7**	-	420
Repayment of borrowings	**6.7**	(418)	(47)
Treasury shares		-	-
Net cash flow from financing activities		**(418)**	**65,743**
Change rate effect on cash in foreign currency		2,431	(30)
Increase / Decrease in cash and cash equivalents		**(20,094)**	**50,905**
Cash and cash equivalents at the beginning of the period		185,514	37,646
Cash and cash equivalents at the close of the period	**6.10**	165,421	88,551
Supplemental disclosure of cash flows information			
Cash paid for interest		38	-
Cash paid for income tax		-	-

IV. NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These notes are an integral part of the interim condensed consolidated financial statements as at June 30, 2018. The financial statements were approved by the Board of Directors on September 7, 2018.

The Group comprises the parent company, ERYTECH Pharma S.A., and a wholly owned subsidiary located in the United States, ERYTECH Pharma Inc.

I. Description of the business

The Group's main activity is research and development in the areas of treatment of solid tumors and other orphan diseases.

Since its inception, the Group has concentrated its efforts on:

- the development of a patented technology based on the encapsulation of molecules into red blood cells, offering an innovative approach to the treatment of solid tumors and other orphan diseases. The development of the main product, Graspa®, which began when the Group was founded, has led to the issuing of 14 patent families held in the Group's name. The Group has also implemented a patented industrial process capable of producing clinical batches of Graspa®, and capable of meeting demand when marketing the product.
- The implementation of clinical programs in order to validate Graspa® initially in terms of safety of use and toxicology through a Phase I clinical study in ALL in adult and pediatric patients with relapsed ALL. Based on the results obtained, the Group performed a Phase II clinical study that likewise demonstrated the product's safety in use and its efficacy in patients over 55 years of age with ALL. The Group completed a Phase III clinical study at the end of which ERYTECH Pharma S.A. submitted a marketing authorization application in September 2015 for approval to market GRASPA® in Europe for the treatment of ALL. After withdrawing this application in November 2016, the Group resubmitted the application in October 2017; for reasons of strategic direction, the Group ceased its developments in acute lymphoblastic leukemia in June 2018.

The Group announced in 2018 a strategic refocus on solid tumors. The Group has completed a Phase II clinical study with eryaspase for the treatment of second-line metastatic pancreatic cancer and is launching a Phase III study in that indication. The Group has also announced its intention to intensify developments in solid tumors with a Phase II study in triple-negative breast cancer and a Phase II proof-of-concept study in first-line pancreatic cancer.

The Group's business model is to develop its products up to the point of obtaining authorization for their commercialization in Europe and in the United States. Various distribution options are under review.

II. Major events of the period

Business update

In February, the Group announced the selection of triple negative breast cancer as the next target indication for eryaspase (TRYbeCA2 study). Metastatic triple negative breast cancer (TNBC) was selected as the next indication in order to extend the potential use of eryaspase to other solid tumors. This new stage marks the continued development of eryaspase in the area of solid tumors.

The Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency shared its comments on the Phase III (TRYbeCA1) study protocol under preparation for eryaspase in the second-line treatment of pancreatic cancer, confirming comments previously received from the US Food and Drug Administration. This Phase III study will aim to evaluate eryaspase in combination with a standard chemotherapy protocol compared to chemotherapy alone, in around 500 patients at 120-130 sites in the United States and Europe. The main evaluation criterion will be the overall survival rate (OS). An intermediate analysis should take place when two thirds of events have occurred. Launching of this Phase III pivotal study is in progress.

ERYTECH Pharma also presented preclinical data on the link between eryaspase and erymethionase (MGL encapsulated in red blood cells). These results show a promising therapeutic efficiency *in vitro* and *in vivo* of this combination therapy in a stomach cancer model, with an inhibition of tumor development *in vivo* and a reduction in the viability of tumor cells *in vitro*.

On June 24, 2018, the Group announced the realignment of its product development activities with its eryaspase product candidate for the potential treatment of certain selected indications of solid tumors. The Group also announced that it was planning to cease its development program in ALL, including the withdrawal of the MAA that had been resubmitted for eryaspase in the treatment of relapsed or refractory ALL.

As part of the launch of studies into other solid tumors, the Company also intends to work on the clinical development of eryaspase for the first-line treatment of pancreatic cancer as well as of solid tumors.

To meet the demand for eryaspase in new clinical studies and to ensure the supply of eryaspase for the initial marketing phases in the event of approval, the Group is in the process of building a new production site at Princeton (New Jersey) in the United States and increasing its production capacity at its Lyon site, in France. ERYTECH expects these expansions in capacity to be operational for the production of clinical batches in 2019.

Management

ERYTECH has appointed Alex Dusek as its Vice President Commercial Strategy and member of the executive team to prepare and lay the groundwork for commercial launch of the late-stage product candidates worldwide, with initial focus on the United States.

On June 28 and 29, 2018, shareholder Baker Brothers Advisors declared downward breaches of thresholds of 25% and 20% of the right vote on June 28 and 29, 2018 respectively to the AMF. Since June 30, 2018, the shareholder Baker Bros noticed to the AMF of a change in its position from its previous declaration by declaring the resignation on July 13, 2018 of the two censors appointed on March 9, 2018.

On June 28 and 29, 2018, shareholder BVF Partners LP declared upward breaches of thresholds of 10% and 15% of the voting rights on June 28 and 29, 2018 respectively to the AMF. Since June 30, 2018, shareholder BVF Partners LP declared upward breaches of thresholds of 20% on July 16, 2018.

Equity incentive allocation plan

The Board of Directors held on January 7, 2018 and the Chief Executive Officer granted the share-based payments as follows :

- 40,500 free shares (AGA_{2016}) to Senior management
- 40,500 share warrants (BSA_{2017}) to independent Board members
- 113,940 free shares (AGA_{2017}) to ERYTECH Pharma S.A. employees

- 97,203 Stock Options (SO_{2017}) to ERYTECH Pharma Inc employees.

III. Basis of preparation and statement of compliance

The accompanying Unaudited Interim Condensed Consolidated Financial Statements and related notes (the "Unaudited Interim Condensed Consolidated Financial Statements") present the operations of Erytech Pharma S.A. and its subsidiary, Erytech Pharma Inc., incorporated in April 2014, which headquarters are located at 185 Alewife Brook Parkway Suite 410, Cambridge, Massachusetts – United States of America.

The Unaudited Interim Condensed Consolidated Financial Statements as of June 30, 2018 and for the 6 month periods ended June 30, 2018 and 2017 have been prepared under the responsibility of the management of the Group in accordance with the underlying assumptions of going concern as the Group's loss-making situation is explained by the innovative nature of the products developed, therefore involving a multi-year research and development phase.

The Unaudited Interim Condensed Consolidated Financial Statements as of June 30, 2018 and for the 6 month periods ended June 30, 2018 and 2017 have been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standard Board ("IASB") and were approved and authorized for issuance by the Board of Directors of the Company on September 7, 2018.

The Unaudited Interim Condensed Financial Statements do not include all disclosures required for annual financial statements and should therefore be read in conjunction with the consolidated financial statements for the year ended December 31, 2017.

The Group is not subject to significant seasonal effects as no revenue has been generated so far from its product candidates.

All amounts are expressed in thousands of euros, unless stated otherwise

IV. Significant accounting policies

The half-year financial statements are presented in euros which is the functional currency of the Group.

Except for the standards applicable as of January 1, 2018 described below, the accounting policies and methods applied in the preparation of interim financial statements are the same as those applied to prepare the financial statements as of December 31, 2017.

Standards, amendments and interpretations effective from the period beginning on January 1, 2018

The following standards and amendments, published by the IASB and listed below, were applied from January 1, 2018

- IFRS 9 – Financial Instruments: Classification and Measurement of Financial Assets and Liabilities: applicable on January 1, 2018;
- IFRS 15 – Revenue from contracts with customers :applicable on January 1, 2018
- Annual improvements of IFRS (2014 - 2016): applicable on January 1, 2018
- Amendments to IFRS 2 – Classification and measurement of share based payments: applicable on January 1, 2018
- IFRIC 22 Interpretation : Foreign Currency Transactions and Advance Consideration: applicable on January 1, 2018
- IAS 40 – Transfer of Investment Property

These new standards do not have any significant impact on the Group's results or financial situation

New standards published by the IASB, applicable in advance from the period beginning on January 1, 2018

- IFRIC 23 interpretation – Uncertainty over Income Tax Treatments – applicable on January 1, 2019;
- Annual improvements of IFRS (2015–2017).

The Group has not applied any of these new amendments in advance; they will not have any significant impact on the results or financial position.

New standards published but not yet in force

IFRS 16 – Leases

IFRS 16 replaces the existing standards in terms of leases, notably IAS 17 "Leases", IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC-15 "Operating Leases – Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

The Group has finalized the preliminary evaluation of the potential impact on its consolidated financial statements but not yet the detailed evaluation. The consequences on its financial statements of adopting IFRS 16 during its initial adoption period will depend on future economic conditions, including the Group's borrowing rate at January 1, 2019, the composition of its lease portfolio, its last valuation date concerning the potential exercising of lease renewal options, and its choices regarding the application of simplification measures and exemptions relating to accounting.

Until now, the most significant impact identified relates to the fact that the Group will recognize new assets and liabilities under simple office leases for the sites in Lyon, France, and in Boston and Princeton in the United States.

In addition, the nature of charges related to these leases will change, since IFRS 16 replaces accounting on a straight-line basis for expenses in respect of operating leases with an amortization charge for "right to use" assets and with an interest charge for liabilities related to leases.

The Group does not expect that application of the new standard will have a significant impact on its finance lease agreements.

Presentation

The unaudited interim condensed consolidated statements of income (loss) classifies expenses and income by function.
The comparative information is presented using an identical classification.
The unaudited interim condensed consolidated statements of cash flows was prepared according to the indirect method.
The unaudited interim condensed consolidated financial statements are prepared in accordance with the principles of going concern and the permanence of accounting methods.

Use of estimates

Preparation of the financial statements in accordance with the rules prescribed by the IFRS requires the use of judgments and the formulation of estimates having an impact on the financial statements. These estimates can be revised where the circumstances on which they are based change. The actual results may therefore differ from the estimates initially formulated. The main judgments and estimates used are described in the annual

financial reports. The use of estimates and judgments relate primarily to the measurement of share-based payments (Note 5.3).

Segment reporting

In accordance with IFRS 8 Operating Segments, reporting by operating segment is derived from the internal organization of the Group’s activities; it reflects management's viewpoint and is established based on internal reporting used by the chief operating decision maker (the Chairman - CEO) to allocate resources and to assess performance.

The Group operates in a single operating segment.

The operating segment is subject to individual monitoring for internal reporting purposes, according to performance indicators.

V. Notes related to the consolidated statements of net income (loss)

5.1 Other income

Other operating income is composed of the following:

(in thousands of euros)	For the six-months period ended June 30, 2018	2017
Research Tax Credit	2,247	1,736
Subsidies	-	-
Other income	18	52
Total	**2,265**	**1,788**

The operating income was primarily generated by the CIR research tax credit.

Other income totaled €18 thousand and €52 thousand in 2018 and 2017, respectively, representing the revenue recognition of re-invoicing to ORPHAN Europe within the context of the NOPHO study in 2018.

French Research Tax Credit (Crédit Impôt Recherche – CIR) increased by €511 thousand at June 30, 2018; this increase corresponds to the increase in clinical study activities, particularly the preparation for launching a Phase III study on pancreatic cancer and also the Phase II study into triple negative breast cancer.

5.2 Operating expenses by nature

For the six-months ended June 30, 2018 (amounts in thousands of euros)	Research and development expenses	*of which other R&D expenses*	*of which clinical studies*	General and administrative expenses	Total
Consumables	**702**	*446*	*256*	**70**	**772**
Rental and maintenance	**423**	*160*	*264*	**437**	**860**
Services, subcontracting and fees	**9,926**	*2,502*	*7,425*	**2,753**	**12,679**
Personnel expenses	**5,525**	*1,546*	*3,979*	**3,083**	**8,607**
Other	**56**	*21*	*35*	**711**	**768**
Depreciation and amortization	**118**	*30*	*88*	**340**	**458**
Total	**16,752**	***4,705***	***12,047***	**7,393**	**24,145**

For the six-months ended June 30, 2017 (amounts in €'000)	Research and development expenses	*of which other R&D expenses*	*of which clinical studies*	General and administrative expenses	Total
Consumables	**821**	*463*	*358*	**31**	**852**
Rental and maintenance	**388**	*92*	*296*	**281**	**669**
Services, subcontracting and fees	**7,056**	*1,429*	*5,627*	**1,243**	**8,298**
Personnel expenses	**3,669**	*983*	*2,686*	**1,922**	**5,591**
Other	**29**	*2*	*28*	**278**	**307**
Depreciation and amortization	**119**	*13*	*106*	**140**	**259**
Total	**12,082**	***2,981***	***9,101***	**3,895**	**15,977**

"Intellectual property" was reclassified in 2018 as "Other research and development expenses".

Research and development expenses were up by €4,670 thousand, primarily due to:

- an increase in third-party services of €2,870 thousand related to the launch of Phase III clinical studies into pancreatic cancer in Europe and the United States and into triple negative breast cancer;
- an increase in personnel costs of €1,856 thousand (see Note 5.3).

General and administrative expenses were up by €3,498 thousand, primarily due to:

- an increase of €1,510 thousand in third-party services, including €470 thousand of operating expenses related to the production site construction project in the United States and €150 thousand for SOX compliance;
- an increase in personnel costs of €1,161 thousand (see Note 5.3).

5.3 Personnel expenses

Personnel costs are broken down as follows:

For the six-months ended June 30, 2018 (amounts in €'000)	Research and development expenses	*of which other R&D expenses*	*of which clinical studies*	General and administrative expenses	Total
Wages and salaries	**3,655**	*970*	*2,686*	**1,725**	**5,381**
Share-based payments	**644**	*192*	*452*	**474**	**1,118**
Social security expenses	**1,226**	*384*	*842*	**883**	**2,109**
Total personnel expenses	**5,525**	***1,546***	***3,979***	**3,083**	**8,607**

For the six-months ended June 30, 2017 (amounts in €'000)	Research and development expenses	*of which other R&D expenses*	*of which clinical studies*	General and administrative expenses	Total
Wages and salaries	**2,354**	*553*	*1,801*	**1,034**	**3,388**
Share-based payments	**376**	*114*	*262*	**362**	**738**
Social security expenses	**939**	*317*	*622*	**526**	**1,465**
Total personnel expenses	**3,669**	***983***	***2,686***	**1,922**	**5,591**

The increase in personnel expenses of €3,016 thousand is mainly due to the increase in wages and salaries following the increase in employee staff (116 headcount as of December 31, 2017, to 135 as of June 30, 2018). As of June 30, 2017, the employee headcount was 94.

Share-based payments (IFRS 2)

The Board of Directors held on January 7, 2018 and the Chief Executive Officer granted the share-based payments as follows :

- 40,500 free shares (AGA_{2016}) to Senior management
- 40,500 share warrants (BSA_{2017}) to independent Board members
- 113,940 free shares (AGA_{2017}) to ERYTECH Pharma S.A. employees
- 97,203 Stock Options (SO_{2017}) to ERYTECH Pharma Inc employees.

In accordance with IFRS 2, the Company valued these 40,500 share warrants using the Black–Scholes valuation model.

In accordance with IFRS 2, the Company performed a valuation of 154,440 free performance shares using the Monte Carlo valuation model.

In accordance with IFRS 2, the Company performed a valuation of 97,203 stock options using the Black–Scholes valuation model.

At June 30, 2018, the share warrants, stock options and free shares for the 2018 plan are as follows:

	AGA	SO	BSA
Date of allocation	jan 07-18	jan 07-18	jan 07-18
Number of shares allocated	154 440	97 203	40 500
Valuation model	Monté Carlo	Black & Scholes	Black & Scholes
Exercise price	20.1218 €	18.0000 €	18.0000 €
Expected dividends	0%	0%	0%
Volatility	42.17%	43.94%	43.94%
Maturity	2 to 3 years	6 to 6.5 years	5.5 to 6.5 years
Risk-free rate	T1 : -0.5248% T2 : -0.4418% T3 : -0.3004%	T1 : 0.1391% T2 : 0.2095%	T1 : 0.0688% T2 : 0.1391% T3 : 0.20954%
Allocation fair value	1,145,377 €	730,542 €	300,196 €
Amount recorded as of June 30, 2018	262,314 €	154,677 €	86,379 €

The fair value of the plan was estimated at €2,176 thousand. This expense will be recorded gradually over the duration of the 3-year plan in accordance with IFRS 2 (graded vesting method). An expense of €502 thousand was recognized in the unaudited consolidated statement of income (loss), under “Research and development” personnel costs for €237 thousand, under “general and administrative” personnel costs for €178 thousand and under “other” expenses for €86 thousand.

The expenses related to the previous allocation plans amounted to €877 thousand and an expense was recognized in the unaudited consolidated statement of income (loss), under “Research and development” personnel costs for €406 thousand, under “general and administrative” personnel costs for €296 thousand and under “other” expenses for €175 thousand.

5.4 Depreciation and amortization expenses

(in thousands of euros)	For the six-months period ended June 30, 2018	2017
Clinical studies	88	106
Other research and development expenses	30	13
Research and development expenses	118	119
General and administrative expenses	340	140
Total	**458**	**259**

5.5 Financial income

(in thousands of euros)	For the six-months period ended June 30, 2018	2017
Interest expense on finance leases	(3)	(5)
Interest expense related to loans	(3)	(3)
Other finance expenses	(36)	(39)
Total finance expense	**(42)**	**(47)**
Income from short term deposits	79	111
Other finance income	2,887	49
Total finance income	**2,966**	**160**
	2,924	**114**

Financial income increased significantly by €2,806 thousand at June 30, 2018. Financial income corresponds mainly to revaluation of the bank account in USD at June 30, 2018. The financial income impact reflects the difference between the rate on the opening date (€1 = $1.1993 on January 1, 2018) and the rate on the closing date (€1 = $1.1658 on June 30, 2018), i.e. €2,431 thousand. Other financial income corresponds to gains on investment currency transactions on swaps of €420 thousand.

Revenue from transferable securities corresponded to accrued interest on term accounts of €79 thousand as at June 30, 2018.

VI. Notes related to the unaudited interim condensed consolidated statement of financial position

6.1 Non-current assets

Intangible assets

(in thousands of euros)	As of June 30, 2018	As of December 31, 2017
Other intangible assets	1,830	234
Total historical cost	**1,830**	**234**
Accumulated amortization of other intangible assets	(201)	(180)
Total accumulated amortization and depreciation	**(201)**	**(180)**
Total, net	**1,629**	**53**

At June 30, 2018, investments relating to intangible fixed assets represented the transfer of capitalized costs for the new production process.
Intangible fixed assets at December 31, 2017 represented the acquisition of software.

Property, plant and equipment

(in thousands of euros)	As of January 1, 2018	Increase	Decrease	As of June 30, 2018
Laboratory equipment	974			974
Assets under construction	1,730	1,064	(1,799)	995
Plant, equipment, and tooling	1,121	154	203	1,478
General equipment, fixtures and fittings	1,855	136	-	1,992
Office equipment and computers	668	47	-	715
Total gross value	**6,349**	**1,402**	**(1,596)**	**6,154**
Accumulated depreciation of laboratory equipment	(930)	(20)	-	(950)
Accumulated depreciation of plant, equipment and tooling	(641)	(126)	-	(767)
Accumulated depreciation of general equipment, fixtures and fittings	(1,116)	(270)	-	(1,386)
Accumulated depreciation of office equipment and computers	(255)	(77)	-	(322)
Total accumulated depreciation	**(2,942)**	**(452)**	**-**	**(3,394)**
Total net value	**3,407**	**949**	**(1,596)**	**2,759**

Property, plant and equipment held under finance leases amounts to €76 thousand as of June 30, 2018 and €116 thousand as of December, 2017.

Non-current financial assets

(in thousands of euros)	As of June 30, 2018	As of December 31, 2017
Deposits	518	234
Capitalized prepayments	334	-
Total Other non-current financial assets	**852**	**234**

Non-current financial assets primarily represented:

- deposits paid for the leasing of offices in Boston (new agreement) and for taking up new premises in Lyon.
- a guarantee deposit of €334 thousand was also paid to the service provider (CRO) in charge of the Phase III clinical study into pancreatic cancer and into triple negative breast cancer.

No new leasing agreements were signed over the period.

6.2 Trade and related accounts receivable

(in thousands of euros)	As of June 30, 2018	As of December 31, 2017
Trade receivables	-	76
Total Trade and Other receivables	**-**	**76**

The receivables related mainly to the receivables on Orphan Europe as regards to the re-invoicing to ORPHAN Europe of the clinical study NOPHO.

6.3 Other current assets

(in thousands of euros)	As of June 30, 2018	As of December 31, 2017
Research Tax Credit	5,573	3,326
Tax receivables (e.g. VAT) and other receivables	1,317	1,114
Cash to be received from bank related to exercise of warrants	-	23
Prepayments	4,347	1,327
Total	**11,237**	**5,791**

The receivable corresponding to research tax credit in the balance sheet as at June 30, 2018 includes the research tax credit for 2017 and the first half of 2018.

The 2018 research tax credit was recognized at June 30, 2018 based on eligible costs already incurred by the Company.

As of December 31, 2017, prepayments were related to reservation invoice for raw materials and building lease. For the six-months period ended June 30, 2018, prepaid expenses correspond mainly to

- reservation invoices (raw materials) of €1,140 thousand paid to MEDAC as at June 30, 2018 ;
- vendors (CRO) invoicing for services not yet performed for the Phase III pancreatic cancer and Phase II triple negative breast cancer, amounting to € 2,508 thousand;
- building lease expenses.

6.4 Cash and cash equivalents

(in thousands of euros)	As of June 30, 2018	As of December 31, 2017
Cash and cash equivalents	165,421	185,525
Total cash and cash equivalents as reported in statement of financial position	**165,421**	**185,525**
Bank overdrafts	-	(11)
Total cash and cash equivalents as reported in statement of cash flow	**165,421**	**185,514**

The cash position is composed of the following items:

- At June 30, 2018:

  - €149,073 thousand of current accounts of which €348 thousand of accrued interest receivable;
  - €5,000 thousand of short term deposits with 30 days' notice renewable by tacit agreement;
  - €11,000 thousand of term accounts, maturing on January 1, 2019 but repayable early without penalties with 32 days' notice.

- As at December 31, 2017:

  - €174,525 thousand in current accounts;

- €11,000 thousand of term accounts, maturing on January 1, 2019 but repayable early without penalties with 32 days' notice.

6.5 Shareholders' equity

At December 31, 2017, the share capital comprised a total of 17,937,559 fully paid-up shares with a nominal value of €0.1 per share.

During the first half of 2018, the Board approved:

- On January 7, 2018 a capital increase amounted to €300 by exercise of share warrants fully subscribed and paid up at the nominal share value of €0.1, issuing 3,000 new shares
- On March 9, 2018 a capital increase amounted to €247.60 fully subscribed and paid up at the nominal share value of €0.1 by conversion of the issue premium.

At June 30, 2018, the Company held 2,500 treasury shares at the average price of €28.4, i.e. €71 thousand (same as at December 31, 2017), intended for future cancellation.

6.6 Provisions

The provisions can be detailed as follows:

(in thousands of euros)	As of **June 30, 2018**	**December 31, 2017**
Provision for retirement indemnities	322	214
Other Provisions	-	-
Total	**322**	**214**

	June 30, 2018	**December 31, 2017**
Discount rate	1.45%	1.30%
Wage increase	2%	2%
Social welfare contribution rate	Non-executive 44%	Non-executive 44%
	Executive 54%	Executive 54%
Age of retirement:	65-67 years	65-67 years
Mortality table	INSEE 2017	INSEE 2014

The regime for retirement indemnities applicable at the Parent Company, is defined by the collective agreement for the pharmaceutical industry in France.

The Company recognizes actuarial differences in other comprehensive income. The pension commitments are not covered by plan assets. The portion of the provision for which the maturity is less than one year is not significant

The provision was calculated using the retirement scheme of the collective agreement of the pharmaceutical industry and using the projected unit credit (PUC) method.

6.7 Financial liabilities

Financial liabilities by type

(in thousands of euros)	As of June 30, 2018	As of December 31, 2017
Financial liabilities related to finance leases	77	117
Bank overdrafts	-	11
Conditional advances	1,182	1,182
Bank loans	1,167	1,534
Total financial liabilities	**2,426**	**2,843**

Financial liabilities by maturity

Maturity dates of financial liabilities as of June 30, 2018 are as follows:

(in thousands of euros)	Less than one year	One to three years	Three to five years	More than five years	Total
Financial liabilities					
Bank loans	736	431	-	-	1,167
Conditional advances	-	-	-	1,182	1,182
Liabilities related to leases	60	17	-	-	77
Total Financial liabilities	**796**	**448**	**-**	**1,182**	**2,426**

Maturity dates of financial liabilities as of December 31, 2017 are as follows:

(in thousands of euros)	Less than one year	One to three years	Three to five years	More than five years	Total
Financial liabilities					
Bank loans	735	799	-	-	1,534
Bank overdrafts	11	-	-	-	11
Conditional advances	-	-	-	1,182	1,182
Liabilities related to leases	79	39	-	-	117
Total financial liabilities	**824**	**838**	**-**	**1,182**	**2,843**

6.8 Trade and other payables

(in thousands of euros)	As of June 30, 2018	As of December 31, 2017
Domestic vendors	1,743	2,335
Foreign vendors	6,491	2,631

Vendors - Accruals	4,132	3,211
Other	-	(101)
Total other current liabilities	**12,366**	**8,076**

Trade payables increased by €4,290 thousand as of June 30, 2018. They included €4,132 thousand of invoices not received. The increase in trade payables represented the increase in research and development activities in 2018.

6.9 Other current liabilities

	As of	
(in thousands of euros)	**June 30, 2018**	**December 31, 2017**
Taxation and social security	3,108	2,706
Deferred revenue	114	-
Other payables	9	-
Total other current liabilities	**3,231**	**2,706**

6.10 Related parties

Gil Beyen is Chairman and Chief Executive Officer of the Company; Jérôme Bailly is the Company's Chief Pharmacist and the Qualified Person. The other related parties are members of the executive committee and the Board of Directors.

The remuneration of related parties during the first half of fiscal year 2018 included €1,216 thousand of remuneration and €750 thousand relating to share-based payments.

	30.06.2018 (half year)			**31.12.2017 (full year)**		
In thousand of euros	*Salary / Fees*	*Retirement benefits*	*Share based payments*	*Salary / Fees*	*Retirement benefits*	*Share based payments*
Executive officers / VP and Qualified person	366	30	199	654	19	306
Executive committee	706	51	290	1 519	25	478
Board of directors	145	-	262	229	-	336
Total	**1 216**	**81**	**750**	**2 402**	**44**	**1 120**

There have been no significant changes since December 31, 2017 in the types of transaction undertaken with related parties.

The Group has no further related parties.

6.11 Financial instruments recognized in the consolidated statement of financial position and effect on net income (loss)

As of June 30, 2018 (in thousands of euros)	Carrying amount on the statement of financial position [1]	Fair value through profit and loss	Loans and receivables	Debt at amortized cost	Fair value
Non-current financial assets	852	-	852	-	852
Trade and other receivables	-	-	-	-	-
Other current assets	11,237	-	11,237	-	11,237
Cash and cash equivalents [2]	165,421	165,421	-	-	165,421
					-
Total financial assets	**177,510**	**165,421**	**12,090**	**-**	**177,510**
Financial liabilities – Non-current portion	1,630	-	-	1,630	1,630
Financial liabilities – Current portion [3]	796	-	-	796	796
Trade payables and related accounts [3]	12,366	-	-	12,366	12,366
					-
Total financial liabilities	**14,792**	**-**	**-**	**14,792**	**14,792**

As of December 31, 2017 (in thousands of euros)	Carrying amount on the statement of financial position [1]	Fair value through profit and loss	Loans and receivables	Debt at amortized cost	Fair value
Non-current financial assets	234	-	234	-	234
Trade and other receivables	76	-	76	-	76
Other current assets	5,790	-	5,790	-	5,790
Cash and cash equivalents [2]	185,525	185,525	-	-	185,525
					-
Total financial assets	**191,626**	**185,525**	**6,100**	**-**	**191,626**
Financial liabilities – Non-current portion	2,019	-	-	2,019	2,019
Financial liabilities – Current portion [3]	824	-	-	824	824
Trade payables and related accounts [3]	8,076	-	-	8,076	8,076
					-
Total financial liabilities	**10,919**	**-**	**-**	**10,919**	**10,919**

Note:

(1) The carrying amount of these assets and liabilities is a reasonable approximation of their fair value.

(2) Cash and cash equivalents are comprised of money market funds and time deposit accounts, which are measured using level 1 and level 2 measurements, respectively.

(3) The fair value of financial liabilities is determined using level 2 measurements.

Financial assets are not subject to revaluation. In the same way, financial liabilities are not affected by the revaluation of assets and liabilities.

6.12 Off-balance sheet commitments

There have been no significant changes since December 31, 2017. The Group has no other off-balance sheet commitments as compared to the year ended December 31, 2017.

6.13 Events after balance sheet date

The unaudited interim condensed consolidated statement of financial position and the unaudited interim condensed consolidated statement of income (loss) of the Group are adjusted to reflect the subsequent events that occur after the reporting date, but before the Unaudited Interim Condensed Consolidated Financial Statements are authorized for issue, if they provide evidence of conditions that existed at the reporting date.

The Group evaluated subsequent events that occurred after June 30, 2018 through the date of approval and authorization of issuance of the Unaudited Interim Condensed Consolidated Financial Statements and determined that there are no significant events that require adjustments or disclosure in such Unaudited Interim Condensed Consolidated Financial Statements.