VALNEVA

A European company (*Societas Europaea* or SE) with a Management and a Supervisory Board
Share capital: €11 383 243,14
Siège social: World Trade Center Lyon, Tour Oxygène,
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Lyon Companies Register (RCS) No. 422 497 560

SUMMARY ON THE GROUP SITUATION

ARTICLE R. 225- 81 OF THE FRENCH COMMERCIAL CODE

1. SITUATION OF THE COMPANY AND THE GROUP AND ITS ACTIVITY IN THE YEAR UNDER REVIEW

1.1 Presentation of the Valneva Group

Valneva is a fully integrated vaccine company that specializes in the development, manufacture and commercialization of innovative vaccines with a mission to protect people from infectious diseases through preventative medicine.

The Group seeks financial returns through focused Research & Development investments in promising product candidates and growing financial contributions from commercial products, striving towards financial self-sustainability.

Valneva's portfolio includes two commercial vaccines for travelers: one for the prevention of Japanese encephalitis and the second indicated for the prevention of cholera and, in some countries, prevention of diarrhea caused by LT-ETEC. The Group has proprietary vaccines in development including candidates against *Pseudomonas aeruginosa*, *Clostridium difficile* and Lyme borreliosis.

A variety of partnerships with leading pharmaceutical companies complement the Group's value proposition and include vaccines being developed using Valneva's innovative and validated technology platforms (EB66® vaccine production cell line, IC31® adjuvant).

Valneva is listed on Euronext-Paris and the Vienna stock exchange and has operations in France, Austria, United-Kingdom, Canada and Sweden with approximately 400 employees.

1.2 Activities of the Group: 2015 Annual operating highlights

Operating highlights for the Group for 2015 were as follows:

+ Acquisition of Crucell Sweden AB and all assets, licenses and privileges related to DUKORAL®, as well as a Nordics vaccine distribution business of the seller and its affiliates;
+ Confirmation of BliNK Biomedical's launch in financing;
+ Grant of exclusive worldwide license to Immune Targeting Systems for the development of hepatitis B vaccines in combination with the IC31®adjuvant;
+ Signature of an exclusive license agreement on EB66® cell line for human and veterinary vaccines in People's Republic of China;
+ Approval of an EB66®-based prototype influenza vaccine in Japan;
+ Direct control taken by Valneva over marketing and distribution of IXIARO®;
+ Renewal of the term of office of the Management Board members of Valneva SE;

- Signature of marketing and distribution agreements with PaxVax;
- Signature of US marketing and distribution services agreements with VaxServe for Japanese encephalitis vaccine IXIARO®;
- Positive Phase II Results for the *Clostridium difficile* vaccine candidate of Valneva;
- Update on DUKORAL® vaccine in Canada.

(a) Acquisition of Crucell Sweden AB and all assets, licenses and privileges related to DUKORAL®, as well as a Nordics vaccine distribution business of the seller and its affiliates

Signature of the Sale and Purchase Agreement

On January 5, 2015, Valneva announced that it has entered into a Sale and Purchase Agreement with Crucell Holland B.V. to acquire Crucell Sweden AB and all assets, licenses and privileges related to DUKORAL®, as well as a Nordics vaccine distribution business of the seller and its affiliates (the "**Acquisition**"). The agreement entails in particular the purchase of the manufacturing site in Solna (Sweden) and comprises the transfer of approximately 115 employees (FTEs) within the Group Valneva.

The purpose of this transaction, for consideration amounting to €45 million, is to:

- complement Valneva's product portfolio that includes a Japanese encephalitis vaccine, by creating critical mass in traveler's vaccines and adding commercial infrastructure;
- add cash generating assets with long-term upside potential;
- unlock synergies to further support Valneva's development towards financial sustainability;
- create a fully-integrated vaccines player with scarcity value in an attractive pharmaceutical segment.

Financing of the Acquisition

In order to finance the Acquisition and progress the development of its clinical stage vaccine pipeline products, Valneva announced, on January 12, 2015, its intention to launch a capital increase with preferential subscription rights, for a gross amount of approximately €45 million (the "**Rights Issue**"), of which, €30 million will be used to finance the Acquisition. The remaining amount will allow Valneva to efficiently integrate the acquired assets and pursue the on-going development of its pre-commercial products portfolio.

In this context, the Company had already received the support of two of its principal shareholders, Groupe Grimaud La Corbière and Bpifrance Participations, as well as from certain funds affiliated with two international life sciences investors, Athyrium Capital Management LLC and Capital Ventures International, for approximately €20 million, *i.e.* approximately 44% of the contemplated Right Issue.

<u>Main terms and conditions of the Rights Issue:</u>

- The share capital increase carried out with preferential subscription rights of holders of ordinary shares by the issuance of 18,231,466 new ordinary shares at a price of €2.47 per share (comprised of the €0.15 nominal value and issue premium of €2.32 per share), representing a total gross amount of €45,031,721.02;
- The subscription period for the new shares ran from January 15, 2015 to the close of trading on January 28, 2015;

- Each holder of Valneva's ordinary shares received one preferential subscription right for each ordinary share registered for accounting purposes in their securities accounts as of the close of trading on January 14, 2015. 34 preferential subscription rights entitled the holder to subscribe on the basis of exact rights ("*à titre irréductible*") to 11 new ordinary shares. Subscriptions for excess shares subject to reduction ("*à titre réductible*") were accepted;
- The offer was opened to the public in France only.

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Additionally, in order to finance the balance of the price of the Acquisition, the Swedish subsidiary of Valneva SE has entered into a €15 million term loan facility from funds managed by Athyrium Capital Management LLC. The loan, which is guaranteed by Valneva SE and by securities on the acquired assets, extends over a 5-year period and carries a fixed yearly interest rate of 11%, payable in cash on a quarterly basis.

Successful completion of the €45 million capital increase

On February 4, 2015, Valneva announced the successful completion of its Rights Issue. The final gross proceeds of the Rights Issue amount to €45,031,721.02, corresponding to the issuance of 18,231,466 new ordinary shares, at a subscription price of €2.47 per new ordinary share. Total subscription orders for the Rights Issue amounted to approximately €81.1 million, *i.e*. a subscription rate of approximately 180%.

- 17,272,706 new ordinary shares were subscribed on the basis of exact rights by irrevocable entitlement ("*à titre irréductible*"), representing approximately 94.7% of the new ordinary shares to be issued.
- Subscription orders for excess shares on a reducible basis ("*à titre réductible*") amounted to 15,551,112 new ordinary shares and were, as a result, satisfied only in part, *i.e*. for 958,760 new ordinary shares.
- Final subscription ratio of the 18.2 million offered new shares: 180%.
- Final gross proceeds: €45,031,721.02
- Estimated net proceeds: €42 million.
- Preferential subscription rights not exercised at the end of the subscription period, *i.e.* at the close of trading on January 28, 2015, automatically became null and void.

Upon completion of the Rights Issue and fulfillment of their subscription commitments, Groupe Grimaud la Corbière, Bpifrance Participations, Capital Ventures International and Athyrium held respectively 16.2%, 10%, 3% and 2.1% of the Company's share capital[1].

The settlement-delivery and the listing of the new ordinary shares took effect on February 6, 2015.

Closing of the Crucell Sweden AB acquisition

On February 10, 2015, Valneva announced that it had completed the acquisition of Crucell Sweden AB, the Nordics vaccine distribution business of the seller (Crucell Holland B.V., a subsidiary of Johnson & Johnson) and its affiliates, and all assets, licenses and privileges related to DUKORAL®.

[1] Rates calculated in reference to a share capital totaling 74,583,299 Valneva's ordinary shares with a nominal value of €0.15 each.

(b) Confirmation of BliNK Biomedical's launch in financing

On December 11, 2014, the Company and UK company BliNK Therapeutics Ltd. ("**BliNK Therapeutics**") announced the creation of a private company specialized in the discovery of innovative monoclonal antibodies to be headquartered in Lyon, France, to be named "BliNK Biomedical SAS".

The creation of BliNK Biomedical SAS is aiming at giving Valneva's antibody business the necessary structure and prospects to expand into novel antibody discovery fields outside of infectious diseases, while offering a new investment opportunity for future additional shareholders. BliNK Biomedical SAS' powerful B cell technology has the objective of enabling the isolation of antibody-producing cells for difficult targets, for which other platforms have failed to deliver. This cutting-edge technology is based on the combination of two validated platforms, BliNK Therapeutics' IVV and Valneva's VIVA│Screen®, which have already both succeeded in delivering high quality human antibodies. With the combined highly efficient process, BliNK Biomedical SAS intends to obtain an unprecedented capability to screen and identify extremely rare antibody-secreting cells.

The closing of the transaction for the creation of BliNK Biomedical SAS was completed in January 2015, with a retroactive effect on January 1, 2015. Today, BliNK Biomedical SAS is held by Valneva SE (for approximately 48.2%), and by the historic investors of BliNK Therapeutics Ltd. (Kurma Biofund I and different funds managed by its partner, Idinvest), Cancer Research Technology and the funders of BliNK Therapeutics Ltd. (together, for approximately 51.8%).

(c) Grant of exclusive worldwide license to Immune Targeting Systems for the development of hepatitis B vaccines in combination with the IC31® adjuvant

On January 29, 2015, Valneva and the British company Immune Targeting Systems (a company supported by Novartis Venture Fund, HealthCap, Truffle Capital, Esperante Ventures and London SME, and focused on the development of T-cell vaccines to highly mutated viruses and to cancers utilizing its proprietary long-peptide based Depovaccine® platform) announced that they have signed an exclusive worldwide agreement.

The agreement grants Immune Targeting Systems the rights to research, develop and commercialize Hepatitis B vaccine candidates in combination with Valneva's IC31® adjuvant.

Hepatitis B is a serious infection of the liver caused by the hepatitis B virus. According to the "Hepatitis B" foundation, an estimated 1 million people worldwide die each year from hepatitis B and its complications. In the US alone, over 12 million people have already been infected (1 out of 20 people). Although there are several approved drugs to treat Chronic Hepatitis B (CHB), they only slow down the virus and rarely get rid of it completely. Identifying a functional or complete cure for hepatitis B infection remains a significant area of unmet medical need.

Financial terms of the agreement were not disclosed but include an upfront payment. If successful, product candidates from these agreements may lead to additional cash payments for achieved milestones along with future royalties on net sales.

(d) Signature of an exclusive license agreement on EB66® cell line for human and veterinary vaccines in People's Republic of China

On March 17, 2015, Valneva announced the signature of an exclusive license agreement with the Chinese company Jianshun Biosciences Ltd., to commercialize Valneva's EB66® cell line for the manufacturing of human and veterinary vaccines in People's Republic of China.

The Partner, Jianshun Biosciences Ltd., headquartered in Lanzhou (People's Republic of China), provides bio process and technology services for Chinese biopharmaceutical companies. Dr. Luo Shun, founder and President of the company, is one of the "1,000 people plan" experts[2] who have been nominated by the Central Government to work in China and promote innovation and technological development primarily in the high-tech and financial industries. Dr. Luo Shun worked in the USA for Amgen and for Genentech.

(e) Approval of an EB66®-based prototype influenza vaccine in Japan

In March 2014, the Chemo-Sero-Therapeutic Research Institute (also known as « **Kaketsuken** ») received a marketing authorization in Japan for a pandemic influenza vaccine H5N1, the first human vaccine ever produced in the EB66® cell line. In September 2014, the Japanese laboratory submitted, for manufacturing and marketing approval, a prototype vaccine, *i.e.* a model vaccine developed and manufactured using a model virus for pandemic vaccine production, with immunogenicity and safety confirmed in humans.

Then, on March 26, 2015, Valneva announced the receipt, by Kaketsuken, of the manufacturing and marketing approval for its cell culture pandemic influenza vaccine (prototype) (General name: Emulsion Cell Culture Influenza HA Vaccine (Prototype)). This is a result of a co-development between Kaketsuken and GlaxoSmithKline ("**GSK**")[3].

Receiving approval for the prototype vaccine means that if a pandemic occurs in Japan, then any type of pandemic Influenza vaccine - once the actual virus strain responsible is identified - can be manufactured and supplied to the Ministry of Health in a short period of time. As a matter of fact, Kaketsuken has recently completed the construction of a state-of-the-art manufacturing facility in Kumamoto enabling the company to produce pandemic vaccine for more than 40 million people within six months after the virus strain for vaccine production is decided. This represents a production capacity of more than 80 million doses.

(f) Direct control taken by Valneva over marketing and distribution of IXIARO®

On June 22, 2015, Valneva announced that it has decided to take direct control over the marketing and distribution of IXIARO®, its travel vaccine against Japanese encephalitis, by terminating the marketing and distribution agreement with GSK related to IXIARO®, signed in 2006 with Novartis Vaccines.

This important step, which has been possible because of specific contract provisions following the completion of the asset swap between Novartis and GSK, supports the Group's strategy to build a leading, independent and fully integrated vaccines biotech company, and unlock synergies with DUKORAL®, Valneva's recently acquired second travel vaccine.

Valneva expects to significantly improve sales margins and profitability from IXIARO®, its largest revenue contributor, as of 2016 and beyond. Prior to termination of its marketing and distribution agreement, Valneva recognized only 50% of in-market net sales revenues of IXIARO® to private travelers and two thirds of US military sales. Going forward, Valneva will recognize 100% of sales from markets where it distributes the product directly, and an improved margin in other markets under country-specific marketing and distribution arrangements. In addition, the Company believes that the

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[2] See more at: http://www.china-briefing.com/news/2012/11/22/chinas-long-term-plan-to-import-thousands-of-highly-qualified-foreigners.html.

[3] The EB66® cells used to develop the vaccine were established using Valneva's technology, exclusively licensed to GSK for influenza vaccine development and sub-licensed to Kaketsuken.

Group will be able to continue to grow the sales of the product by entering in markets in which IXIARO® is approved but not being marketed currently.

Following a transition period, which has now ended in the USA, the Nordic countries, Canada, Poland, Germany, Austria, France and Spain, and is anticipated to end in the coming weeks regarding other territories, Valneva will market and distribute its Japanese encephalitis vaccine through a combination of its own sales and marketing teams and country-specific marketing and distribution arrangements with established local partners. In particular, Valneva will be able to fully leverage its sales and marketing teams in the Nordic countries (Sweden, Norway, Denmark and Finland), which were inherited through the acquisition of Crucell Sweden AB in early 2015, as well as its newly established teams in France, UK and Canada. Now, Valneva also distributes IXIARO® directly to its most important customer, the US military, as the Group had done from 2009 through 2013.

(g) Renewal of the term of office of the Management Board members of Valneva SE

On June 26, 2015, Valneva announced that the term of office of its Management Board members - Thomas Lingelbach, President and CEO, Franck Grimaud, Deputy CEO and Reinhard Kandera, CFO – which were due to expire in June 2016, has been renewed by the Company's Supervisory Board for a period of 3 years, *i.e.* until June 2019.

(h) Signature of marketing and distribution agreements with PaxVax

On July 23, 2015, Valneva and the company PaxVax Inc. ("**PaxVax**"), a fully integrated specialty vaccine company, announced the signature of marketing and distribution agreements for their respective travel vaccines, DUKORAL® and VIVOTIF®.

Under the terms of these agreements, Valneva distributes and promotes PaxVax's typhoid vaccine VIVOTIF® in Canada and the Nordic countries (Sweden, Norway, Denmark and Finland), while PaxVax distributes and promotes Valneva's cholera vaccine DUKORAL® in Italy, Spain and Portugal.

Valneva and PaxVax have established sales and marketing teams with broad experience in the travel vaccine industry. The Company took over the very renowned distribution activities "SBL Vaccin Distribution" in Sweden through the acquisition of DUKORAL® in February 2015, while PaxVax has established legal commercial infrastructure in Italy and Spain since its acquisition of VIVOTIF® in July 2014. Valneva also opened a fully-owned commercial infrastructure in Canada where the DUKORAL® vaccine is already widely distributed.

(i) Signature of US marketing and distribution services agreements with VaxServe for Japanese encephalitis vaccine IXIARO®

On November 9, 2015, Valneva announced the signature of marketing and distribution services agreements between its US subsidiary Intercell USA Inc. and VaxServe Inc. ("**VaxServe**"), for the marketing and distribution of Valneva's Japanese encephalitis vaccine IXIARO® in the United States, for private sector customers.

VaxServe is a national healthcare supplier serving primary care physician offices, community immunization providers, immunizing pharmacies, travel clinics and corporations in the US VaxServe is a subsidiary of Sanofi Pasteur, which is the vaccine division of Sanofi, a world leader in the vaccine industry. This collaboration between Intercell USA and VaxServe is part of Valneva's strategy to commercialize IXIARO® through a combination of its own sales and marketing infrastructures and distribution agreements signed with established local partners, at favorable terms.

Under the terms of the agreements, VaxServe performs marketing and promotional services and distribute Valneva's Japanese encephalitis vaccine exclusively in the US private market, beginning December 18, 2015. Through the agreements, Valneva and VaxServe are working together to

increase the private market for IXIARO® vaccine in the U.S private market. The agreements do not include the distribution of the vaccine by VaxServe to the public market, including the US military and other federal governmental agencies, which Valneva handles directly.

(j) Positive Phase II Results for the *Clostridium difficile* vaccine candidate of Valneva

On November 30, 2015, Valneva announced positive Phase II results for its prophylactic vaccine candidate against *Clostridium difficile* ("***C. difficile***").

The key objectives of this Phase II trial have been met. The vaccine candidate generated strong immune responses against *C. difficile* toxins A and B, and the safety and tolerability profile was good.

Valneva's vaccine candidate is targeting the prevention of primary symptomatic *C.difficile* infection ("**CDI**"). The vaccine is designed to produce an immune response to neutralize the effects of *C. difficile* toxins A and B, considered to be largely responsible for CDI, which is emerging as a leading cause of life-threatening, healthcare-associated infections worldwide.

Valneva's *C. difficile* Phase II trial was a randomized, placebo-controlled, observer-blind multi-center trial designed to further study and confirm the candidate vaccine's safety, immunogenicity and proposed doses of immunizations in two different age groups (50 to 64 years of age and 65 years of age and older).

The study design was agreed with regulators in Europe and the US with the aim of potentially supporting a subsequent progression into Phase III.

The trial was conducted in Germany and the United States under an Investigational New Drug application ("**IND**") and included 500 volunteers who were randomized in several study groups: low-dose vaccine without adjuvant, high-dose vaccine with or without adjuvant (Aluminiumhydroxid), or placebo.

Valneva´s vaccine candidate was immunogenic at all doses and formulations tested, in that IgG and functional (neutralizing) antibody responses were seen.

The study met its primary endpoint in terms of identifying the dose/formulation with the highest seroconversion rate[4] against both toxins A and B on Day 56. The high-dose without adjuvant vaccine formulation generated a superior immune response.

The observed seroconversion rate, in this difficult to vaccinate older adults population, was considered at an appropriate response level and broadly in-line with published data from comparable prophylactic *C. difficile* vaccine trials.

The vaccine was generally safe and well tolerated in all treatment groups, and there were no severe local reactions noted in any group. The adverse events (AE profile) of all tested doses / formulations appear in a range comparable to other well tolerated vaccines.

Immune response and safety parameters will now be monitored until Day 210 and final study close-out is expected in the second quarter of 2016.

(k) Update on DUKORAL® vaccine in Canada

On December 23, 2015, Valneva provided an update on its acquired DUKORAL® vaccine.

The transition of the business from Crucell Holland B.V., the seller, including both the gradual takeover of transitional services and the full transfer and installation of all acquired assets, has been largely completed. Regulatory licenses together with other processes and systems are being transferred and integrated into Valneva and its newly created affiliates, including Valneva Canada, Inc. Synergies with

[4] Four-fold increase of IgG from baseline.

the rest of the Valneva Group are being implemented and are expected to have a positive financial impact in 2016.

In December 2015, Valneva announced that the Canadian health authority, Health Canada, had requested changes to the DUKORAL® product monograph. The updated product monograph and subsequent labeling refer to the "Prevention of diarrhea caused by cholera and/or LT-ETEC". LT-ETEC is the heat-labile toxin producing *Enterotoxigenic Escherichia coli*. *Enterotoxigenic Escherichia coli* ("**ETEC**") is a type of Escherichia coli and the leading bacterial cause of diarrhea in the developing world, as well as the most common cause of travelers' diarrhea.

Valneva expects that this change in product indications and changes to promotional campaigns may negatively impact DUKORAL® sales in Canada going forward. Although Valneva will continue to invest in growing the product by way of promotional efforts and geographical expansion outside of Canada, Valneva expects that the potential for the product will be more limited than initially expected. Valneva anticipates however that the product will generate positive cash-flows in 2016 and beyond.

In order to reflect the business changes resulting from the adjustments to the DUKORAL® label in Canada, the seller, Crucell Holland BV, and Valneva, agreed on certain amendments to the purchase agreement including an adjustment to the purchase price. Crucell Holland BV waived a €10 million milestone payment that Valneva would otherwise have been obligated to pay and repaid €15 million from the acquisition price. Together, the €10 million milestone waiver and the €15 million cash repayment resulted in a €25 million reduction of the purchase consideration, bringing it from originally €45 million down to €20 million. Valneva used the €15 million repayment amount to fully repay a loan which had been granted by Athyrium Capital Management LLC for purposes of this acquisition. Crucell Holland BV also paid for prepayment fees owed to Athyrium (€3 million).

2. BUSINESS DEVELOPMENT, RESULTS AND FINANCIAL POSITION

Please, refer to Section 1 of the excerpt to the Management Board report 2015 of the Company Valneva SE, published in the 2015 Annual Financial Report: