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**THE FOLLOWING ANNOUNCEMENT IS AN ADVERTISEMENT AND NOT A PROSPECTUS OR PROSPECTUS EQUIVALENT DOCUMENT AND INVESTORS SHOULD NOT MAKE ANY INVESTMENT DECISION IN RELATION TO THE NEW VECTURA SHARES, EXCEPT ON THE BASIS OF THE INFORMATION IN THE COMBINED CIRCULAR/PROSPECTUS AND THE SCHEME DOCUMENT WHICH ARE PROPOSED TO BE PUBLISHED IN DUE COURSE.**

**For immediate release**

16 March 2016

**Vectura Group plc**

**Recommended All Share Merger with**

**Skyepharma PLC**

**(to be implemented by way of a scheme of arrangement under Part 26 of the Companies Act 2006)**

## **Summary**

The boards of Vectura Group plc (“**Vectura**” or the “**Company**”) and Skyepharma PLC (“**Skyepharma**”) are pleased to announce that they have reached agreement on the terms of a recommended merger between Vectura and Skyepharma, which is intended to be implemented by way of a scheme of arrangement of Skyepharma under Part 26 of the Companies Act, pursuant to which Vectura will acquire the entire issued and to be issued ordinary share capital of Skyepharma (the “**Merger**”).

Under the terms of the Merger, Skyepharma Shareholders will be entitled to receive:

**2.7977 New Vectura Shares**

**for every Skyepharma Share**

## **Highlights**

- Based on the Closing Price of 146.60 pence per Vectura Share on 15 March 2016 (being the last Business Day prior to the date of this announcement), the consideration under the terms of the Merger represents a value of 410.15 pence per Skyepharma Share, or approximately £441.3 million in aggregate, representing:
  - A premium of approximately 13.6 per cent. to the 90 trading day Volume Weighted Average Price of 361.06 pence per Skyepharma Share on 15 March 2016 (being the last Business Day prior to the date of this announcement).

- A premium of approximately 4.2 per cent. to the Closing Price of 393.50 pence per Skyepharma Share on 15 March 2016 (being the last Business Day prior to the date of this announcement).
- There will be a partial cash alternative of a maximum amount of £70 million (the “**Partial Cash Alternative**”) pursuant to which Skyepharma Shareholders can elect to receive cash instead of some or all of the New Vectura Shares to which they would otherwise be entitled under the Merger (subject to scale-back in accordance with the terms of the Partial Cash Alternative). The maximum amount of cash available under the Partial Cash Alternative of £70 million equates to 15.9 per cent. of the total value of the consideration offered to Skyepharma Shareholders under the terms of the Merger, based on the Closing Price of 146.60 pence per Vectura Share on 15 March 2016 (being the last Business Day prior to the date of this announcement).
- The Merger (excluding the effect of the Partial Cash Alternative) will result in Skyepharma Shareholders owning approximately 41.75 per cent. of the Enlarged Group on a fully diluted basis. If the £70 million available under the Partial Cash Alternative is paid in full, the Merger will result in Skyepharma Shareholders owning approximately 37.62 per cent. of the Enlarged Group on a fully diluted basis.
- Skyepharma Shareholders who validly elect to receive the Partial Cash Alternative for up to a basic entitlement of 23.26 pence in cash and 0.8414 of a New Vectura Share for every New Vectura Share to which they would otherwise be entitled under the Merger, will receive the full amount of cash for which they have elected. Elections to receive cash in excess of this basic entitlement may be scaled back in accordance with the terms of the Partial Cash Alternative.
- Assuming all Skyepharma Shareholders elect for their basic entitlement under the Partial Cash Alternative in respect of all of the New Vectura Shares to which they would otherwise be entitled under the Merger, a Skyepharma Shareholder would receive 65.06 pence in cash and 2.3539 New Vectura Shares per Skyepharma Share representing consideration of, in aggregate, 410.15 pence per Skyepharma Share (based on the Closing Price of a Vectura Share on 15 March 2016 (being the last Business Day prior to the date of this announcement)).
- The Enlarged Group’s executive directors will comprise James Ward-Lilley, Vectura’s CEO, who will be the CEO of the Enlarged Group, Andrew Derodra, Skyepharma’s CFO, and Trevor Phillips, Vectura’s COO. Bruno Angelici, Vectura’s Chairman, will be Chairman of the Enlarged Group.
- Following completion of the Merger, Andrew Oakley, Vectura’s CFO, will leave the Vectura Board on terms to be agreed and Peter Grant, Skyepharma’s CEO, will leave the Skyepharma Board on terms to be agreed.
- On the completion of the Merger, Vectura will appoint Frank Condella, Skyepharma’s Chairman, as Vice-Chairman of the Enlarged Group, and Thomas Werner, a non-executive Skyepharma Director, as a non-executive director on the Enlarged Group Board. Andrew Derodra, Skyepharma’s CFO, will become the CFO of the Enlarged Group.
- It is Vectura’s intention that one existing non-executive Vectura Director, who has not yet been identified, will stand down from the Enlarged Group Board within one month after the completion of the Merger and there will be an appropriately managed process for the departure of one additional existing Vectura Board member, to reduce the size of the Enlarged Group Board to a total of eight within eighteen months of completion of the Merger.

- Based on Closing Prices as of 15 March 2016 (being the last Business Day prior to the date of this announcement), the Enlarged Group would have had a pro-forma market capitalisation of £1,014.3 million and generated pro-forma combined revenues of £153.9 million and pro-forma combined EBITDA of £50.5 million based on the last reported full-year results for both companies.
- The Vectura Board and the Skyepharma Board both believe this is a compelling transaction that will combine the complementary Vectura and Skyepharma businesses to create an industry-leading airways-related specialty business. Bringing together the two companies' complementary inhaled formulation, development regulatory and device expertise (dry powder inhalers (“DPI”), pressurised metered dose inhalers (“pMDI”) and smart nebulisers) provides a series of enhanced platforms to accelerate growth in the inhaled respiratory market along with providing shareholders with a broader product and development portfolio.
- In addition, the Vectura Board and the Skyepharma Board both believe that bringing together the two groups will create a stronger scaled business which has the ability to accelerate the delivery of both companies' strategic objectives and deliver greater revenues and value by leveraging:
  - The Enlarged Group's inhalation product development expertise.
    - The Enlarged Group will have proven expertise with all major inhalation platforms (DPI, pMDI and smart nebulisers), providing broad access to the global inhaled respiratory market, which was worth US\$35 billion in 2015. The Vectura Board and the Skyepharma Board both believe this extensive capability will allow the Enlarged Group to develop a broad range of next generation devices and products more rapidly. Vectura's existing DPI capabilities and smart nebulisation technologies do not address the 38 per cent. of the global inhaled respiratory market which is served by pMDI products. With Skyepharma's capabilities, the Enlarged Group can access the wider global inhaled respiratory market. In addition, the Enlarged Group's formulation expertise will cover both small and large molecules, including biologics, designed to treat airways disease.
  - The Enlarged Group's partner network, commercial reach and deep understanding of the inhaled airways disease market.
    - The Enlarged Group will have a strong array of partners who are already successfully commercialising a range of products targeting large segments of the inhaled respiratory market. These include currently marketed inhaled respiratory airways disease products including *flutiform*<sup>®</sup>, Seebri<sup>®</sup> Breezhaler<sup>®</sup>, Ultibro<sup>®</sup> Breezhaler<sup>®</sup>, Breo<sup>®</sup>/Relvar<sup>®</sup>-Ellipta<sup>®</sup>, Anoro<sup>®</sup>-Ellipta<sup>®</sup>, Incruse<sup>®</sup>-Ellipta<sup>®</sup> and AirFluSal<sup>®</sup> Forspiro<sup>®</sup>. The Vectura Board and the Skyepharma Board both believe that the growth being generated from this current portfolio of marketed products will be further enhanced by the introduction of Seebri<sup>™</sup> Neohaler<sup>®</sup> and Utibron<sup>™</sup> Neohaler<sup>®</sup> in the US via Novartis and, once approved, the launch of VR315 in the US by Hikma (through its wholly-owned subsidiary, West-Ward Pharmaceuticals).
    - With this line-up of partners and broad capabilities, the Vectura Board and the Skyepharma Board both believe that the Enlarged Group will have the financial capacity and technical capabilities to generate further value by accelerating the progression of new generic programmes (DPI and pMDI), novel product developments, such as SKP-2075, and by signing additional deals with

companies developing novel molecules targeting the airways markets that will benefit from the Enlarged Group's inhalation product development expertise and capabilities.

- The Enlarged Group's increased ability to develop and commercialise its own products and progressively build a specialty commercial capability targeting the airways market, with the United States as a priority.
  - The greater scale, diversified revenue and fast growing cash flows of the combined entity will provide the Enlarged Group with additional flexibility to invest in maximising the value of the portfolio of wholly-owned products based on its unique flow rate and volume control technology elements such as the FAVORITE™ smart nebuliser platform, including VR475 and VR647, as well as potentially with new portfolio products such as SKP-2075.
  - A specialty commercial capability (prioritising the US market) will, where appropriate, allow the business to retain much greater value from its own product portfolio.
- A strong financial platform with the potential to accelerate the Enlarged Group's strategic priorities through the execution of value-enhancing M&A and business development opportunities.
- The Vectura Directors believe the Merger will be revenue-enhancing and accretive to Vectura's earnings (before amortisation), with respect to existing Vectura Shareholders, in the first year and will allow Skyepharma Shareholders and Vectura Shareholders to share in substantial synergy benefits. The Vectura Directors have identified pre-tax synergies of approximately £10 million per annum which are expected to be fully realised by the 2018 calendar year. These comprise operating cost savings generated by removing duplication and overlapping roles in management, corporate functions and other roles across the business (excluding the oral business and Lyon), reducing administrative costs related to the above role savings and generating procurement benefits resulting from the Enlarged Group's scale.
- Vectura has received support for the Merger from:
  - the Skyepharma Directors who hold Skyepharma Shares and who in aggregate hold 0.39 per cent. of the issued ordinary share capital of Skyepharma as at 15 March 2016 (being the last Business Day prior to the date of this announcement); and
  - HBM Healthcare Investments (Cayman) Limited ("**HBM**"), which holds approximately 28.5 per cent. of the issued ordinary share capital of Skyepharma as at 15 March 2016 (being the last Business Day prior to the date of this announcement).

Such Skyepharma Directors and HBM have irrevocably undertaken to support the Scheme. Frank Condella and Thomas Werner have undertaken not to elect to receive the Partial Cash Alternative in respect of their Skyepharma Shares and HBM will elect to receive the Partial Cash Alternative in respect of 15.9 per cent. of the consideration due to them.

The Combined Circular/Prospectus, containing information about the New Vectura Shares and the Enlarged Group, and the notice of the Vectura General Meeting at which, amongst other matters, a resolution will be proposed for the approval of the Merger by Vectura Shareholders, will be published as

soon as practicable after the date of this announcement and will be sent to Vectura Shareholders. The Combined Circular/Prospectus will be made available by Vectura on its website at <http://www.Vectura.com/> and by Skyepharma on its website at <http://www.Skyepharma.com/>.

The Scheme Document will include full information about the Merger, together with notices of the Court Meeting at which a resolution will be proposed for the approval of the Merger and the Skyepharma General Meeting and the expected timetable of the Merger, and will specify the actions to be taken by Scheme Shareholders. The Scheme Document will be sent to Skyepharma Shareholders as soon as practicable and, in any event, within 28 days of this announcement. Vectura and Skyepharma expect that the Scheme will become effective in the third quarter of 2016, subject to the satisfaction or waiver of the Conditions and certain further terms set out in Appendix 1 to this announcement.

Bruno Angelici, Chairman of Vectura, commented:

*“The merger of Vectura and Skyepharma is a key milestone in the execution of our strategy to become a leading specialty pharmaceutical company, focusing on airways-related disease. The addition of Skyepharma’s pMDI technology will allow the Enlarged Group to access the inhaled product market in its entirety and the Enlarged Group’s enhanced cash flow will better position it to consider attractive strategic opportunities which may emerge in the future. The highly qualified management team, under the leadership of James Ward-Lilley, has the skills, experience and commitment to deliver the Enlarged Group’s significant potential. The Vectura Board strongly believes that the merger with Skyepharma will create a business with the technology and capabilities, financial profile and scale to deliver attractive, consistent returns to shareholders.”*

Frank Condella, Chairman of Skyepharma, commented:

*“The merger of Skyepharma and Vectura is a highly synergistic, value-enhancing transaction that will establish an industry leader in the development of inhalation products. Underpinned by Skyepharma’s strong recurring revenue growth, the Merger combines Skyepharma’s proven capabilities to develop both pMDI and DPI products with Vectura’s proven capabilities to develop DPI and smart nebulisation products addressing the US\$35 billion global inhaled respiratory market. The Skyepharma Board believes this transaction offers our shareholders the opportunity to participate in a larger business with greater growth potential, diversified risk and a competitive market position. Together, we believe the combined expertise of Skyepharma and Vectura and our strong array of partners will create an industry leading player, increasing our ability to help patients suffering from respiratory diseases worldwide and to deliver even more attractive returns to shareholders.”*

The Skyepharma Directors, who have been so advised by Lazard as to the financial terms of the Merger, consider the terms of the Merger to be fair and reasonable. In providing its advice to the Skyepharma Directors, Lazard has taken into account the commercial assessments of the Skyepharma Directors.

Accordingly, the Skyepharma Directors intend to recommend unanimously that Skyepharma Shareholders vote in favour of the Scheme at the Court Meeting and the Special Resolution at the Skyepharma General Meeting, as they have irrevocably undertaken to do (or to procure is done) in respect of their own beneficial holdings (or the holdings of any person to whom the Skyepharma Director is permitted to transfer his Skyepharma Shares) of 407,297 Skyepharma Shares representing, in aggregate, approximately 0.39 per cent. of Skyepharma’s issued ordinary share capital on 15 March 2016 (being the last Business Day prior to the date of this announcement). Further details of these irrevocable undertakings are set out in Appendix 3 to this announcement.

The Vectura Directors have received financial advice from J.P. Morgan Cazenove and Rothschild in relation to the Merger. In providing its advice, each of J.P. Morgan Cazenove and Rothschild has relied upon the commercial assessments of the Vectura Directors.

The Vectura Board believes the Merger and the resolutions to be proposed at the Vectura General Meeting to be in the best interests of Vectura and Vectura Shareholders as a whole. Accordingly, the Vectura Directors intend to recommend unanimously that Vectura Shareholders vote in favour of the resolutions to be proposed at the Vectura General Meeting to approve the Merger and related matters, as they have irrevocably undertaken to do so in respect of their own beneficial holdings of 589,502 Vectura Shares representing, in aggregate, approximately 0.1 per cent. of the issued ordinary share capital of Vectura on 15 March 2016 (being the last Business Day prior to the date of this announcement).

**This summary should be read in conjunction with, and is subject to, the full text of this announcement (including its Appendices). The Merger will be subject to the Conditions set out in Appendix 1 to this announcement, the certain further terms set out in this announcement and to the full terms and conditions which will be set out in the Scheme Document. The sources and bases of certain information contained in this announcement are set out in full in Appendix 2 to this announcement. Details of the irrevocable undertakings received by Vectura are set out in Appendix 3 to this announcement. Details of and bases of calculation of anticipated merger benefits of the Merger and of the related reports from Vectura's reporting accountant, Deloitte LLP, and its joint financial advisers, J.P. Morgan Cazenove and Rothschild are set out in Appendix 4 to this announcement. Details of the Profit Forecast and the assumptions on which it is stated are set out in Appendix 5 to this announcement. Details of the proposed service arrangements for Andrew Derodra are set out in Appendix 6 to this announcement. Certain terms used in this announcement are defined in Appendix 7 to this announcement.**

**For the purposes of Rule 28 of the City Code, the Quantified Financial Benefits Statement contained in this announcement is the responsibility of Vectura and the Vectura Directors. J.P. Morgan Cazenove, Rothschild and Lazard have each given and not withdrawn their consent for the publication of this announcement with the inclusion herein of the references to their names in the form and context in which they appear. Each of Deloitte LLP, J.P. Morgan Cazenove and Rothschild has given and not withdrawn its consent to the publication of its reports in this announcement in the form and context in which they are included.**

There will be an analysts' presentation starting promptly at 11 a.m. (London time) on 16 March 2016 which will cover the proposed Merger as well as the preliminary announcement of Skyepharma's results for the financial year ended 31 December 2015. Please contact Citigate Dewe Rogerson (0207 638 9571) or FTI Consulting (0203 727 1000) for details.

## Enquiries

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## Important Notices

*J.P. Morgan Limited, which conducts its UK investment banking businesses as J.P. Morgan Cazenove (“J.P. Morgan Cazenove”), is authorised and regulated in the United Kingdom by the Financial Conduct Authority (“FCA”). J.P. Morgan Cazenove is acting exclusively for Vectura and no one else in connection with the Merger and the contents of this announcement and will not regard any other person as its client in relation to the matters in this announcement and will not be responsible to anyone other than Vectura for providing the protections afforded to clients of J.P. Morgan Cazenove or for providing advice in relation to the Merger, the contents of this announcement or any other matters referred to herein.*

*N M Rothschild & Sons Limited (“Rothschild”), which is authorised by the Prudential Regulation Authority (“PRA”) and regulated in the United Kingdom by the FCA and the PRA, is acting exclusively for Vectura and for no one else in connection with the Merger and the contents of this announcement and will not regard any other person as its client in relation to the matters in this announcement and will not be responsible to anyone other than Vectura for providing the protections afforded to clients of Rothschild, or for providing advice in relation to the Merger, the contents of this announcement or any other matters referred to herein.*

*Lazard & Co., Limited (“Lazard”), which is authorised and regulated in the United Kingdom by the FCA, is acting exclusively as financial adviser for Skyepharma and no one else in connection with the matters described in this announcement and will not be responsible to anyone other than Skyepharma for providing the protections afforded to clients of Lazard nor for providing advice in relation to the matters referred to in this announcement. Neither Lazard nor any of its affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Lazard in connection with this announcement, any statement contained herein or otherwise.*

## Further Information

*This announcement is not intended to, and does not, constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of, any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Merger or otherwise, nor shall there be any sale, issuance or transfer of securities of Skyepharma or Vectura pursuant to the Merger in any jurisdiction in contravention of applicable laws. The Merger will be implemented solely pursuant to the Scheme Document which, together with the Forms of Proxy and Form of Election, will contain the full terms and conditions of the Merger, including details of how to vote in respect of the Merger.*

*The Combined Circular/Prospectus will be published as soon as practicable after this announcement. The Combined Circular/Prospectus will be made available by Vectura on its website at [www.Vectura.com](http://www.Vectura.com) and by Skyepharma on its website at [www.Skyepharma.com](http://www.Skyepharma.com). Vectura urges Vectura Shareholders to read the Combined Circular/Prospectus because it will contain important information in relation to the Merger, the New Vectura Shares and the Enlarged Group.*

*Skyepharma will prepare the Scheme Document to be distributed to Skyepharma Shareholders. Skyepharma urges Skyepharma Shareholders to read the Combined Circular/Prospectus and the Scheme Document because they will contain important information in relation to the Merger, the New Vectura Shares and the Enlarged Group.*



*Any decision, vote or other response in relation to the Merger should be made only on the basis of the information contained in the Scheme Document and/or the Combined Circular/Prospectus, as appropriate.*

*This announcement does not constitute a prospectus or prospectus equivalent document.*

### **Overseas Jurisdictions**

*The release, publication or distribution of this announcement in jurisdictions other than the United Kingdom may be restricted by law and therefore any persons who are subject to the laws of any jurisdiction other than the United Kingdom (including Restricted Jurisdictions) should inform themselves about, and observe, any applicable legal or regulatory requirements. In particular, the ability of persons who are not resident in the United Kingdom or who are subject to the laws of another jurisdiction to vote their Skyepharmaceutical Shares in respect of the Scheme at the Court Meeting, to elect to participate in the Partial Cash Alternative, or to execute and deliver Forms of Proxy appointing another to vote at the Court Meeting on their behalf, may be affected by the laws of the relevant jurisdictions in which they are located or to which they are subject.*

*This announcement has been prepared for the purpose of complying with English law and the City Code and the information disclosed may not be the same as that which would have been disclosed if this announcement had been prepared in accordance with the laws of any jurisdiction outside England.*

*If the Merger is implemented by way of an Offer (unless otherwise permitted by applicable law and regulation), the Offer may not be made, directly or indirectly, in or into, or by the use of mails or any other means or instrumentality (including, but not limited to, facsimile, e-mail or other electronic transmission, telex or telephone) of interstate or foreign commerce of, or of any facility of a national, state or other securities exchange of any Restricted Jurisdiction and the Offer may not be capable of acceptance by any such use, means, instrumentality or facilities.*

*Unless otherwise determined by Skyepharmaceutical or required by the City Code, and permitted by applicable law and regulation, participation in the Merger shall not be made available, directly or indirectly, in, into or from a Restricted Jurisdiction where to do so would violate the laws in that jurisdiction and no person may vote in favour of the Merger by any such use, means, instrumentality or form within a Restricted Jurisdiction or any other jurisdiction if to do so would constitute a violation of the laws of that jurisdiction. Accordingly, copies of this announcement and any formal documentation relating to the Merger are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in or into or from any Restricted Jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send them in or into or from any Restricted Jurisdiction.*

*The availability of the New Vectura Shares and/or the Partial Cash Alternative under the Merger to Skyepharmaceutical Shareholders who are not resident in the United Kingdom or who are subject to the laws of another jurisdiction may be affected by the laws of the relevant jurisdictions in which they are resident or to which they are subject.*

*Therefore, any persons who are not resident in the United Kingdom should inform themselves of, and observe, any applicable legal or regulatory requirements. Any failure to comply with the applicable legal*

or regulatory requirements of any jurisdiction may constitute a violation of securities laws or regulations in that jurisdiction. Further details in relation to Skyepharma Shareholders in overseas jurisdictions will be contained in the Scheme Document.

The Merger relates to the shares of an English company that is not registered under the US Securities Exchange Act of 1934, as amended (the “**US Exchange Act**”) and is intended to be made by means of a scheme of arrangement provided for under English company law. A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules or the proxy solicitation rules under the US Exchange Act. Accordingly, the Merger is subject to the disclosure requirements and practices applicable in the United Kingdom to schemes of arrangement which differ from the disclosure requirements of the US tender offer and proxy solicitation rules under the US Exchange Act.

This announcement is not an offer of securities for sale in the United States. Securities may not be offered or sold in the United States absent registration under the US Securities Act of 1933, as amended (the “**US Securities Act**”), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. The New Vectura Shares to be issued pursuant to the Merger will not be registered under the US Securities Act or under the securities laws of any state or other jurisdiction of the United States. If the Merger is implemented by means of a scheme of arrangement, it is expected that the New Vectura Shares will be issued in reliance upon the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) thereof. If, in the future, Vectura exercises the right to implement the Merger by way of an Offer, the Offer will be made in the United States only if and to the extent an exemption from the registration requirements of the US Securities Act is available and subject to the requirements of US state “blue sky” securities laws.

Under applicable US securities laws, persons (whether or not US persons) who are or will be “affiliates” (within the meaning of the US Securities Act) of Vectura prior to, or of the Enlarged Group after, the Effective Date will be subject to certain transfer restrictions relating to the New Vectura Shares received pursuant to the Merger.

If, in the future, Vectura exercises the right to implement the Merger by way of an Offer and decides to extend the Offer into the United States, the Offer will be made, and any securities issued in connection with the Merger will be issued, in compliance with all applicable US laws and regulations, including the applicable provisions of the US Exchange Act and the US Securities Act, to the extent any exemptions thereunder are not applicable. Such an Offer would be made in the United States by Vectura and no one else.

Neither the US Securities and Exchange Commission nor any US state securities commission has approved or disapproved of the New Vectura Shares to be issued in connection with the Merger, or determined if this announcement is accurate or complete. Any representation to the contrary is a criminal offence in the United States.

Investors should be aware that Vectura and/or affiliates of J.P. Morgan Cazenove or Rothschild may purchase or arrange to purchase Skyepharma Shares otherwise than under any takeover offer or scheme of arrangement related to the Merger on or off the London Stock Exchange or otherwise outside the United States, such as in open market or privately negotiated purchases, so long as those acquisitions or arrangements comply with applicable UK law and practice and the provisions of an exemption provided from Rule 14e-5 under the US Exchange Act, if applicable.

*Financial information included (or incorporated by reference) in this announcement, unless specifically stated otherwise, has been or will be prepared in accordance with accounting standards applicable in the United Kingdom and may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.*

*It may be difficult for US holders of Skyepharma Shares to enforce their rights and any claim they may have arising under US federal securities laws in connection with the Merger, since Vectura and Skyepharma are located in a non-US jurisdiction and some or all of their respective officers and directors may be residents of a non-US jurisdiction. US holders of Skyepharma Shares may not be able to sue Vectura, Skyepharma or their respective affiliates, officers or directors in a non-US court for violations of the US securities laws. Further, it may be difficult to compel Vectura, Skyepharma or their respective affiliates, officers or directors to subject themselves to a US court's jurisdiction or judgement.*

### **Forward-looking statements**

*This announcement, including the information included or incorporated by reference in this announcement, contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of the Wider Skyepharma Group and the Wider Vectura Group, and certain plans and objectives of Vectura with respect to the Enlarged Group. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'hope', 'aims', 'continue', 'will', 'may', 'should', 'would', 'could' or other words of similar meaning. These statements are based on assumptions and assessments made by Skyepharma and/or Vectura in light of their experience and their perception of historical trends, current conditions, future developments and other factors they believe appropriate. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are several factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. Among such factors are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or disposals.*

*Forward-looking statements are not indicative of future performance and the actual results of operations and financial condition of the Skyepharma Group or the Vectura Group, and the development of the industry in which the Skyepharma Group or the Vectura Group operates, may differ materially from those made in or suggested by the forward-looking statements contained in this announcement.*

*Although it is believed that the expectations reflected in any forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct or reasonable and persons reading this announcement are therefore cautioned not to place undue reliance on these forward-looking statements which speak only as at the date of this announcement. Neither the Wider Skyepharma Group nor the Wider Vectura Group assumes any obligation to update or correct the information contained in this announcement (whether as a result of new information, future events or otherwise), except as required by applicable law. All forward-looking statements contained in this announcement, and any subsequent written or oral forward-looking statement that Skyepharma or*

Vectura, or persons acting on their behalf, may issue are expressly qualified by the cautionary statements set out in this section.

### **Rounding**

Certain figures included in this announcement have been subjected to rounding adjustments. Accordingly, figures shown for the same category presented in different tables or forms may vary slightly and figures shown as totals in certain tables or forms may not be an arithmetic aggregation of the figures that precede them.

### **Profit forecasts or estimates**

The Profit Forecast is a profit forecast for the purposes of Rule 28 of the City Code. As required by Rule 28.1 of the City Code, the assumptions on which the Profit Forecast is stated are set out in Appendix 5 to this announcement.

Other than the Profit Forecast, no statement in this announcement (including any statement of estimated synergies) is intended as a profit forecast or profit estimate for any period and no statement in this announcement should be interpreted to mean that earnings or earnings per ordinary share for Vectura, Skyepharma or the Enlarged Group, as appropriate, for the current or future financial years would necessarily match or exceed the historical published earnings or earnings per ordinary share for Vectura or Skyepharma, as appropriate.

### **Quantified financial benefits**

The statements in the Quantified Financial Benefits Statement relate to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies. As a result, the synergies and cost savings referred to may not be achieved, or may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated. Neither these statements nor any other statement in this announcement should be construed as a profit forecast (other than the Profit Forecast) or interpreted to mean that the Enlarged Group's earnings in the first full year following implementation of the Merger, or in any subsequent period, would necessarily match or be greater than or be less than those of Vectura and/or Skyepharma for the relevant preceding financial period or any other period. For the purposes of Rule 28 of the City Code, the Quantified Financial Benefits Statement contained in this announcement is the responsibility of Vectura and the Vectura Directors.

### **Dealing and Opening Position Disclosure requirements**

Under Rule 8.3(a) of the City Code, any person who is interested in 1 per cent. or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the Offer Period and, if later, following the announcement in which any securities exchange offeror is first identified.

An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of: (i) the offeree company; and (ii) any securities

exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 p.m. (London time) on the 10th business day following the commencement of the Offer Period and, if appropriate, by no later than 3.30 p.m. (London time) on the 10th business day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure. Under Rule 8.3(b) of the City Code, any person who is, or becomes, interested in 1 per cent. or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 p.m. (London time) on the business day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk), including details of the number of relevant securities in issue, when the Offer Period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0) 20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

### **Information relating to Skyepharma Shareholders**

Please be aware that addresses, electronic addresses and certain information provided by Skyepharma Shareholders, persons with information rights and relevant persons for the receipt of electronic communications from Skyepharma generally may be provided to Vectura during the Offer Period where requested under Section 4 of Appendix 4 of the City Code.

### **Publication on website and availability of hard copies**

A copy of this announcement is and will be available free of charge, subject to certain restrictions relating to persons resident in Restricted Jurisdictions, on Vectura's website at [www.Vectura.com](http://www.Vectura.com) and on Skyepharma's website at [www.Skyepharma.com](http://www.Skyepharma.com) by no later than 12.00 noon (London time) on the Business Day following the date of this announcement. For the avoidance of doubt, the contents of the websites referred to in this announcement are not incorporated into and do not form part of this announcement.

*Vectura Shareholders and Skyepharma Shareholders may request a hard copy of this announcement (and any information incorporated by reference into this announcement) by contacting Asha Tanwar of J.P. Morgan Cazenove at [asha.tanwar@jpmorgancazenove.com](mailto:asha.tanwar@jpmorgancazenove.com) or by submitting a request in writing to Asha Tanwar at J.P. Morgan Cazenove, 25 Bank Street, London, E14 5JP or Maxime Menu of Lazard at [maxime.menu@lazard.com](mailto:maxime.menu@lazard.com) or by submitting a request in writing to Maxime Menu at Lazard, 50 Stratton Street London, W1J 8LL. It is important that you note that unless you make such a request, a hard copy of this announcement and any such information incorporated by reference into it will not be sent to you. You may also request that all future documents, announcements and information to be sent to you in relation to the Merger should be in hard copy form.*

*If you are in any doubt about the contents of this announcement or the action you should take, you are recommended to seek your own independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant or from an independent financial adviser duly authorised under the Financial Services and Markets Act 2000 (as amended) if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.*

### **Time**

*All times shown in this announcement are London times, unless otherwise stated.*

**NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION, IN WHOLE OR IN PART, IN, INTO OR FROM THE UNITED STATES OR ANY JURISDICTION WHERE TO DO SO WOULD CONSTITUTE A VIOLATION OF THE RELEVANT LAWS OF SUCH JURISDICTION.**

**THE FOLLOWING ANNOUNCEMENT IS AN ADVERTISEMENT AND NOT A PROSPECTUS OR PROSPECTUS EQUIVALENT DOCUMENT AND INVESTORS SHOULD NOT MAKE ANY INVESTMENT DECISION IN RELATION TO THE NEW VECTURA SHARES, EXCEPT ON THE BASIS OF THE INFORMATION IN THE COMBINED CIRCULAR/PROSPECTUS AND THE SCHEME DOCUMENT WHICH ARE PROPOSED TO BE PUBLISHED IN DUE COURSE.**

**For immediate release**

16 March 2016

**Vectura Group plc**

**Recommended All Share Merger with**

**Skyepharma PLC**

## **1. Introduction**

The boards of Vectura Group plc ("**Vectura**" or the "**Company**") and Skyepharma PLC ("**Skyepharma**") are pleased to announce that they have reached agreement on the terms of a recommended merger between Vectura and Skyepharma, which is intended to be implemented by way of a scheme of arrangement of Skyepharma under Part 26 of the Companies Act, pursuant to which Vectura will acquire the entire issued and to be issued ordinary share capital of Skyepharma (the "**Merger**").

## **2. The Merger**

Under the terms of the Merger, Skyepharma Shareholders will be entitled to receive:

**2.7977 New Vectura Shares  
for every Skyepharma Share**

Based on the Closing Price of 146.60 pence per Vectura Share on 15 March 2016 (being the last Business Day prior to the date of this announcement), the consideration under the terms of the Merger represents a value of 410.15 pence per Skyepharma Share, or approximately £441.3 million in aggregate, representing:

- A premium of approximately 13.6 per cent. to the 90 trading day Volume Weighted Average Price of 361.06 pence per Skyepharma Share on 15 March 2016 (being the last Business Day prior to the date of this announcement).
- A premium of approximately 4.2 per cent. to the Closing Price of 393.50 pence per Skyepharma Share on 15 March 2016 (being the last Business Day prior to the date of this announcement).

There will be a partial cash alternative of a maximum amount of £70 million (the “**Partial Cash Alternative**”) pursuant to which Skyepharma Shareholders can elect to receive cash instead of some or all of the New Vectura Shares to which they would otherwise be entitled under the Merger (subject to scale-back in accordance with the terms of the Partial Cash Alternative). Please refer to paragraph 12 for further details.

The Merger (excluding the effect of the Partial Cash Alternative) will result in Skyepharma Shareholders owning approximately 41.75 per cent. of the Enlarged Group on a fully diluted basis. If the £70 million available under the Partial Cash Alternative is paid in full, the Merger will result in Skyepharma Shareholders owning approximately 37.62 per cent. of the Enlarged Group on a fully diluted basis.

Skyepharma Shareholders who validly elect to receive the Partial Cash Alternative for up to a basic entitlement of 23.26 pence in cash and 0.8414 of a New Vectura Share for every New Vectura Share to which they would otherwise be entitled under the Merger, will receive the full amount of cash for which they have elected. Elections to receive cash in excess of this basic entitlement may be scaled back in accordance with the terms of the Partial Cash Alternative.

Assuming all Skyepharma Shareholders elect for their basic entitlement under the Partial Cash Alternative in respect of all of the New Vectura Shares to which they would otherwise be entitled under the Merger, a Skyepharma Shareholder would receive 65.06 pence in cash and 2.3539 New Vectura Shares per Skyepharma Share representing consideration of, in aggregate, 410.15 pence per Skyepharma Share (based on the Closing Price of a Vectura Share on 15 March 2016 (being the last Business Day prior to the date of this announcement)).

The Enlarged Group’s executive directors will comprise James Ward-Lilley, Vectura’s CEO, who will be the CEO of the Enlarged Group, Andrew Derodra, Skyepharma’s CFO, and Trevor Phillips, Vectura’s COO. Bruno Angelici, Vectura’s Chairman, will be Chairman of the Enlarged Group.

Following completion of the Merger, Andrew Oakley, Vectura’s CFO, will leave the Vectura Board on terms to be agreed and Peter Grant, Skyepharma’s CEO, will leave the Skyepharma Board on terms to be agreed. Peter played a pivotal role in turning around Skyepharma, initially as CFO and, since January 2012, as CEO, creating substantial value for shareholders. Since he became CEO, the Skyepharma share price has increased by approximately 1230 per cent. and Skyepharma has been transformed into a strongly growing business.

On the completion of the Merger, Vectura will appoint Frank Condella, Skyepharma’s Chairman, as Vice-Chairman of the Enlarged Group, and Thomas Werner, a non-executive Skyepharma Director, as a non-executive director on the Enlarged Group Board. Andrew Derodra, Skyepharma’s CFO, will become the CFO of the Enlarged Group.

It is Vectura’s intention that one existing non-executive Vectura Director, who has not yet been identified, will stand down from the Enlarged Group Board within one month after the completion of the Merger and there will be an appropriately managed process for the departure of one additional existing Vectura Board member, to reduce the size of the Enlarged Group Board to a total of eight within eighteen months of completion of the Merger.

Vectura has received support for the Merger from:

- the Skyepharma Directors who hold Skyepharma Shares and who in aggregate hold 0.39 per cent. of the issued ordinary share capital of Skyepharma as at 15 March 2016 (being the last Business Day prior to the date of this announcement); and



- HBM Healthcare Investments (Cayman) Limited (“**HBM**”), which holds approximately 28.5 per cent. of the issued ordinary share capital of Skyepharma as at 15 March 2016 (being the last Business Day prior to the date of this announcement).

Such Skyepharma Directors and HBM have irrevocably undertaken to support the Scheme. Frank Condella and Thomas Werner have undertaken not to elect to receive the Partial Cash Alternative in respect of their Skyepharma Shares and HBM will elect to receive the Partial Cash Alternative in respect of 15.9 per cent. of the consideration due to them.

Following completion of the Merger, Vectura will retain a premium listing on the Official List and continue to be traded on the London Stock Exchange’s Main Market for listed securities. The Vectura Directors expect that the Enlarged Group will be a member of the FTSE 250 index with an enhanced profile, visibility and liquidity.

Vectura intends to publish its preliminary results for the 12 months to 31 March 2016 on 26 May 2016.

### **3. Recommendation**

The Skyepharma Directors, who have been so advised by Lazard as to the financial terms of the Merger, consider the terms of the Merger to be fair and reasonable. In providing its advice to the Skyepharma Directors, Lazard has taken into account the commercial assessments of the Skyepharma Directors.

Accordingly, the Skyepharma Directors intend to recommend unanimously that Skyepharma Shareholders vote in favour of the Scheme at the Court Meeting and the Special Resolution at the Skyepharma General Meeting, as they have irrevocably undertaken to do (or to procure is done) in respect of their own beneficial holdings (or the holdings of any person to whom the Skyepharma Director is permitted to transfer his Skyepharma Shares) of 407,297 Skyepharma Shares representing, in aggregate, approximately 0.39 per cent. of Skyepharma’s issued ordinary share capital on 15 March 2016 (being the last Business Day prior to the date of this announcement). Further details of these irrevocable undertakings are set out in Appendix 3 to this announcement.

The Vectura Directors have received financial advice from J.P. Morgan Cazenove and Rothschild in relation to the Merger. In providing its advice, each of J.P. Morgan Cazenove and Rothschild has relied upon the commercial assessments of the Vectura Directors.

The Vectura Board believes the Merger and the resolutions to be proposed at the Vectura General Meeting to be in the best interests of Vectura and Vectura Shareholders as a whole. Accordingly, the Vectura Directors intend to recommend unanimously that Vectura Shareholders vote in favour of the resolutions to be proposed at the Vectura General Meeting to approve the Merger and related matters, as they have irrevocably undertaken to do so in respect of their own beneficial holdings of 589,502 Vectura Shares representing, in aggregate, approximately 0.1 per cent. of the issued ordinary share capital of Vectura on 15 March 2016 (being the last Business Day prior to the date of this announcement).

### **4. Background to, and reasons for, the Merger**

The Vectura Board and the Skyepharma Board both believe this is a compelling transaction that will combine the complementary Vectura and Skyepharma businesses to create an industry-leading airways-related specialty business. Bringing together the two companies’ complementary inhaled formulation,

development regulatory and device expertise (dry powder inhalers (“DPI”), pressurised metered dose inhalers (“pMDI”) and smart nebulisers) provides a series of enhanced platforms to accelerate growth in the inhaled respiratory market along with providing shareholders with a broader product and development portfolio.

Based on Closing Prices as of 15 March 2016 (being the last Business Day prior to the date of this announcement), the Enlarged Group would have had a pro-forma market capitalisation of £1,014.3 million and generated pro-forma combined revenues of £153.9 million and pro-forma combined EBITDA of £50.5 million based on the last reported full-year results for both companies, with a pro-forma net cash position of approximately £25 million (assuming that the Partial Cash Alternative is taken up in full).

Based on the complementary portfolio interests, airways disease expertise and similar business models, the Vectura Board and the Skyepharma Board both believe that the rationale for combining the two businesses is compelling.

In the US\$35 billion global inhaled respiratory market, the Enlarged Group will benefit from combining two complementary businesses, each with strong platforms for growth. Skyepharma brings substantial and fast growing revenues from in-market products and the potential for additional growth from its proven pMDI and DPI development capabilities and pipeline of innovative product candidates. Vectura brings growth potential from on-market products, and its broad and, in some cases advanced, pipelines of generic and innovative product candidates based on proven DPI and nebuliser capabilities. The combined portfolio will balance portfolio risk and offers the potential for the further development of inhaled assets (standalone or through existing or new partners) in airways-related diseases; a sector in which both Vectura and Skyepharma have significant development, regulatory and commercial expertise.

The Vectura Board and the Skyepharma Board both believe that bringing together the two groups will create a stronger scaled business which has the ability to accelerate the delivery of both companies’ strategic objectives and deliver greater revenues and value by leveraging:

- The Enlarged Group’s inhalation product development expertise.
  - The Enlarged Group will have proven expertise, with all major inhalation platforms (DPI, pMDI and smart nebulisers), providing broad access to the global inhaled respiratory market, which was worth US\$35 billion in 2015. The Vectura Board and the Skyepharma Board both believe this extensive capability will allow the Enlarged Group to develop a broad range of next generation devices and products more rapidly. Vectura’s existing DPI capabilities and smart nebulisation technologies do not address the 38 per cent. of the wider inhaled respiratory market which is served by pMDI products. With Skyepharma’s capabilities, the Enlarged Group can access the wider global inhaled respiratory market. In addition, the Enlarged Group’s formulation expertise will cover both small and large molecules, including biologics, designed to treat airways disease.
- The Enlarged Group’s partner network, commercial reach and deep understanding of the inhaled airways disease market.
  - The Enlarged Group will have a strong array of partners who are already successfully commercialising a range of products targeting large segments of the inhaled respiratory market. These include currently marketed inhaled respiratory airways disease products including *flutiform*<sup>®</sup>, *Seebri*<sup>®</sup> *Breezhaler*<sup>®</sup>, *Ultibro*<sup>®</sup> *Breezhaler*<sup>®</sup>, *Breo*<sup>®</sup>/*Relvar*<sup>®</sup>-*Ellipta*<sup>®</sup>, *Anoro*<sup>®</sup>-*Ellipta*<sup>®</sup>, *Incruse*<sup>®</sup>-*Ellipta*<sup>®</sup> and *AirFluSal*<sup>®</sup> *Forspiro*<sup>®</sup>. The Vectura Board and the

Skyepharma Board both believe that the growth being generated from this current portfolio of marketed products will be further enhanced by the introduction of Seebri™ Neohaler® and Utibron™ Neohaler® in the US via Novartis and, once approved, the launch of VR315 in the US by Hikma (through its wholly-owned subsidiary, West-Ward Pharmaceuticals).

- With this line-up of partners and broad capabilities, the Vectura Board and the Skyepharma Board both believe that the Enlarged Group will have the financial capacity and technical capabilities to generate further value by accelerating the progression of new generic programmes (DPI and pMDI), novel product developments, such as SKP-2075, and by signing additional deals with companies developing novel molecules targeting the airways markets that will benefit from the Enlarged Group's inhalation product development expertise and capabilities.
- The Enlarged Group's increased ability to develop and commercialise its own products and progressively build a specialty commercial capability targeting the airways market, with the United States as a priority.
  - The greater scale, diversified revenue and fast growing cash flows of the combined entity will provide the Enlarged Group with additional flexibility to invest in maximising the value of the portfolio of wholly-owned products based on its unique flow rate and volume control technology elements such as the FAVORITE™ smart nebuliser platform, including VR475 and VR647, as well as potentially with new portfolio products such as SKP-2075.
  - A specialty commercial capability (prioritising the US market) will, where appropriate, allow the business to retain much greater value from its own product portfolio.
- A strong financial platform with the potential to accelerate the Enlarged Group's strategic priorities through the execution of value-enhancing M&A and business development opportunities.

The Vectura Directors believe the Merger will be revenue-enhancing and accretive to Vectura's earnings (before amortisation), with respect to existing Vectura Shareholders, in the first year and will allow Skyepharma Shareholders and Vectura Shareholders to share in substantial synergy benefits. The Vectura Directors have identified pre-tax synergies of approximately £10 million per annum which are expected to be fully realised by the 2018 calendar year. These comprise operating cost savings generated by removing duplication and overlapping roles in management, corporate functions and other roles across the business (excluding the oral business and Lyon), reducing administrative costs related to the above role savings and generating procurement benefits resulting from the Enlarged Group's scale.

As such, the Vectura Board and the Skyepharma Board both believe that the Merger of Vectura and Skyepharma has a clear strategic rationale and the scale to deliver long-term value enhancement.

#### **a) Vectura overview**

Vectura is a leading independent inhaled device, formulation and development company that focuses on the development of pharmaceutical therapies for airways diseases. Vectura's primary device technology

focus is on DPI and smart nebulised devices, which constitute 62<sup>1</sup> per cent. of the global inhaled respiratory market.

Vectura's business model has been based on partnering with other pharmaceutical companies supporting formulation and or device developments. This approach has been highly successful leading to revenues of £58 million in the 12 months ending 31 March 2015 (up 59 per cent. from the previous year). This reflects Vectura's ongoing development activity and milestone generation, along with significantly increased exposure to fast growing royalties from marketed products. In the same period, EBITDA grew 212 per cent. to £16.2 million. In the six months of trading to 30 September 2015, Vectura's revenues grew a further 35 per cent. and EBITDA was up 57 per cent. compared with the first half of 2014/15. A significant driver of this growth came from Seebri®/Ultibro® which had in-market sales of US\$401 million in 2015, and had grown by 190 per cent. CAGR over two years.

In addition to on market assets, Vectura has a broad pipeline of new assets at all stages of development ranging from an inhaled antibody fragment partnered with UCB in Phase I (VR942) for the treatment of uncontrolled asthma, through to a late stage asset device and formulation project (VR315), partnered with Hikma (through its wholly-owned subsidiary, West-Ward Pharmaceuticals), which combines fluticasone and salmeterol and targets the US\$8.5 billion ICS/LABA market (2015) in the United States, including Advair.

Vectura's diversified and rapidly growing revenue base from the development and commercialisation of its partnered products underpins the cash flow to develop its pipeline and maintain investment in technology.

Following the acquisition of Activaero™ in 2014, Vectura gained access to a strong smart nebuliser platform including development programmes for budesonide. These programmes are wholly-owned by Vectura and, subject to their successful progression, provide Vectura with the potential to develop its own commercialisation capability to specialist respiratory customers.

## **b) Skyepharma overview**

Skyepharma is an expert drug development company which combines proven scientific expertise with validated proprietary drug delivery technologies to develop innovative inhalation and oral pharmaceutical products. Skyepharma's inhalation platform comprises both pMDI and DPI dosage forms.

Skyepharma has long-term royalty and supply agreements generating income from 16 approved inhalation, oral, injectable and topical products as well as from the development of further products and technology licences. Revenue in the year ending 31 December 2015 totalled £95.9 million, up 30 per cent. compared with 2014 (£73.8 million). Pre-exceptional EBITDA for the year ending 31 December 2015 was £34.3 million, up 31 per cent. over 2014 (£26.1 million). 76 per cent. of revenues in 2015 were represented by new products launched in the last four years.

Skyepharma's most significant marketed asset is the inhalation product, *flutiform*®, a fixed dose combination product in a pMDI, utilising Skyepharma's SkyeDry™ technology and comprising the most commonly prescribed steroid (fluticasone) with a fast onset long-acting beta agonist (formoterol). As of 15 March 2016, *flutiform*® had been approved in 38 countries and launched in 31, with the most recent launches in Portugal, Malaysia, the Philippines, Kuwait and the UAE. *flutiform*® continues to make a

<sup>1</sup> For calendar year 2015 DPI and nebulised products (value share) across all inhaled respiratory products globally (as reported in the IMS MIDAS database). Note, this data excludes inhaled antibiotics in cystic fibrosis.

significant financial contribution to Skyepharma and grew strongly in 2015, with in-market sales<sup>2</sup> of €144.4 million (2014: €72.2 million). In 2015, total in-market sales of *flutiform*<sup>®</sup> were €144.4 million, up 100 per cent. from €72.2 million in 2014, having achieved a 173 per cent. two-year historic CAGR. This highlights the continued strong trajectory for the product and reflects the continued global roll out by Skyepharma's partners. In Japan, in-market sales for the year ended 31 December 2015 (included in the above sales) totalled €43.3 million (2014: €15.2 million). Skyepharma also benefitted from the growth in sales of GSK's Ellipta<sup>®</sup> range products, where the royalty-generating products achieved in-market sales of £349.5 million in 2015, having achieved 317 per cent. growth compared with 2014.

### c) Combined coverage of inhaled product classes and anticipated newsflow

*Portfolio of recently launched inhaled in-market and pipeline assets in largest established and fast growing segments*

<b>Product class</b>	<b>Estimated market size in 2020<sup>1</sup></b>	<b>Combined in-market and pipeline products</b>
ICS	US\$3.9bn	VR506, VR475, VR647
ICS/LABA	US\$10.4bn	VR315, AirFluSal <sup>®</sup> Forspiro <sup>®</sup> , flutiform <sup>®</sup> , Relvar <sup>®</sup> /Breo <sup>®</sup> Ellipta <sup>®</sup>
LAMA	US\$4.4bn	Seebri <sup>®</sup> Breezhaler <sup>®2</sup> , Incruse <sup>®</sup> Ellipta <sup>®</sup>
LAMA/LABA	US\$2.6bn	Ultibro <sup>®</sup> Breezhaler <sup>®2</sup> , Anoro <sup>®</sup> Ellipta <sup>®</sup>
ICS/LABA/LAMA	US\$0.2bn	QVM149, SKP-2076
Biologics and other novel therapies, including combination add-on therapies <sup>3</sup>	US\$2.3bn	VR942, SKP-2075

Source: Decision Resources Pharmacor Asthma and COPD 2015

Notes: 1) Estimated market size (G7) in 2020; 2) Also known as Seebri<sup>®</sup> Inhalation Capsules and Ultibro<sup>®</sup> Inhalation Capsules in Japan; 3) Other novel therapies for asthma and/or COPD

Vectura and Skyepharma have conducted mutual due diligence on each other's businesses, including their respective programmes, in preparation for the announcement of the Merger. The information shared between Vectura and Skyepharma has been limited for regulatory, commercial and confidentiality reasons. No restriction on the Enlarged Group's ability to continue with the existing programmes has been identified as a result of these reviews. Following the Merger, the Enlarged Group will conduct a full review of all ongoing programmes.

*Combined anticipated 2016 key newsflow*

<b>Product</b>	<b>Compound</b>	<b>Indication</b>	<b>Event</b>
<b>Approved/Line extensions</b>			
Utibron <sup>™</sup> Neohaler <sup>®</sup>	Indacaterol/Glycopyrronium	COPD	US launch Q1 2016

<sup>2</sup> In-market sales are internal calculations using IMS Health data, based on sales to pharmacies, and exclude certain minor countries not covered by IMS. In-market sales are not the same as sales to wholesalers on which royalties are payable to the Group.

<b>Product</b>	<b>Compound</b>	<b>Indication</b>	<b>Event</b>
LABA/LAMA <sup>1</sup>	bromide		
Seebri™ Neohaler® LAMA <sup>1</sup>	Glycopyrronium bromide	COPD	US launch Q1 2016
flutiform <sup>®2</sup>	Fluticasone propionate/ Formoterol fumarate	Asthma	Completion of COPD trials (Europe, China/Asia Pacific) Commercialisation in Latin America Regulatory progress with breath-actuated version
EXPAREL <sup>®2</sup>	Bupivacaine liposome injectable suspension	Pain management	Milestone Launch for oral surgery, and surgery in dogs
<b>Phase II</b>			
VR647 (SCIPE) <sup>1</sup>	Corticosteroid budesonide	Paediatric asthma	Start of adult PK study Q2 2016
<b>Phase I</b>			
VR942 <sup>1</sup>	Inhaled biologic	Uncontrolled asthma	Phase I clinical top-line data H1 2016
VR465 <sup>1</sup>	Nanobody drug candidate	RSV in infants	Phase I/IIa safety study top line results H1 2016
SKP-2075 <sup>2</sup>	Inhaled theophylline/ fluticasone propionate	COPD/ Asthma	Commencement of clinical programme
SKP-2076 <sup>2</sup>	Inhaled ICS/LABA/LAMA triple combination	Asthma	Completion of feasibility work Finalise development and licence agreement with Mundipharma
<b>Generics</b>			
VR315 US <sup>1</sup>	Salmeterol/Fluticasone	Asthma/COPD	Filing acceptance decision by FDA

Notes: 1) Vectura related newsflow; 2) Skyepharma related newsflow

## 5. Synergies and integration

Vectura and Skyepharma have highly complementary portfolios and the Merger represents an attractive opportunity to create a leading independent inhalation drug development company within airways diseases; covering DPI, pMDI and nebulised options for patients, physicians and payers.

The Vectura Board, following discussions with the Skyepharma Board, is confident that, as a direct result of the Merger, the Enlarged Group has the potential to generate attractive synergies and create additional shareholder value.

The Vectura Board has identified potential recurring cost synergies, which are in addition to savings previously targeted by Vectura and Skyepharma separately, including:

- savings generated by removing duplication and overlapping roles in management, corporate functions and other roles across the business (excluding the oral business and Lyon); and
- administrative costs related to the above role savings and procurement benefits resulting from the Enlarged Group's scale.

The Vectura Directors expect the value of these pre-tax synergies to be approximately £10 million per annum and be fully realised by the 2018 calendar year, comprising £8 million of operating cost savings through the elimination of overlapping roles and £2 million through the reduction in administrative costs.

The Vectura Directors estimate that the implementation of the operating cost savings would give rise to one-off costs of £9 million incurred in the first 12 to 18 months following completion of the Merger. It is the

intention of the Vectura Directors to establish a provision for the full £9 million costs in the financial year in which the Merger completes.

The Vectura Directors expect that there will be a net reduction in the number of Enlarged Group full-time equivalent roles of approximately 61. The number of roles, specific operating functions and locations affected by the integration will depend on the outcome of the integration planning and will be subject to consultation in accordance with local regulations. The role-related synergies will be realised only as the reductions are implemented.

In addition to the quantified synergies set out above and with its focus on inhaled airways disease, the Vectura Board intends to undertake a review following completion of the proposed Merger of the strategic options relating to Skyepharma's oral business and related manufacturing assets in order to maximise future value for the Enlarged Group.

In preparing the estimated cost synergies available from the proposed Merger, Vectura and Skyepharma have both shared a limited amount of operating and financial information to facilitate Vectura undertaking its analysis. Data has been limited for commercial, competition or other reasons, and, therefore, estimates and assumptions have been made in arriving at the estimated cost synergies.

The Vectura Directors do not expect any material dis-benefits to arise in connection with the Merger.

The cost bases used as the basis for the quantification exercise are as set out in Appendix 4 to this announcement.

These statements of estimated cost synergies relate to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies. As a result, the cost synergies referred to may not be achieved, may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated. For the purposes of Rule 28 of the City Code, these statements of estimated cost synergies are the responsibility of Vectura and the Vectura Directors.

These statements are not intended as a profit forecast and should not be interpreted as such.

***There are several material assumptions underlying the calculation of the above-mentioned synergy statements which might be materially greater or less than those estimated. Please refer to Appendix 4 to this announcement for further details of the underlying calculations and the material assumptions. Appendix 4 to this announcement includes the reports from Vectura's reporting accountant, Deloitte LLP, and its joint financial advisers, J.P. Morgan Cazenove and Rothschild, for the purposes of the City Code.***

## **6. Management, employees and locations of business**

The Enlarged Group's executive directors will comprise James Ward-Lilley, Vectura's CEO, who will be the CEO of the Enlarged Group, Andrew Derodra, Skyepharma's CFO, and Trevor Phillips, Vectura's COO. Bruno Angelici, Vectura's Chairman, will be Chairman of the Enlarged Group. The Enlarged Group Board will ensure that the Enlarged Group benefits from the skills and experience of both Vectura and Skyepharma to deliver best practice and operational excellence across the Enlarged Group.

Following completion of the Merger, Andrew Oakley, Vectura's CFO, will leave the Vectura Board on terms to be agreed. Andrew has been an important member of the Vectura management team and Board since he joined the business at the start of 2015. Andrew will continue to play a role up to completion of the Merger to support an effective business transition and will then leave the Enlarged Group.

Peter Grant will leave Skyepharma on the completion of the Merger on terms to be agreed. Peter played a pivotal role in turning around Skyepharma, initially as CFO and, since January 2012, as CEO, creating substantial value for shareholders. Since he became CEO, the Skyepharma share price has increased by approximately 1230 per cent. and Skyepharma has been transformed into a strongly growing business.

On the completion of the Merger, Vectura will appoint Frank Condella, Skyepharma's Chairman, as Vice-Chairman of the Enlarged Group, and Thomas Werner, a non-executive Skyepharma Director, as a non-executive director on the Enlarged Group Board. Andrew Derodra, Skyepharma's CFO, will become the CFO of the Enlarged Group.

It is Vectura's intention that one existing non-executive Vectura Director, who has not yet been identified, will stand down from the Enlarged Group Board within one month after the completion of the Merger and there will be an appropriately managed process for the departure of one additional existing Vectura Board member, to reduce the size of the Enlarged Group Board to a total of eight within eighteen months of completion of the Merger.

Vectura has had discussions with Andrew Derodra regarding his appointment as CFO and a director of the Enlarged Group, subject to completion of the Merger. As part of these discussions, Andrew Derodra has received a letter from Vectura in which a conditional offer of employment is made for him to become CFO of the Enlarged Group when the Merger completes (the "**Conditional Offer**"). Details of the Conditional Offer and its status are set out in Appendix 6 to this announcement. For the purpose of Rule 16.2 of the City Code, Lazard considers that the terms of the Conditional Offer taken as a whole are fair and reasonable so far as the Skyepharma Shareholders are concerned.

Within 3 months after the Merger, Vectura intends to carry out a benchmarking exercise to review the remuneration for the Enlarged Group's executive directors and the Remuneration Committee will, thereafter, consider and implement such changes as they consider appropriate.

There have been no discussions with Frank Condella or Thomas Werner on the terms of their appointment as non-executive directors of the Enlarged Group.

The Vectura Board and the Skyepharma Board both attach great importance to the skills and experience of the existing management and employees of Vectura and Skyepharma and believe that the Enlarged Group would offer greater opportunities to the employees within it than if Vectura and Skyepharma were not to merge.

It is envisaged that the Enlarged Group will have a small corporate office in London (UK) and its registered office will be located at Vectura's existing head office in Chippenham (UK). Other sites are located in Cambridge (UK), Munich (Germany), Basel (Switzerland) and Saint-Quentin Fallavier (near Lyon, France). No site changes are planned.

## **7. Financial effects of the Merger**

The Vectura Directors believe the Merger will be revenue-enhancing and accretive to Vectura's earnings (before amortisation), with respect to existing Vectura Shareholders, in the first year and will allow Skyepharma Shareholders and Vectura Shareholders to share in substantial synergy benefits. The Vectura Directors have identified pre-tax synergies of approximately £10 million per annum which are expected to be fully realised by the 2018 calendar year. These comprise operating cost savings generated by removing duplication and overlapping roles in management, corporate functions and other



roles across the business (excluding the oral business and Lyon), reducing administrative costs related to the above role savings and generating procurement benefits resulting from the Enlarged Group's scale.

## **8. Background to, and reasons for, the Skyepharma Board recommendation**

Established in 1996, Skyepharma is an expert drug development company, combining proven scientific expertise with proprietary drug delivery technologies to develop innovative inhalation and oral pharmaceutical products. Skyepharma is eligible for revenues from 16 approved products, marketed throughout the world by big pharma as well as specialty pharmaceutical companies, as well as generating income from the development of further products and technology licences.

While the Skyepharma Board believes that Skyepharma is well positioned to succeed as an independent business, it also believes that its strategy for growth would be accelerated by greater scale, enhanced device and formulation expertise, further ability to leverage of existing partnerships, and the combination of complimentary product portfolios and material cost synergies from the Merger.

As a result, the Skyepharma Board believes that the Merger presents a compelling opportunity to create an Enlarged Group capable of achieving significant strategic, financial and operational benefits, including:

- Greater scale, diversity and penetration into the inhalation market, using the combined platforms of Vectura and Skyepharma.
- The combination of Skyepharma's marketed product portfolio and earlier stage pipeline with Vectura's later stage pipeline to support the long-term growth of the Enlarged Group.
- Access to a larger group of partners which are experienced in commercialising inhalation products.
- The realisation of material cost synergies.

As a result, the Skyepharma Board believes that the Merger will result in strong potential for improved shareholder returns.

In light of these factors, and having been so advised by Lazard as to the financial terms of the Merger, the Skyepharma Board considers the terms of the Merger to be fair and reasonable. The Skyepharma Directors unanimously intend to recommend that Skyepharma Shareholders vote in favour of the Scheme at the Court meeting and the resolutions relating to the Merger to be proposed at the Skyepharma General Meeting as set out in paragraph 3.

## **9. Information relating to Vectura**

Vectura is a leading independent inhaled device, formulation, development and specialist commercial business focusing on the development of pharmaceutical therapies for the treatment of airways diseases.

Vectura was established in 1997 to identify and develop opportunities in drug formulation and delivery. Vectura was listed on the London Stock Exchange in 2007 and is a member of the FTSE 250 index. Vectura's main locations are in Chippenham and Cambridge, in the UK, and Munich, in Germany.

Vectura's strong revenue growth is driven by an increasing amount and range of royalties from marketed products and significant milestone achievements. Vectura's diversified and rapidly growing revenue base from the development and commercialisation of its partnered products underpins the cash flow to develop its pipeline and maintain investment in technology.

Vectura has established development collaborations, joint ventures and licence agreements with several global pharmaceutical and biotechnology companies including Hikma (through its wholly-owned subsidiary, West-Ward Pharmaceuticals), Novartis, Sandoz, Baxter, GlaxoSmithKline, UCB, Ablynx, Grifols, Janssen Biotech and Tianjin KingYork Group Company. Vectura has committed pipeline programmes combining novel and known treatments and is eligible for potential future milestone payments of more than £90 million through to the financial year 2022. Unique proprietary DPI and smart nebulisation technologies provide Vectura a base for further collaboration agreements with new and existing partners.

Vectura has eight products marketed by partners with growing global royalty streams (in aggregate) and a portfolio of drugs in clinical development, a number of which have been licensed to major pharmaceutical companies:

<i><b>In market products</b></i>	<i><b>Products in pipeline</b></i>	
Ultibro <sup>®1</sup> Breezhaler <sup>®</sup>	VR588	VR475
Seebri <sup>®</sup> Breezhaler <sup>®</sup>	VR475	VR876
AirFluSal <sup>®</sup> Forspiro <sup>®</sup>	VR465	QVM149
Advate <sup>®</sup>	VR942	VR315
Adept <sup>®</sup>	VR647	VR506
Anoro <sup>®</sup> Ellipta <sup>®</sup>	VR179	VR632
Relvar <sup>®</sup> Ellipta <sup>®</sup> /Breo <sup>®</sup> Ellipta <sup>®</sup>	VR736	Utibron <sup>™</sup> Neohaler <sup>®2</sup>
Incruse <sup>®</sup> Ellipta <sup>®</sup>	VR096	Seebri <sup>™</sup> Neohaler <sup>®2</sup>

Note: 1) Also known as Seebri<sup>®</sup> Inhalation Capsules and Ultibro<sup>®</sup> Inhalation Capsules in Japan; 2) Filed

### **Profit forecast**

Further to the publication of the Vectura 2015 Unaudited Interim Financial Statements on 17 November 2015, the following profit forecast was made in the Vectura 2015 Interim Results Meeting:

*“The Company will grow EBITDA for the year ending 31 March 2016 as compared with the year ending 31 March 2015.”*

The Profit Forecast was published before Vectura made an approach with regard to a possible offer for Skyepharma and therefore the requirements of Rule 28.1(c) of the City Code apply in relation to the Project Forecast. The Vectura Directors confirm that the Profit Forecast remains valid and confirm that the Profit Forecast has been properly compiled on the basis of the assumptions stated in Appendix 5 to this announcement and that the basis of accounting used is consistent with Vectura's accounting policies. The Profit Forecast does not take into account any impact of the Merger.

### **Current trading and trends**

As stated in its results for the six-month period to 30 September 2015 (the “**Vectura Interim Results**”), Vectura delivered a strong set of results for that period. Growing royalty revenue from recently launched

products and important milestone achievements contributed to revenue growth of 35 per cent. compared with the same period in the prior financial year. Vectura continued to invest in its pipeline with research and development expenditure increasing by 35 per cent. compared with the prior period, largely the result of focused investment in our VR475 EU programme as well as continuing to advance other pipeline assets. Increased revenues, partially offset by increased R&D investment, resulted in positive EBITDA progression with a 57 per cent. increase compared with the same period in the prior year.

Since the publication of the Vectura Interim Results, there has continued to be positive newsflow relating to Vectura's pipeline and in-market partnered products, namely:

- FLAME study showed superiority of Novartis' Ultibro<sup>®</sup> Breezhaler<sup>®</sup> (also known as Seebri<sup>®</sup> Inhalation Capsules and Ultibro<sup>®</sup> Inhalation Capsules in Japan) over Seretide<sup>®</sup> in reducing COPD exacerbations.
- Commencement of first Phase III trial of inhaled triple therapy QVM149 for asthma and resulting US\$3.75 million milestone payment.
- VR315 US completed clinical study report and a cash milestone payment to Vectura of US\$2 million.

## 10. Information relating to Skyepharma

Skyepharma is an expert drug development company with a range of proven inhalation and oral product development capabilities and technologies.

Skyepharma was established in 1996, following the acquisition of Jago Pharma AG, which had been a drug delivery specialist since 1983. Skyepharma is headquartered in London, UK, and has sites in Muttenz, near Basel, Switzerland and Saint-Quentin Fallavier near Lyon, France. It is listed on the main market for listed securities on the London Stock Exchange.

Skyepharma develops complex pharmaceutical products by applying its proven scientific expertise and proprietary drug delivery technologies in the areas of inhalation and oral drug delivery. Skyepharma typically outlicences products for later stage development and commercialising and this enables the business to earn a carried interest in future drug development, rewarded with signing, development, launch and sales milestones as well as royalties on net sales and, in some cases, product supply. Skyepharma currently generates revenues from 16 products, nine of which were launched in key jurisdictions in the last four years.

The products developed by Skyepharma are marketed throughout the world by both large pharmaceutical and specialty pharmaceutical companies. Skyepharma has a track record of successful development of diverse and complex inhalation and oral pharmaceutical products.

The 16 revenue-generating products are as follows:

<b>Inhalation products</b>	<b>Licencee/Partner</b>
<i>flutiform</i> <sup>®</sup>	Mundipharma/Kyorin
Breo <sup>®</sup> Ellipta <sup>®</sup> /Relvar <sup>®</sup> Ellipta <sup>®</sup>	GlaxoSmithKline
Anoro <sup>®</sup> Ellipta <sup>®</sup>	GlaxoSmithKline
Incruse <sup>®</sup> Ellipta <sup>®</sup>	GlaxoSmithKline
<b>Oral products</b>	<b>Licencee/Partner</b>

Paxil CR™	GlaxoSmithKline
Requip® Once-a-day	GlaxoSmithKline
Madopar DR®	Roche
Triglide®	Casper Pharma
Sular®	Shionogi
Diclofenac-ratiopharm® uno	Teva
LODOTRA®/RAYOS® (U.S.)	Horizon Pharma
Coruno®	Therabel
Xatral® OD/Uroxatral® (U.S.)	Sanofi
ZYFLO CR®	Chiesi USA Inc.
<b>Topical products</b>	<b>Licencee/Partner</b>
Solaraze®	Sandoz/Almirall
<b>Other products</b>	<b>Partner</b>
EXPAREL®	Pacira Pharmaceuticals

Skyepharma's partners have had strong commercial success with its *flutiform*® product, a combination asthma treatment, which as of 15 March 2016 has been launched in 31 countries, including in Europe, the Middle East and Asia and Japan. Mundipharma has marketing rights to the product for most of the world outside North America and Japan and Kyorin has marketing rights in Japan.

Skyepharma's strategy has been to apply its scientific expertise and proprietary drug delivery technologies to develop innovative oral and inhalation pharmaceutical products which provide benefits to patients and meet unmet medical needs. While generating revenues from approved and pipeline product candidates, Skyepharma has sought to strengthen its product pipeline by developing new products and technologies. Historically, this has been done through own development, collaborations with partners and targeted in-licencing and/or acquisitions.

### ***Inhalation technologies***

Skyepharma has proven expertise and technologies in inhalation systems to deliver medicines to a patient's lungs, with proven capabilities to develop inhalation products in both pMDI and DPI forms.

pMDI, one of the most widely-used systems for inhalation drug delivery, has been in existence for more than 40 years and is primarily used to deliver medications for asthma and COPD as well as other small molecule drugs to the lungs. pMDI technologies rely on stable drug formulations with non-chlorofluorocarbon propellants, hydrofluoroalkanes, enabling excipients and special device component systems to deliver the required therapy consistently. In its pMDI development work, Skyepharma focuses on the formulation of drugs for use in pMDIs with compatible device systems which may be commercially manufactured by third parties. pMDI products developed by the Group have obtained approvals in more than 60 countries. Skyepharma's key product, *flutiform*® is delivered in a pMDI device.

In addition to pMDI, Skyepharma has developed technologies and products in DPIs, having developed both devices and associated dry powder formulations. Products containing Skyepharma's DPI technologies have been approved in more than 75 countries. Skyepharma also has a range of oral drug delivery technologies including Geomatrix™ and Geoclock™. These technologies are flexible and can be

tuned to apply to a variety of pharmaceutical ingredients and match the need of a wide range of therapeutic objectives. Geomatrix™ provides versatility for the formulation of extended release products whereas Geoclock™ is an enabling tool for the formulation of chronotherapeutic products. Two innovative technologies for gastro retention are also in development – Soctec™ and Oleotec™. These are intended to address the issue of poor absorption of many orally-administered drugs by holding drugs in the upper gastro-intestinal tract for prolonged periods to ensure optimal delivery.

## **11. Financing of the Merger**

On 16 March 2016, Vectura Limited (a wholly-owned subsidiary of Vectura) entered into a new 5 year £50 million (with the option to extend to £75 million) revolving loan facility with HSBC Bank plc.

Under the terms of the Merger, New Vectura Shares will be issued as consideration for the Merger. The cash payable pursuant to the terms of the Partial Cash Alternative will be funded from Vectura's existing cash resources, together with the proceeds of £50 million from the above revolving loan facility with HSBC Bank plc which are available to Vectura for the purposes of (amongst other things) financing the Merger.

J.P. Morgan Cazenove and Rothschild, as joint financial advisers to Vectura, are satisfied that sufficient resources are available to Vectura to satisfy, in full, the cash consideration payable to Skyepharma Shareholders under the terms of the Merger.

## **12. Partial Cash Alternative**

There will be a Partial Cash Alternative pursuant to which Skyepharma Shareholders can elect to receive cash instead of some or all of the New Vectura Shares to which they would otherwise be entitled under the Merger (subject to scale-back in accordance with the terms of the Partial Cash Alternative). If a Skyepharma Shareholder does not elect to receive cash instead of any of the New Vectura Shares which they would be entitled to receive under the Merger in accordance with the terms of the Partial Cash Alternative, then the entirety of the consideration due to such Skyepharma Shareholder pursuant to the Merger will be satisfied by the issuance of New Vectura Shares.

The maximum amount of cash available under the Partial Cash Alternative of £70 million equates to 15.9 per cent. of the total value of the consideration offered to Skyepharma Shareholders under the terms of the Merger, based on the Closing Price of 146.60 pence per Vectura Share on 15 March 2016 (being the last Business Day prior to the date of this announcement).

Skyepharma Shareholders who validly elect to receive the Partial Cash Alternative for up to a basic entitlement of 23.26 pence in cash and 0.8414 of a New Vectura Share for every New Vectura Share to which they would otherwise be entitled under the Merger, will receive the full amount of cash for which they have elected. Skyepharma Shareholders will be able to elect to receive a greater amount of cash under the Partial Cash Alternative, but such elections to receive cash in excess of the basic entitlement may be scaled back in accordance with the terms of the Partial Cash Alternative as they can only be satisfied to the extent that other Skyepharma Shareholders do not take up the Partial Cash Alternative. As a result, if valid elections for the Partial Cash Alternative would otherwise result in the payment of more than £70 million, Skyepharma Shareholders who have elected for the Partial Cash Alternative in respect of 15.9 per cent. or less of the New Vectura Shares to which they would otherwise be entitled under the Merger will receive the amount of cash they have so elected to receive in full and Skyepharma Shareholders who have elected for the Partial Cash Alternative in respect of more than 15.9 per cent. of

the New Vectura Shares to which they would otherwise be entitled under the Merger will be scaled back with the balance of entitlements being satisfied in New Vectura Shares (other than fractional entitlements). If valid elections for the Partial Cash Alternative are in aggregate less than £70 million, all elections will be met in full.

Assuming all Skyepharma Shareholders elect for their basic entitlement under the Partial Cash Alternative in respect of all of the New Vectura Shares to which they would otherwise be entitled under the Merger, a Skyepharma Shareholder would receive 65.06 pence in cash and 2.3539 New Vectura Shares per Skyepharma Share representing, in aggregate, 410.15 pence per Skyepharma Share (based on the Closing Price of a Vectura Share on 15 March 2016 (being the last Business Day prior to the date of this announcement)).

The Partial Cash Alternative will not affect the entitlement under the Merger to New Vectura Shares of those Skyepharma Shareholders who do not elect for it. The Partial Cash Alternative is conditional upon the Scheme becoming effective.

Full details of the Partial Cash Alternative will be set out in the Scheme Document.

### **13. Accounting considerations**

The Vectura Board believes that no material adjustment needs to be made to Skyepharma's financial information to achieve consistency with Vectura's accounting policies.

### **14. Dividends and dividend policy**

The New Vectura Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the existing Vectura Shares including the right to receive all dividends and other distributions (if any) declared, paid or made by Vectura by reference to a record date falling after the Effective Date. At present, no dividends are paid by Vectura or Skyepharma. The Vectura Directors are cognisant of the importance of dividends to shareholders. This must be balanced with the requirement to ensure the Enlarged Group has sufficient cash resources to fund future growth of the Enlarged Group through additional strategic initiatives. At this stage, the Vectura Board has decided that the Enlarged Group's priority should be on maximising shareholder returns through growing the business and so does not expect to pay any dividend in the near-to-medium term. The appropriate balance of capital allocation is an area which the Vectura Board monitors closely and will continue to do so post the Merger.

### **15. Structure of the Merger**

It is intended that the Merger will be effected by a court-sanctioned scheme of arrangement between Skyepharma and the Scheme Shareholders under Part 26 of the Companies Act. The purpose of the Scheme is to provide for Vectura to become the owner of the whole of the issued and to be issued ordinary share capital of Skyepharma.

Subject to the Scheme becoming effective, the Scheme Shares will be transferred to Vectura in consideration for which, each Scheme Shareholder will receive the New Vectura Shares to which they are entitled, and/or any cash payable to them pursuant to the Partial Cash Alternative.

The Merger will be subject to the Conditions and certain further terms set out in Appendix 1 to this announcement and to the full terms and conditions which will be set out in the Scheme Document.

The Scheme Document will be sent to Skyepharma Shareholders as soon as practicable and, in any event, within 28 days of this announcement. Vectura and Skyepharma expect that the Scheme will become effective in the third quarter of 2016, subject to the satisfaction or the waiver of the Conditions and certain further terms set out in Appendix 1 to this announcement.

To become effective, the Scheme requires, amongst other things:

- (a) a resolution to approve the Scheme to be passed by a majority in number of the Scheme Shareholders who are present and voting (and entitled to vote) at the Court Meeting, either in person or by proxy, representing not less than 75 per cent. in value of the Scheme Shares voted by those Scheme Shareholders; and
- (b) the Special Resolution to be passed by the requisite majority of Skyepharma Shareholders (who are entitled to cast one vote for each Skyepharma Share held) at the Skyepharma General Meeting which will be immediately after the Court Meeting.

In addition, the Scheme must be sanctioned by the Court at the Scheme Court Hearing. The Scheme will only become effective once an office copy of the Scheme Court Order sanctioning the Scheme is delivered to the Registrar of Companies.

The Conditions in paragraph A of part A of Appendix 1 to this announcement provide that the Scheme will lapse if:

- the Court Meeting and the Skyepharma General Meeting are not held by the 22<sup>nd</sup> day after the expected date of such meetings to be set out in the Scheme Document (or such later date as Vectura and Skyepharma may agree and, if required, the Court and the Panel may allow);
- the Scheme Court Hearing is not held by the 22<sup>nd</sup> day after the expected date of the Scheme Court Hearing to be set out in the Scheme Document (or such later date as Vectura and Skyepharma may agree and, if required, the Court and the Panel may allow); or
- the Scheme does not become effective by 1 September 2016 (or such later date, if any, as Vectura and Skyepharma may agree and, if required, the Court and the Panel may allow).

Upon the Scheme becoming effective, it will be binding on all Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting and the Skyepharma General Meeting.

Upon the Scheme becoming effective:

- the CREST accounts of the Skyepharma Shareholders who hold Skyepharma Shares in uncertificated form will be credited with the New Vectura Shares and any cash payable pursuant to the Partial Cash Alternative in consideration for their Skyepharma Shares; and
- Skyepharma Shareholders who hold their Skyepharma Shares in certificated form will receive share certificates in respect of New Vectura Shares and any cash payable pursuant to the Partial Cash Alternative for their Skyepharma Shares,

in each case no later than 14 days after the Effective Date.

The Scheme will be governed by English law. The Scheme will be subject to the applicable requirements of the City Code, the Panel, the London Stock Exchange and the FCA.

## **16. Skyepharma Share Schemes**

Vectura will make appropriate proposals to participants in the Skyepharma Share Schemes in due course. Participants in the Skyepharma Share Schemes will be contacted separately regarding the effect of the Merger on their rights under the Skyepharma Share Schemes and with the details of Vectura's proposals.

The Scheme will extend to any Skyepharma Shares which are unconditionally allotted or issued on or prior to the Scheme Record Time to satisfy the exercise of existing options or vesting of awards under the Skyepharma Share Schemes prior to the Scheme Record Time. Any Skyepharma Shares allotted or issued after the Scheme Record Time under the Skyepharma Share Schemes will, subject to the Scheme becoming effective, be immediately transferred to Vectura (or its nominee) in exchange for the same consideration (excluding the Partial Cash Alternative) as Skyepharma Shareholders will be entitled to receive under the terms of the Scheme. The terms of this exchange are to be set out in the proposed amendments to Skyepharma's articles of association which will be considered at the Skyepharma General Meeting.

## **17. Vectura Shareholder approval and Combined Circular/Prospectus**

As a result of its size, the Merger constitutes a Class 1 transaction for Vectura for the purposes of the Listing Rules. Accordingly, Vectura will be required to seek the approval of Vectura Shareholders for the Merger at the Vectura General Meeting.

The Combined Circular/Prospectus, containing information about the New Vectura Shares and the Enlarged Group and the notice convening the Vectura General Meeting (at which, amongst other things, a resolution will be proposed for the approval of the Merger by Vectura Shareholders), will be published and sent to Vectura Shareholders as soon as practicable after the date of this announcement.

## **18. Listing, dealings and settlement of the New Vectura Shares**

Applications will be made to the FCA for the New Vectura Shares to be admitted to the Official List with a premium listing and to the London Stock Exchange for the New Vectura Shares to be admitted to trading on the London Stock Exchange's main market for listed securities ("**Admission**"). It is expected that Admission will become effective and that dealings for normal settlement in the New Vectura Shares will commence on the London Stock Exchange at or shortly after 8.00 a.m. (London time) on the Effective Date.

Vectura Shares are already admitted to the premium listing segment of the Official List, to trading on the London Stock Exchange's main market for listed securities and to CREST. It is expected that all of the New Vectura Shares, when issued and fully paid, will be capable of being held and transferred by means of CREST. The New Vectura Shares will trade under the same ISIN as the existing Vectura Shares.

## **19. Cancellation of admission to trading of Skyepharma Shares on the London Stock Exchange and re-registration**

On the Effective Date, Skyepharma will become a wholly-owned subsidiary of Vectura.



Prior to the Scheme becoming effective, it is intended that requests will be made to the London Stock Exchange to cancel trading in Skyepharma Shares on the London Stock Exchange's main market for listed securities and to the FCA to cancel the listing of the Skyepharma Shares from the Official List, in each case, to take effect on the first Business Day following the Effective Date.

Share certificates in respect of Skyepharma Shares will cease to be valid and should be destroyed on the first Business Day following the Effective Date.

In addition, entitlements held within CREST to Skyepharma Shares will be cancelled on the first Business Day following the Effective Date.

It is Vectura's intention that Skyepharma will be re-registered as a private limited company as part of the Scheme and for this to take effect on the Effective Date.

## **20. Offer-related arrangements**

### **a) Mutual Confidentiality Agreement**

Vectura and Skyepharma have entered into a mutual confidentiality agreement dated 18 January 2016 pursuant to which each of Vectura and Skyepharma has undertaken to keep certain information relating to the Merger and to the other party confidential and not to disclose such information to third parties, except in certain permitted circumstances (including where disclosure is to certain permitted disclosees for the purposes of evaluating the Merger or where required by applicable laws or regulations). The confidentiality obligations of each party under the agreement will terminate on the earlier of (i) completion of the Merger and (ii) the fifth anniversary of the date of the agreement.

Subject to certain exceptions, the confidentiality agreement also prohibits either party from (i) having any contact with any officer, manager or employee of any member of the other party's group in relation to the Merger, or (ii) for a period of 12 months from the date of the agreement, having any contact with certain categories of persons (including customers, suppliers and shareholders of any member of the other party's group) in relation to the Merger or soliciting or employing certain employees of any member of the other party's group.

The confidentiality agreement includes standstill obligations which, subject to certain exceptions and for a period of 18 months from the date of the agreement, prohibit Vectura from, amongst other things, acquiring, offering to acquire or announcing any offer to acquire any Skyepharma Shares or soliciting proxies or votes from any Skyepharma Shareholder.

### **b) Co-operation Agreement**

On 16 March 2016, Vectura and Skyepharma entered into a co-operation agreement in relation to the Merger (the "**Co-operation Agreement**") pursuant to which, among other matters, they have agreed:

- to co-operate with each other, and to provide each other with reasonable information and assistance, for the purposes of obtaining CMA clearance in connection with the Merger;

- to provide each other with reasonable information for the preparation of the Scheme Document and the Combined Circular/Prospectus;
- to implement certain proposals in relation to the relevant Skyepharma Share Schemes; and
- certain principles regarding the vesting of outstanding awards under the Skyepharma Share Schemes and Skyepharma's commitment to issue Skyepharma Shares to satisfy these awards, as well as a commitment by both Vectura and Skyepharma to agree communications to participants in the Skyepharma Share Schemes and by Skyepharma to amend its articles at the Skyepharma General Meeting to ensure that Skyepharma Shares issued after the Effective Date are automatically transferred to Vectura in consideration for the provision by Vectura of the Merger consideration to the transferor (other than the Partial Cash Alternative).

The Co-operation Agreement records Vectura's and Skyepharma's intention to implement the Merger by way of the Scheme, subject to the ability of Vectura to proceed by way of an Offer in the circumstances described in paragraph 25 of this announcement.

Under the Co-operation Agreement, Vectura has also agreed:

- to Skyepharma providing run-off D&O insurance cover for the Skyepharma Directors for a period of six years;
- to provide the proposed Vectura Directors with insurance coverage in respect of their potential liability with regards to the Combined Circular/Prospectus; and
- to consent to certain potential transactions disclosed by Skyepharma to Vectura if required to do so by the Panel so as to waive any requirement under Rule 21.1 for Skyepharma to require Skyepharma Shareholders to approve such transactions.

The Co-operation Agreement will terminate in a number of customary circumstances, including upon written notice by either party if there is a change of recommendation of the Skyepharma Board for the Merger or if the Skyepharma Board recommends a third-party offer for Skyepharma.

## **21. Irrevocable undertakings**

### *Irrevocable undertakings from Skyepharma Shareholders*

Vectura has received an irrevocable undertaking from HBM Healthcare Investments (Cayman) Ltd ("HBM") to vote in favour of the Scheme at the Court Meeting and the Special Resolution at the Skyepharma General Meeting in respect of a total of 29,848,097 Skyepharma Shares, representing approximately 28.5 per cent. of Skyepharma's existing issued ordinary share capital as at 15 March 2016 (being the latest practicable date prior to this announcement). The irrevocable undertaking received from HBM will cease to be binding if:

- (a) this announcement is not released by 12.00 noon on 16 March 2016;
- (b) the Scheme Document is not posted within 28 days of the date of this announcement;

- (c) Vectura publicly announcing that it does not intend to proceed with the Merger;
- (d) the Merger being withdrawn or lapsing without, in either case, becoming unconditional in all respects and effective;
- (e) the Merger not having become unconditional in all respects and effective by no later than the date 5 months after the date of the undertaking; or
- (f) in the event of a competing offer being made the value of which, in the opinion of Lazard (taking into account certain agreed valuation principles), exceeds the higher of:
  - (1) 500 pence per Skyepharma Share; and
  - (2) 110 per cent. of the value of the consideration being offered by Vectura pursuant to the Merger as at 5 p.m. on the last dealing day immediately prior to the date of such competing offer,

provided further that such irrevocable undertaking will only terminate in these circumstances if:

- (A) such competing offer is announced or made by no later than the later of 29 April 2016 and the date of the actual Court Meeting and Skyepharma General Meeting or, if the Merger is implemented by way of an Offer, the date the Offer is declared unconditional as to acceptances; and
- (B) Vectura has not made an improved offer within 5 calendar days of such competing offer being announced or made (as the case may be) the value of which is, in the opinion of Lazard (taking into account certain agreed valuation principles) at least as favourable to Skyepharma Shareholders as such competing offer.

HBM has also irrevocably undertaken to elect for the Partial Cash Alternative in respect of such a number of Skyepharma Shares such that it receives £19.4 million of cash consideration under the terms of the Merger.

#### *Irrevocable undertakings from Skyepharma Directors*

The irrevocable undertakings given by the Skyepharma Directors include undertakings:

- (i) to vote, or procure the vote, in favour (or to submit, or procure the submission of, Forms of Proxy voting in favour) of the Scheme at the Court Meeting and the Special Resolution at the Skyepharma General Meeting; and
- (ii) the Merger is implemented by way of an Offer, to accept, or procure the acceptance of, such Offer.

These irrevocable undertakings will cease to be binding if:

- (i) this announcement is not released by 12.00 noon on 31 March 2016; or

- (ii) the Scheme Document is not posted within 28 days of the date of this announcement (or such longer period as agreed between Vectura and Skyepharma with the consent of the Panel) or, in the event the Merger is structured as an Offer, the Offer Document is not posted within 28 days of the announcement of the switch from a Scheme to an Offer; or
- (iii) the Scheme or Offer lapses or is withdrawn without becoming unconditional in all respects.

## **22. Disclosure of interests in Skyepharma Shares**

As at the close of business on 15 March 2016, being the last Business Day prior to the date of this announcement, save for the irrevocable undertakings referred to in paragraph 21 above, none of Vectura or any person acting, or deemed to be acting, in concert (within the meaning of the City Code) with Vectura:

- had an interest in, or right to subscribe for, any Skyepharma Shares;
- had any short position in (whether conditional or absolute and whether in the money or otherwise), including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery of, Skyepharma Shares; or
- had borrowed or lent any Skyepharma Shares or entered into any financial collateral arrangements relating to Skyepharma Shares.

Furthermore, save for: the irrevocable undertakings described in paragraph 21 above, no arrangement exists between Vectura or Skyepharma or an associate of Vectura or Skyepharma in relation to Skyepharma Shares. For these purposes, an “arrangement” includes any indemnity or option arrangement, any agreement or any understanding, formal or informal, of whatever nature, relating to Skyepharma Shares which may be an inducement to deal or refrain from dealing in such securities.

## **23. Overseas shareholders**

### **United States**

Scheme Shareholders who are citizens or residents of the United States should consult their own legal and tax advisers with respect to the legal and tax consequences in their particular circumstances of the Scheme, or if Vectura decides to implement the Merger by way of a takeover offer, the Offer.

### **Information relating to Skyepharma Shareholders**

Please be aware that addresses, electronic addresses and certain other information provided by Skyepharma Shareholders, persons with information rights and other relevant persons for the receipt of communications from Skyepharma generally may be provided to Vectura during the Offer Period as required under Section 4 of Appendix 4 of the City Code.

### **Other jurisdictions**

The availability of New Vectura Shares under the Merger, and the distribution of this document, to the persons who are not resident in the United Kingdom may be affected by the laws of the relevant jurisdiction in which they are located. Such persons should inform themselves of, and observe any applicable legal or regulatory requirements of their jurisdiction. Skyepharma Shareholders who are in any doubt regarding such matters should consult an appropriate independent professional adviser in the relevant jurisdiction without delay.

**THIS ANNOUNCEMENT DOES NOT CONSTITUTE AN OFFER FOR SALE OF ANY SECURITIES OR AN OFFER OR AN INVITATION TO PURCHASE ANY SECURITIES. SKYEPHARMA SHAREHOLDERS ARE ADVISED TO READ CAREFULLY THIS ANNOUNCEMENT, AS WELL AS THE SCHEME DOCUMENT AND THE FORMS OF PROXY ONCE THESE HAVE BEEN DESPATCHED.**

**Overseas Shareholders should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme in their particular circumstances.**

#### **24. Documents on website**

Copies of the following documents will by no later than 12.00 noon on 16 March 2016 be published on Vectura's website (<http://www.Vectura.com/>) and Skyepharma's website (<http://www.Skyepharma.com/>):

- (a) a copy of this announcement;
- (b) the mutual confidentiality agreement dated 18 January 2016 between Vectura and Skyepharma;
- (c) the co-operation agreement dated 16 March 2016 between Vectura and Skyepharma;
- (d) the irrevocable undertakings listed in Appendix 3 to this announcement; and
- (e) documents relating to the financing of the Merger referred to in paragraph 11 above, as required by Rule 24.3(f) of the City Code.

#### **Information relating to Skyepharma Shareholders**

Please be aware that addresses, electronic addresses and certain other information provided by Skyepharma Shareholders, persons with information rights and other relevant persons for the receipt of communications from Skyepharma generally may be provided to Vectura during the Offer Period as required under Section 4 of Appendix 4 of the City Code.

#### **25. Reserving the right to proceed by way of a takeover offer**

Vectura reserves the right to elect to implement the Merger by way of an offer for the entire issued and to be issued ordinary share capital of Skyepharma not already held by Vectura as an alternative to the Scheme. In such an event, the Offer will be implemented on the same terms (subject to appropriate amendments), so far as applicable, as those which would apply to the Scheme and subject to the amendment referred to in Appendix 1 to this announcement. Vectura requires Skyepharma's consent to make such an election, unless another person announces a firm intention to make an offer for Skyepharma pursuant to Rule 2.7 of the City Code or the Skyepharma Board withdraws or adversely modifies its recommendation of the Merger.

If the Merger is effected by way of an Offer and the Offer becomes or is declared unconditional in all respects and sufficient acceptances are received, Vectura intends to: (i) request the London Stock Exchange to cancel trading in Skyepharma Shares; (ii) request the FCA to cancel the listing of the Skyepharma Shares on the Official List; and (iii) exercise its rights to apply the provisions of Chapter 3 of

Part 28 of the Companies Act to acquire compulsorily the remaining Skyepharma Shares in respect of which the Offer has not been accepted.

**This summary should be read in conjunction with, and is subject to, the full text of this announcement (including its Appendices). The Merger will be subject to the Conditions set out in Appendix 1 to this announcement, the certain further terms set out in this announcement and to the full terms and conditions which will be set out in the Scheme Document. The sources and bases of certain information contained in this announcement are set out in full in Appendix 2 to this announcement. Details of the irrevocable undertakings received by Vectura are set out in Appendix 3 to this announcement. Details of and bases of calculation of anticipated merger benefits of the Merger and of the related reports from Vectura's reporting accountant, Deloitte LLP, and its joint financial advisers, J.P. Morgan Cazenove and Rothschild are set out in Appendix 4 to this announcement. Details of the Profit Forecast and the assumptions on which it is stated are set out in Appendix 5 to this announcement. Details of the proposed service arrangements for Andrew Derodra are set out in Appendix 6 to this announcement. Certain terms used in this announcement are defined in Appendix 7 to this announcement.**

**For the purposes of Rule 28 of the City Code, the Quantified Financial Benefits Statement contained in this announcement is the responsibility of Vectura and the Vectura Directors. J.P. Morgan Cazenove, Rothschild and Lazard have each given and not withdrawn their consent for the publication of this announcement with the inclusion herein of the references to their names in the form and context in which they appear. Each of Deloitte LLP, J.P. Morgan Cazenove and Rothschild has given and not withdrawn its consent to the publication of its reports in this announcement in the form and context in which they are included.**

There will be an analysts' presentation starting promptly at 11 a.m. (London time) on 16 March 2016 which will cover the proposed Merger as well as the preliminary announcement of Skyepharma's results for the financial year ended 31 December 2015. Please contact Citigate (0207 638 9571) or FTI Consulting (0203 727 1000) for details.

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## Important Notices

*J.P. Morgan Limited, which conducts its UK investment banking businesses as J.P. Morgan Cazenove (“**J.P. Morgan Cazenove**”), is authorised and regulated in the United Kingdom by the Financial Conduct Authority (“**FCA**”). J.P. Morgan Cazenove is acting exclusively for Vectura and no one else in connection with the Merger and the contents of this announcement and will not regard any other person as its client in relation to the matters in this announcement and will not be responsible to anyone other than Vectura for providing the protections afforded to clients of J.P. Morgan Cazenove or for providing advice in relation to the Merger, the contents of this announcement or any other matters referred to herein.*

*N M Rothschild & Sons Limited (“**Rothschild**”), which is authorised by the Prudential Regulation Authority (“**PRA**”) and regulated in the United Kingdom by the FCA and the PRA, is acting exclusively for Vectura and for no one else in connection with the Merger and the contents of this announcement and will not regard any other person as its client in relation to the matters in this announcement and will not be responsible to anyone other than Vectura for providing the protections afforded to clients of Rothschild, or for providing advice in relation to the Merger, the contents of this announcement or any other matters referred to herein.*

*Lazard & Co., Limited (“**Lazard**”), which is authorised and regulated in the United Kingdom by the FCA, is acting exclusively as financial adviser for Skyepharma and no one else in connection with the matters described in this announcement and will not be responsible to anyone other than Skyepharma for providing the protections afforded to clients of Lazard nor for providing advice in relation to the matters referred to in this announcement. Neither Lazard nor any of its affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Lazard in connection with this announcement, any statement contained herein or otherwise.*

## Further Information

*This announcement is not intended to, and does not, constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of, any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Merger or otherwise, nor shall there be any sale, issuance or transfer of securities of Skyepharma or Vectura pursuant to the Merger in any jurisdiction in contravention of applicable laws. The Merger will be implemented solely pursuant to the Scheme Document which, together with the Forms of Proxy and Form of Election, will contain the full terms and conditions of the Merger, including details of how to vote in respect of the Merger. The Combined Circular/Prospectus will be published as soon as practicable after this announcement. The Combined Circular/Prospectus will be made available by Vectura on its website at **www.Vectura.com** and by Skyepharma on its website at **www.Skyepharma.com**. Vectura urges Vectura Shareholders to read the Combined Circular/Prospectus because it will contain important information in relation to the Merger, the New Vectura Shares and the Enlarged Group.*

*Skyepharma will prepare the Scheme Document to be distributed to Skyepharma Shareholders. Skyepharma urges Skyepharma Shareholders to read the Combined Circular/Prospectus and the Scheme Document because they will contain important information in relation to the Merger, the New Vectura Shares and the Enlarged Group.*



*Any decision, vote or other response in relation to the Merger should be made only on the basis of the information contained in the Scheme Document and/or the Combined Circular/Prospectus, as appropriate.*

*This announcement does not constitute a prospectus or prospectus equivalent document.*

### **Overseas Jurisdictions**

*The release, publication or distribution of this announcement in jurisdictions other than the United Kingdom may be restricted by law and therefore any persons who are subject to the laws of any jurisdiction other than the United Kingdom (including Restricted Jurisdictions) should inform themselves about, and observe, any applicable legal or regulatory requirements. In particular, the ability of persons who are not resident in the United Kingdom or who are subject to the laws of another jurisdiction to vote their Skyepharmaceutical Shares in respect of the Scheme at the Court Meeting, to elect to participate in the Partial Cash Alternative, or to execute and deliver Forms of Proxy appointing another to vote at the Court Meeting on their behalf, may be affected by the laws of the relevant jurisdictions in which they are located or to which they are subject.*

*This announcement has been prepared for the purpose of complying with English law and the City Code and the information disclosed may not be the same as that which would have been disclosed if this announcement had been prepared in accordance with the laws of any jurisdiction outside England.*

*If the Merger is implemented by way of an Offer (unless otherwise permitted by applicable law and regulation), the Offer may not be made, directly or indirectly, in or into, or by the use of mails or any other means or instrumentality (including, but not limited to, facsimile, e-mail or other electronic transmission, telex or telephone) of interstate or foreign commerce of, or of any facility of a national, state or other securities exchange of any Restricted Jurisdiction and the Offer may not be capable of acceptance by any such use, means, instrumentality or facilities.*

*Unless otherwise determined by Skyepharmaceutical or required by the City Code, and permitted by applicable law and regulation, participation in the Merger shall not be made available, directly or indirectly, in, into or from a Restricted Jurisdiction where to do so would violate the laws in that jurisdiction and no person may vote in favour of the Merger by any such use, means, instrumentality or form within a Restricted Jurisdiction or any other jurisdiction if to do so would constitute a violation of the laws of that jurisdiction. Accordingly, copies of this announcement and any formal documentation relating to the Merger are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in or into or from any Restricted Jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send them in or into or from any Restricted Jurisdiction.*

*The availability of the New Vectura Shares and/or the Partial Cash Alternative under the Merger to Skyepharmaceutical Shareholders who are not resident in the United Kingdom or who are subject to the laws of another jurisdiction may be affected by the laws of the relevant jurisdictions in which they are resident or to which they are subject.*

*Therefore, any persons who are not resident in the United Kingdom should inform themselves of, and observe, any applicable legal or regulatory requirements. Any failure to comply with the applicable legal*

or regulatory requirements of any jurisdiction may constitute a violation of securities laws or regulations in that jurisdiction.

Further details in relation to Skyepharma Shareholders in overseas jurisdictions will be contained in the Scheme Document.

The Merger relates to the shares of an English company that is not registered under the US Securities Exchange Act of 1934, as amended (the “**US Exchange Act**”) and is intended to be made by means of a scheme of arrangement provided for under English company law. A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules or the proxy solicitation rules under the US Exchange Act. Accordingly, the Merger is subject to the disclosure requirements and practices applicable in the United Kingdom to schemes of arrangement which differ from the disclosure requirements of the US tender offer and proxy solicitation rules under the US Exchange Act.

This announcement is not an offer of securities for sale in the United States. Securities may not be offered or sold in the United States absent registration under the US Securities Act of 1933, as amended (the “**US Securities Act**”), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. The New Vectura Shares to be issued pursuant to the Merger will not be registered under the US Securities Act or under the securities laws of any state or other jurisdiction of the United States. If the Merger is implemented by means of a scheme of arrangement, it is expected that the New Vectura Shares will be issued in reliance upon the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) thereof. If, in the future, Vectura exercises the right to implement the Merger by way of an Offer, the Offer will be made in the United States only if and to the extent an exemption from the registration requirements of the US Securities Act is available and subject to the requirements of US state “blue sky” securities laws.

Under applicable US securities laws, persons (whether or not US persons) who are or will be “affiliates” (within the meaning of the US Securities Act) of Vectura prior to, or of the Enlarged Group after, the Effective Date will be subject to certain transfer restrictions relating to the New Vectura Shares received pursuant to the Merger.

If, in the future, Vectura exercises the right to implement the Merger by way of an Offer and decides to extend the Offer into the United States, the Offer will be made, and any securities issued in connection with the Merger will be issued, in compliance with all applicable US laws and regulations, including the applicable provisions of the US Exchange Act and the US Securities Act, to the extent any exemptions thereunder are not applicable. Such an Offer would be made in the United States by Vectura and no one else.

Neither the US Securities and Exchange Commission nor any US state securities commission has approved or disapproved of the New Vectura Shares to be issued in connection with the Merger, or determined if this announcement is accurate or complete. Any representation to the contrary is a criminal offence in the United States.

Investors should be aware that Vectura and/or affiliates of J.P. Morgan Cazenove or Rothschild may purchase or arrange to purchase Skyepharma Shares otherwise than under any takeover offer or scheme of arrangement related to the Merger on or off the London Stock Exchange or otherwise outside the United States, such as in open market or privately negotiated purchases, so long as those acquisitions or

arrangements comply with applicable UK law and practice and the provisions of an exemption provided from Rule 14e-5 under the US Exchange Act, if applicable.

Financial information included (or incorporated by reference) in this announcement, unless specifically stated otherwise, has been or will be prepared in accordance with accounting standards applicable in the United Kingdom and may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

It may be difficult for US holders of Skyepharma Shares to enforce their rights and any claim they may have arising under US federal securities laws in connection with the Merger, since Vectura and Skyepharma are located in a non-US jurisdiction and some or all of their respective officers and directors may be residents of a non-US jurisdiction. US holders of Skyepharma Shares may not be able to sue Vectura, Skyepharma or their respective affiliates, officers or directors in a non-US court for violations of the US securities laws. Further, it may be difficult to compel Vectura, Skyepharma or their respective affiliates, officers or directors to subject themselves to a US court's jurisdiction or judgement.

### **Forward-looking statements**

This announcement, including information included or incorporated by reference in this announcement, contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of the Wider Skyepharma Group and the Wider Vectura Group, and certain plans and objectives of Vectura with respect to the Enlarged Group. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'hope', 'aims', 'continue', 'will', 'may', 'should', 'would', 'could' or other words of similar meaning. These statements are based on assumptions and assessments made by Skyepharma and/or Vectura in light of their experience and their perception of historical trends, current conditions, future developments and other factors they believe appropriate. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are several factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. Among such factors are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or disposals.

Forward-looking statements are not indicative of future performance and the actual results of operations and financial condition of the Skyepharma Group or the Vectura Group, and the development of the industry in which the Skyepharma Group or the Vectura Group operates, may differ materially from those made in or suggested by the forward-looking statements contained in this announcement.

Although it is believed that the expectations reflected in any forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct or reasonable and persons reading this announcement are therefore cautioned not to place undue reliance on these forward-looking statements which speak only as at the date of this announcement. Neither the Wider Skyepharma Group nor the Wider Vectura Group assumes any obligation to update or correct the

information contained in this announcement (whether as a result of new information, future events or otherwise), except as required by applicable law. All forward-looking statements contained in this announcement, and any subsequent written or oral forward-looking statement that Skyepharma or Vectura, or persons acting on their behalf, may issue are expressly qualified by the cautionary statements set out in this section.

### **Rounding**

Certain figures included in this announcement have been subjected to rounding adjustments. Accordingly, figures shown for the same category presented in different tables or forms may vary slightly and figures shown as totals in certain tables or forms may not be an arithmetic aggregation of the figures that precede them.

### **Profit forecasts or estimates**

The Profit Forecast is a profit forecast for the purposes of Rule 28 of the City Code. As required by Rule 28.1 of the City Code, the assumptions on which the Profit Forecast is stated are set out in Appendix 5 to this announcement.

Other than the Profit Forecast, no statement in this announcement (including any statement of estimated synergies) is intended as a profit forecast or profit estimate for any period and no statement in this announcement should be interpreted to mean that earnings or earnings per ordinary share for Vectura, Skyepharma or the Enlarged Group, as appropriate, for the current or future financial years would necessarily match or exceed the historical published earnings or earnings per ordinary share for Vectura or Skyepharma, as appropriate.

### **Quantified financial benefits**

The statements in the Quantified Financial Benefits Statement relate to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies. As a result, the synergies and cost savings referred to may not be achieved, or may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated. Neither these statements nor any other statement in this announcement should be construed as a profit forecast (other than the Profit Forecast) or interpreted to mean that the Enlarged Group's earnings in the first full year following implementation of the Merger, or in any subsequent period, would necessarily match or be greater than or be less than those of Vectura and/or Skyepharma for the relevant preceding financial period or any other period. For the purposes of Rule 28 of the City Code, the Quantified Financial Benefits Statement contained in this announcement is the responsibility of Vectura and the Vectura Directors.

### **Dealing and Opening Position Disclosure requirements**

Under Rule 8.3(a) of the City Code, any person who is interested in 1 per cent. or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the Offer Period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening

*Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of: (i) the offeree company; and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 p.m. (London time) on the 10th business day following the commencement of the Offer Period and, if appropriate, by no later than 3.30 p.m. (London time) on the 10th business day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure. Under Rule 8.3(b) of the City Code, any person who is, or becomes, interested in 1 per cent. or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 p.m. (London time) on the business day following the date of the relevant dealing.*

*If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.*

*Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).*

*Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk), including details of the number of relevant securities in issue, when the Offer Period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0) 20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.*

### **Information relating to Skyepharma Shareholders**

*Please be aware that addresses, electronic addresses and certain information provided by Skyepharma Shareholders, persons with information rights and relevant persons for the receipt of electronic communications from Skyepharma generally may be provided to Vectura during the Offer Period where requested under Section 4 of Appendix 4 of the City Code.*

### **Publication on website and availability of hard copies**

*A copy of this announcement is and will be available free of charge, subject to certain restrictions relating to persons resident in Restricted Jurisdictions, on Vectura's website at [www.Vectura.com](http://www.Vectura.com) and on Skyepharma's website at [www.Skyepharma.com](http://www.Skyepharma.com) by no later than 12.00 noon (London time) on the Business Day following the date of this announcement. For the avoidance of doubt, the contents of the*

*websites referred to in this announcement are not incorporated into and do not form part of this announcement.*

*Vectura Shareholders and Skyepharma Shareholders may request a hard copy of this announcement (and any information incorporated by reference into this announcement) by contacting Asha Tanwar of J.P. Morgan Cazenove at [asha.tanwar@jpmorgancazenove.com](mailto:asha.tanwar@jpmorgancazenove.com) or by submitting a request in writing to Asha Tanwar at J.P. Morgan Cazenove, 25 Bank Street, London, E14 5JP or Maxime Menu of Lazard at [maxime.menu@lazard.com](mailto:maxime.menu@lazard.com) or by submitting a request in writing to Maxime Menu at Lazard, at 50 Stratton Street, London, W1J 8LL. It is important that you note that unless you make such a request, a hard copy of this announcement and any such information incorporated by reference into it will not be sent to you. You may also request that all future documents, announcements and information to be sent to you in relation to the Merger should be in hard copy form.*

*If you are in any doubt about the contents of this announcement or the action you should take, you are recommended to seek your own independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant or from an independent financial adviser duly authorised under the Financial Services and Markets Act 2000 (as amended) if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.*

### **Time**

*All times shown in this announcement are London times, unless otherwise stated.*

## APPENDIX 1

### CONDITIONS TO AND FURTHER TERMS OF THE MERGER

#### Part A: Conditions to the Merger

The Merger will be conditional upon the Scheme becoming unconditional and effective, subject to the City Code, by no later than 1 September 2016, or such later date (if any) as Vectura and Skyepharma may agree and (if required) the Court and the Panel may allow.

#### (A) The Scheme

The Scheme will be subject to the following Conditions:

- (1) (i) its approval by a majority in number representing not less than 75 per cent. in value of the Scheme Shareholders who are on the register of members of Skyepharma at the Voting Record Time, (or the relevant class or classes thereof, if applicable) present and voting, whether in person or by proxy, at the Court Meeting and at any separate class meeting which may be required by the Court or at any adjournment of any such meeting, and (ii) such Court Meeting (or any adjournment thereof) being held on or before the 22nd day after the expected date of the Court Meeting to be set out in the Scheme Document in due course (or such later date, if any, as Vectura and Skyepharma may agree and the Court may allow);
- (2) (i) all resolutions required to implement the Scheme being duly passed at the Skyepharma General Meeting or at any adjournment of that meeting, and (ii) such Skyepharma General Meeting being held on or before the 22nd day after the expected date of the Skyepharma General Meeting to be set out in the Scheme Document in due course (or such later date, if any, as Vectura and Skyepharma may agree and the Court may allow); and
- (3) (i) the sanction of the Scheme by the Court (with or without modification but subject to any such modification being acceptable to Vectura and Skyepharma) and the delivery of the office copy of the Scheme Court Order for registration to the Registrar of Companies, and (ii) the Scheme Court Hearing being held on or before the 22nd day after the expected date of the Scheme Court Hearing to be set out in the Scheme Document in due course (or such later date, if any, as Vectura and Skyepharma may agree and the Court may allow).

To the extent that Vectura would otherwise be able to invoke the timing element of any Condition referred to in paragraphs A (1) to (3) above as a result of a voluntary action by Vectura (other than a refusal by Vectura to agree to an extension of the relevant time period) that leads to an adjournment or delay of the Court Meeting, the Skyepharma General Meeting or the Scheme Court Hearing (as applicable), the date on which Vectura will be permitted to invoke such Condition shall be extended by the period of adjournment or delay reasonably caused by such action.

In addition, subject as stated in Part B below and to the requirements of the Panel in accordance with the City Code, the Merger will be conditional upon, and accordingly, the necessary actions to make the Scheme effective will only be taken on the satisfaction or, where relevant, waiver of the following Conditions:

**(B) CMA clearance**

the CMA indicating, in terms reasonably satisfactory to Vectura, that it does not intend to refer the Merger (or any part of it) for a Phase 2 investigation;

**(C) Vectura Shareholder Approval**

the passing at the Vectura General Meeting (or any adjournment thereof) of such resolution or resolutions as are necessary to approve, implement and effect the Merger including a resolution or resolutions to approve the Merger and to authorise the creation and allotment of New Vectura Shares;

**(D) Approval of the Vectura Combined Circular/Prospectus**

(i) the FCA having acknowledged to Vectura or its agent (and such acknowledgement not having been withdrawn) that the application for the admission of the New Vectura Shares to the Official List with a premium listing has been approved and (after satisfaction of any conditions to which such approval is expressed to be subject (“listing conditions”)) admission will become effective as soon as a dealing notice has been issued by the FCA and any listing conditions having been satisfied and (ii) the London Stock Exchange having acknowledged to Vectura or its agent (and such acknowledgement not having been withdrawn) that the New Vectura Shares will be admitted to trading on the London Stock Exchange’s Main Market for listed securities;

**(E) Certain matters arising as a result of any arrangement, agreements etc.**

except as Fairly Disclosed, there being no provision of any agreement, arrangement, lease, licence, franchise, permit or other instrument to which any member of the Wider Skyepharma Group is a party or by or to which any such member or any of its assets is or may be bound, entitled or be subject or any event or circumstance which, in consequence of the Merger or the proposed acquisition by any member of the Wider Vectura Group of any shares or other securities in Skyepharma or because of a change in the control or management of Skyepharma or any other member of the Wider Skyepharma Group or otherwise, would or might reasonably be expected to result in (in each case to an extent which is material in the context of the Wider Skyepharma Group taken as a whole):

- (i) any moneys borrowed by, or any other indebtedness (actual or contingent) of, or grant available to, any member of the Wider Skyepharma Group, being or becoming repayable or capable of being declared repayable immediately or earlier than their or its stated maturity date or repayment date, or the ability of any such member to borrow moneys or incur any indebtedness being withdrawn or inhibited or being capable of becoming or being withdrawn or inhibited;
- (ii) the rights, liabilities, obligations or interests of any member of the Wider Skyepharma Group under any such agreement, arrangement, lease, licence, franchise, permit or other instrument being terminated or adversely modified or adversely affected or any onerous obligation or liability arising or any adverse action being taken or arising thereunder;
- (iii) any liability of any member of the Wider Skyepharma Group to make any severance, termination, bonus or other payment to any of its directors, or other officers;
- (iv) any assets or interests of, or any asset the use of which is enjoyed by, any member of the Wider Skyepharma Group being or falling to be disposed of or charged or any right arising



under which any such asset or interest could be required to be disposed of or charged or could cease to be available to any member of the Wider Skyepharma Group;

- (v) the creation, save in the ordinary course of business, or enforcement of any mortgage, charge or other security interest over the whole or any part of the business, property or assets of any member of the Wider Skyepharma Group or any such mortgage, charge or security interest (whenever created, arising or having arisen) becoming enforceable;
- (vi) the interests in, or the business of any member of the Wider Skyepharma Group in or with, any person, firm or body (or any arrangement or arrangements relating to any such interest or business) being terminated or adversely modified or affected or any onerous obligation or liability arising or any adverse action being taken thereunder;
- (vii) the value of any member of the Wider Skyepharma Group or its financial or trading position or prospects being prejudiced or adversely affected;
- (viii) any member of the Wider Skyepharma Group ceasing to be able to carry on business under any name under which it presently does so; to an extent which is material in the context of the Wider Skyepharma Group taken as a whole or in the context of the Merger; or
- (ix) the creation or acceleration of any liability, actual or contingent, by any member of the Wider Skyepharma Group other than trade creditors or other liabilities incurred in the ordinary course of business;

**(F) General and regulatory**

no Third Party having given notice of a decision to take, institute, implement or threaten any action, proceeding, suit, investigation, enquiry or reference, or having enacted, made or proposed any statute, regulation, decision, order or change to published practice and there not continuing to be outstanding any statute, regulation, decision or order which would or might reasonably be expected to:

- (i) require, prevent or materially delay the divestiture, or materially alter the terms envisaged for any proposed divestiture by any member of the Wider Vectura Group or any member of the Wider Skyepharma Group of all or any portion of their respective businesses, assets or property or impose any limitation on the ability of all or any of them to conduct their respective businesses (or any part thereof) or to own, control or manage any of their respective assets or properties (or any part thereof) which, in any such case, is material in the context of the Wider Skyepharma Group or the Wider Vectura Group, as the case may be, in either case, taken as a whole;
- (ii) require, prevent or materially delay a divestiture by any member of the Wider Vectura Group of any shares or other securities in any member of the Wider Skyepharma Group or the Wider Vectura Group;
- (iii) impose any material limitation on, or result in a material delay in, the ability of any member of the Wider Vectura Group directly or indirectly to acquire or to hold or to exercise effectively any rights of ownership in respect of shares or securities convertible into shares or any other securities (or the equivalent) in any member of the Wider Skyepharma Group or the Wider Vectura Group or to exercise voting or management control over any such

member to an extent which is material in the context of the Wider Skyepharma Group or the Wider Vectura Group, in either case taken as a whole;

- (iv) otherwise adversely affect the business, assets, profits or prospects of any member of the Wider Vectura Group or of any member of the Wider Skyepharma Group to an extent which is adverse to and material in the context of the Wider Skyepharma Group or the Wider Vectura Group, as the case may be, in either case, taken as a whole;
- (v) make the Merger, its implementation or the acquisition or proposed acquisition by Vectura or any member of the Wider Vectura Group of any shares or other securities in, or control of, Skyepharma void, illegal, and/or unenforceable under the laws of any jurisdiction, or otherwise, directly or indirectly, prevent, materially restrain, restrict, prohibit, delay or otherwise interfere with the same, or impose additional material conditions or obligations with respect thereto, or otherwise challenge, impede, interfere or require material amendment of the Merger or the acquisition or proposed acquisition of any shares or other securities in, or control or management of, Skyepharma by any member of the Wider Vectura Group;
- (vi) other than pursuant to the implementation of the Merger, require any member of the Wider Vectura Group or the Wider Skyepharma Group to offer to acquire any shares or other securities (or the equivalent) or interest in any member of the Wider Skyepharma Group or the Wider Vectura Group;
- (vii) impose any limitation on the ability of any member of the Wider Vectura Group or any member of the Wider Skyepharma Group to conduct, co-ordinate or integrate their respective businesses, or any part thereof, with the businesses of any other member of the Wider Vectura Group or the Wider Skyepharma Group in a manner which is materially adverse to the Wider Skyepharma Group or the Wider Vectura Group, as the case may be, in either case, taken as a whole; or
- (viii) result in any member of the Wider Vectura Group or any member of the Wider Skyepharma Group ceasing to be able to carry on business under any name under which it presently does so to an extent which is material in the context of the Wider Skyepharma Group or the Wider Vectura Group, as the case may be, in either case, taken as a whole,

and all applicable waiting and other time periods (including any extensions thereof) during which any such Third Party could institute, implement or threaten any action, proceeding, suit, investigation, enquiry or reference or take any other step under the laws of any jurisdiction in respect of the Merger or the acquisition or proposed acquisition of any Skyepharma Shares or otherwise intervene having expired, lapsed or been terminated; provided that for the purposes of this Condition (F), “**Third Party**” shall not include regulators acting or exercising powers in connection with merger control approvals processes relating to the Merger or the change in the control or management of Skyepharma as a result of the Merger;

**(G) Notifications, waiting periods and authorisations**

other than in respect of Condition (B) above, all material notifications, filings or applications which are necessary or appropriate in connection with the Merger having been made and all statutory or regulatory obligations in any jurisdiction having been complied with in connection with the Merger or the control or management of Skyepharma by any member of the Wider Vectura Group, and all

material authorisations, orders, recognitions, grants, consents, licences, confirmations, clearances, permissions and approvals which are necessary or appropriate for or in respect of the Merger or the control or management of Skyepharma by any member of the Wider Vectura Group, having been obtained in terms and in a form reasonably satisfactory to Vectura from all appropriate Third Parties or persons or bodies with whom any member of the Wider Skyepharma Group or the Wider Vectura Group has entered into contractual arrangements and all such authorisations, orders, recognitions, grants, consents, licences, confirmations, clearances, permissions and approvals which are necessary or appropriate to carry on the business of any member of the Wider Skyepharma Group in any jurisdiction (1) in each case obtained where the direct consequence of a failure to make such notification or filing or obtain such authorisations, orders, recognitions, grants, consents, licences, confirmations, clearances, permissions and approvals would be unlawful in any relevant jurisdiction or have a material adverse effect on the Wider Skyepharma Group or the Wider Vectura Group and (2) remaining in full force and effect, and there being no notice or intimation of any intention to revoke, suspend, restrict, modify or not to renew any of the same, in each case, at the time at which the Merger becomes otherwise unconditional;

**(H) Certain events occurring since 31 December 2014**

except as Fairly Disclosed, no member of the Skyepharma Group having, since 31 December 2014:

- (i) save as between Skyepharma and its wholly-owned subsidiaries or between such wholly-owned subsidiaries and save for Skyepharma Shares issued pursuant to the exercise of options or vesting of awards granted under the Skyepharma Share Schemes, issued or agreed to issue, authorised or proposed the issue of additional shares (or other securities) of any class or transferred or sold or agreed to transfer or sell or authorised or proposed the transfer or sale of Skyepharma Shares out of treasury;
- (ii) save as between Skyepharma and its wholly-owned subsidiaries or between such wholly-owned subsidiaries and save for the grant of options under the Skyepharma Share Schemes, issued or agreed to issue, authorised or proposed the issue of securities convertible into shares of any class or rights, warrants or options to subscribe for, or acquire, any such shares or convertible securities;
- (iii) other than to Skyepharma or another member of the Skyepharma Group, recommended, declared, paid or made or proposed to recommend, declare, pay or make any bonus, dividend or other distribution whether payable in cash or otherwise;
- (iv) save as between Skyepharma and its wholly-owned subsidiaries or between wholly-owned subsidiaries or pursuant to the Merger, merged or demerged with any body corporate or acquired or disposed of or transferred, mortgaged or charged or created any security interest over any assets or any right, title or interest in any asset (including shares and trade investments) or authorised or proposed or announced any intention to do so, in each case, other than in the ordinary course of business and in each case, which is material in the context of the Wider Skyepharma Group taken as a whole;
- (v) save as between Skyepharma and its wholly-owned subsidiaries or between wholly-owned subsidiaries, made or authorised or proposed or announced an intention to propose any change in its loan capital;

- (vi) save in the ordinary course of business and save as between Skyepharma and its wholly-owned subsidiaries or between wholly-owned subsidiaries, issued or agreed to issue, authorised or proposed the issue of any debentures or incurred or increased, or agreed to incur or increase, any indebtedness or become, or agreed to become, to an extent which is material in the context of the Wider Skyepharma Group taken as a whole, subject to any contingent liability;
- (vii) purchased, redeemed or repaid or announced any proposal to purchase, redeem or repay any of its own shares or other securities or reduced or, save in respect to the matters mentioned in sub-paragraph (i) above, made any other change to any part of its share capital;
- (viii) implemented, or authorised, proposed or announced its intention to implement, any reconstruction, amalgamation, scheme, commitment or other transaction or arrangement (other than the Merger) otherwise than in the ordinary course of business which is material in the context of the Skyepharma Group taken as a whole or entered into or changed the terms of any contract with any director or member of the executive management team of the Skyepharma Group save for salary increases, bonuses or variations of terms in accordance with past practice;
- (ix) entered into or varied or authorised, proposed or announced its intention to enter into or vary any contract, transaction or commitment (whether in respect of capital expenditure or otherwise) which is of a long-term, onerous or unusual nature or which is or could reasonably be expected to be materially restrictive on the businesses of any member of the Wider Skyepharma Group or the Wider Vectura Group to an extent which is or is likely to be material to the Skyepharma Group or the Vectura Group, as the case may be, in either case taken as a whole or which involves or could reasonably be expected to involve an obligation of such a nature or magnitude which is material in the context of the Wider Skyepharma Group taken as a whole;
- (x) been unable, or admitted in writing that it is unable, to pay its debts or commenced negotiations with one or more of its creditors with a view to rescheduling or restructuring any of its indebtedness, or having stopped or suspended (or threatened to stop or suspend) payment of its debts generally or ceased or threatened to cease carrying on all or a substantial part of its business;
- (xi) (other than in respect of a member which is dormant and was solvent at the relevant time) taken any corporate action or had any legal proceedings started or threatened against it for its winding-up, dissolution or reorganisation or for the appointment of a receiver, administrative receiver, administrator, trustee or similar officer of all or any of its assets or revenues or any analogous proceedings in any jurisdiction or had any such person appointed;
- (xii) (except as disclosed on publicly available registers) made any material alteration to its memorandum or articles of association or other constitutional documents;
- (xiii) waived or compromised otherwise than in the ordinary course of business any claim which is material in the context of the Wider Skyepharma Group taken as a whole;
- (xiv) entered into any contract, commitment, arrangement or agreement otherwise than in the ordinary course of business or passed any resolution or made any offer (which remains

open for acceptance) with respect to or announced an intention to, or to propose to, effect any of the transactions, matters or events referred to in this Condition;

- (xv) made or agreed or consented to any change in any material respect to:
  - (1) the terms of the trust deeds constituting the pension scheme(s) established by any member of the Wider Skyepharma Group for its directors, employees or their dependents;
  - (2) the contributions payable to any such scheme(s) or to the benefits which accrue or to the pensions which are payable thereunder;
  - (3) the basis on which qualification for, or accrual or entitlement to, such benefits or pensions are calculated or determined; or
  - (4) the basis upon which the liabilities (including pensions) of such pension schemes are funded, valued or made,in each case, to an extent which is material in the context of the Wider Skyepharma Group taken as a whole;
- (xvi) save as agreed in writing by Vectura, proposed, agreed to provide or modified the terms of any share option scheme, incentive scheme or other benefit relating to the employment or termination of employment of any person employed by the Wider Skyepharma Group which (other than in relation to share option schemes) are material in the context of the Wider Skyepharma Group taken as a whole; or
- (xvii) having taken (or agreed or proposed to take) any action which requires, or would require, the consent of the Panel or the approval of Skyepharma Shareholders in general meeting in accordance with, or as contemplated by, Rule 21.1 of the City Code,

**(I) No adverse change, litigation or regulatory enquiry**

except as Fairly Disclosed, since, in the case of Skyepharma, 31 December 2014 or, in the case of Vectura, 31 March 2015:

- (i) no adverse change having occurred in the business, assets, financial or trading position or profits or prospects or operational performance of any member of the Wider Skyepharma Group or the Wider Vectura Group which, in any such case, is material in the context of the Wider Skyepharma Group or the Wider Vectura Group taken as a whole and no circumstance having arisen which would or might reasonably be expected to result in any such adverse change;
- (ii) no litigation, arbitration proceedings, anti-trust proceedings (other than merger control approvals processes), prosecution or other legal proceedings to which any member of the Wider Skyepharma Group or the Wider Vectura Group is or may become a party (whether as a plaintiff, defendant or otherwise) and no investigation by any Third Party against or in respect of any member of the Wider Skyepharma Group or the Wider Vectura Group having been instituted, announced or threatened by or against or remaining outstanding in respect of any member of the Wider Skyepharma Group or the Wider Vectura Group which, in any such case, has had, or might reasonably be expected to have, a material

adverse effect on the Wider Skyepharma Group or the Wider Vectura Group taken as a whole;

- (iii) no contingent or other liability having arisen or become apparent to Vectura or Skyepharma increased (other than in the ordinary course of business) which will or might be likely to adversely affect the business, assets, financial or trading position or profits or prospects or operational performance of any member of the Wider Skyepharma Group or the Wider Vectura Group to an extent which is material in the context of the Wider Skyepharma Group or the Wider Vectura Group taken as a whole; and
- (iv) no steps having been taken and no omissions having been made which are likely to result in the withdrawal, cancellation, termination or modification of any licence held by any member of the Wider Skyepharma Group or the Wider Vectura Group which is necessary for the proper carrying on of its business and the withdrawal, cancellation, termination or modification of which is material and has had, or might reasonably be expected to have, a material adverse effect on the Wider Skyepharma Group or the Wider Vectura Group taken as a whole;

**(J) No discovery of certain matters**

Since 31 December 2014, and except as Fairly Disclosed, Vectura not having discovered:

- (i) that any financial, business or other information concerning the Wider Skyepharma Group as contained in the information publicly disclosed at any time by or on behalf of any member of the Wider Skyepharma Group or disclosed at any time to any member of the Wider Vectura Group or to any of their advisers by or on behalf of any member of the Wider Skyepharma Group is misleading, contains a material misrepresentation of fact or omits to state a fact necessary to make that information not misleading, in each case to an extent which is material in the context of the Wider Skyepharma Group taken as a whole;
- (ii) that any member of the Wider Skyepharma Group is subject to any liability (contingent or otherwise) which, in any such case, is material in the context of the Wider Skyepharma Group taken as a whole;
- (iii) any information which affects the import of any information disclosed to Vectura at any time by or on behalf of any member of the Wider Skyepharma Group and which is material in the context of the Wider Skyepharma Group taken as a whole;
- (iv) in relation to any release, emission, accumulation, discharge, disposal or other fact or circumstance which has impaired or is likely to impair the environment (including property) or harmed or is likely to harm the health of humans, animals or other living organisms or eco-systems, no past or present member of the Wider Skyepharma Group, in a manner or to an extent which is material in the context of the Wider Skyepharma Group, (1) having committed any violation of any applicable laws, statutes, regulations, authorisations, notices or other requirements of any Third Party; and/or (2) having incurred any liability (whether actual or contingent) to any Third Party; and/or (3) being likely to incur any liability (whether actual or contingent), or being required, to make good, remediate, repair, reinstate or clean up the environment (including any property);
- (v) any member of the Skyepharma Group or any person that performs or has performed services for or on behalf of any such company is or has engaged in any activity, practice

or conduct which would constitute an offence under the UK Bribery Act 2010 or any other applicable anti-corruption legislation;

- (vi) any past or present member of the Skyepharma Group has engaged in any activity or business with, or made any investments in, or made any payments to any government, entity or individual covered by any of the economic sanctions administered by the United Nations or the EU (or any of their respective member states) or the US Office of Foreign Assets Control; or
- (vii) any asset of any member of the Skyepharma Group constitutes criminal property as defined by section 340(3) of the Proceeds of Crime Act 2002 (but disregarding paragraph (b) of that definition); and

**(K) The intellectual property of the Wider Skyepharma Group**

no circumstance having arisen or event having occurred in relation to any intellectual property owned or used by any member of the Wider Skyepharma Group which would have a material adverse effect on the Wider Skyepharma Group taken as a whole, including:

- (i) any member of the Wider Skyepharma Group losing its title to any intellectual property used in and material to the business, or any intellectual property owned by the Wider Skyepharma Group being revoked, cancelled or declared invalid;
- (ii) any claim being asserted in writing or threatened in writing by any person challenging the ownership of any member of the Wider Skyepharma Group to, or the validity or effectiveness of, any of its intellectual property; or
- (iii) any agreement regarding the use of any intellectual property licensed to or by any member of the Wider Skyepharma Group being terminated or varied.

Subject to the requirements of the Panel in accordance with the City Code:

- (a) Vectura reserves the right to waive, in whole or in part, all or any of the above Conditions, except Conditions (A), (C) and (D) and Condition (I), so far as it relates to the Wider Vectura Group, or any part thereof; and
- (b) Skyepharma reserves the right to waive, in whole or in part, Condition (I), except so far as it relates to the Wider Skyepharma Group, or any part thereof.

Conditions (C) and (D) must be fulfilled by, and Conditions (B) and (E) to (K) (inclusive) must each be fulfilled or (if capable of waiver) be waived by, Vectura or, as the case may be, Skyepharma, as contemplated above by no later than 11.59 p.m. on the date immediately preceding the Scheme Court Hearing (or such later date, if any, as Vectura and Skyepharma may agree and the Court may allow), failing which the Merger will lapse. Vectura shall be under no obligation to waive (if capable of waiver) or treat as satisfied any of Conditions (B) and (E) to (K) (inclusive) and Skyepharma shall be under no obligation to waive or treat as satisfied Condition (I), in any such case by a date earlier than the latest date specified above for the fulfilment or waiver thereof, notwithstanding that the other Conditions may at such earlier date have been waived or fulfilled and that there are at such earlier date no circumstances indicating that any of such Conditions may not be capable of fulfilment.

If Vectura is required by the Panel to make an offer for Skyepharma Shares under the provisions of Rule 9 of the City Code, Vectura may make such alterations to any of the above Conditions as are necessary to comply with the provisions of that Rule.

The Merger will lapse if it (or any part of it) is referred for a Phase 2 Investigation before the later of the date of the Court Meeting and the date of the Skyepharma General Meeting. In such event, none of Vectura, Skyepharma or Skyepharma Shareholders will be bound by any term of the Scheme.

Vectura reserves the right to elect (with the consent of the Panel) to implement the Merger by way of a takeover offer (as defined in Part 28 of the Companies Act) as an alternative to the Scheme. In such event, the Merger will be implemented on the same terms, so far as applicable, as those which would apply to the Scheme, subject to appropriate amendments, including (without limitation and subject to the consent of the Panel) an acceptance condition that is set at 90 per cent. (or such lesser percentage, as Vectura may decide). Vectura requires Skyepharma's consent to make such an election, unless another person announces a firm intention to make an offer (in accordance with Rule 2.7 of the City Code) for Skyepharma or the Skyepharma Board withdraws or adversely modifies its recommendation of the Merger.

The availability of the Merger and/or the Partial Cash Alternative to persons not resident in the United Kingdom may be affected by the laws of the relevant jurisdictions. Persons who are not resident in the United Kingdom should inform themselves about and observe any applicable requirements.

Under Rules 13.5 and 13.6 of the City Code, neither Vectura nor Skyepharma may invoke a condition to the Merger so as to cause the Merger not to proceed, to lapse or to be withdrawn unless the circumstances which give rise to the right to invoke the condition are of material significance to Vectura or Skyepharma (as the case may be) in the context of the Merger. The conditions contained in paragraph (A) and (B) of Part A are not subject to these provisions of the City Code.

The Merger will be governed by English law and be subject to the exclusive jurisdiction of the English courts and will be on the terms and subject to the Conditions set out in this Appendix 1 and to be set out in the Scheme Document. The Merger will comply with, and be subject to, the applicable rules and regulations of the FCA, the London Stock Exchange, the City Code and the Panel.

Each of the Conditions shall be regarded as a separate Condition and shall not be limited by reference to any other Condition.

#### **Part B: Certain further terms of the Scheme and the Merger**

Fractions of New Vectura Shares will not be allotted or issued pursuant to the Scheme. Fractional entitlements to New Vectura Shares will be aggregated and sold in the UK market and the net proceeds of sale distributed pro rata to Skyepharma Shareholders entitled thereto. However, individual entitlements to amounts of less than £5 will not be paid to Skyepharma Shareholders but will be retained for the benefit of Vectura.

The Merger will not be made, directly or indirectly, in or into, or by use of the mails of, or by any means or instrumentality (including, without limitation, facsimile transmission, telex, telephone, internet or e-mail) of interstate or foreign commerce of, or of any facility of a national securities exchange of, any Restricted Jurisdiction and the Merger will not be capable of acceptance by any such use, means, instrumentality or facility or from within the any Restricted Jurisdiction.



The New Vectura Shares to be issued pursuant to the Merger have not been and will not be registered under any of the relevant securities laws of the United States, Canada, Japan, Australia or South Africa. Accordingly, the New Vectura Shares may not be offered, sold or delivered, directly or indirectly, in the United States, Canada, Japan, Australia or South Africa, except pursuant to exemptions from applicable requirements of any such jurisdiction.

The New Vectura Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the Vectura Shares in issue at the time the New Vectura Shares are delivered pursuant to the Merger, including the right to receive and retain in full all dividends and other distributions (if any) declared, paid or made by Vectura by reference to a record date falling after the Effective Date. Applications will be made to the FCA for the New Vectura Shares to be admitted to the Official List with a premium listing and to the London Stock Exchange for the New Vectura Shares to be admitted to trading.

Skyepharma Shares which will be acquired under the Merger will be acquired fully paid and free from all liens, equities, charges, encumbrances, options, rights of pre-emption and any other third party rights and interests of any nature and together with all rights now or hereafter attaching or accruing to them, including voting rights and the right to receive and retain in full all dividends and other distributions (if any) declared, made or paid on or after the date of this announcement.

If any Skyepharma dividend, distribution or return of value is declared, announced, made or paid after the date of this announcement and to which Vectura alone is not entitled, Vectura reserves the right to reduce the value implied under the terms of the Merger based on the Closing Price of 146.60 pence per Vectura Share on 15 March 2016 (being the last Business Day prior to the date of this announcement) by an amount equal to the amount of such dividend, distribution or return of value. In such circumstances, to the extent possible, the maximum amount available under the Partial Cash Alternative would be reduced by the amount of such excess. If any Vectura dividend, distribution or return of value is declared, announced, made or paid after the date of this announcement, the exchange ratio will be adjusted accordingly by reference to the aggregate amount of such dividend, distribution or return of value that has been declared, made, paid or is payable.

## APPENDIX 2

### SOURCES OF INFORMATION AND BASES OF CALCULATION

In this announcement:

1. Unless otherwise stated:
  - historic financial information relating to the Vectura Group has been extracted or derived (without any adjustment) from the audited annual report and accounts for Vectura for the year ended 31 March 2015 or Vectura's announcement dated 17 November 2015 of its results for the half-year ended 30 September 2015 (which are unaudited); and
  - financial information relating to the Skyepharma Group has been extracted or derived (without any adjustment) from the audited annual report and accounts for Skyepharma for the year ended 31 December 2014, Skyepharma's announcement dated 26 August 2015 of its results for the half-year ended 30 June 2015 (which are unaudited) and the preliminary announcement of Skyepharma's results for the financial year ended 31 December 2015.
2. The value of the Merger is calculated:
  - by reference to the Closing Price on 15 March 2016 (being the last Business Day prior to the date of this announcement) of 146.60 pence per Vectura Share;
  - by reference to the number of New Vectura Shares to be issued for each Skyepharma Share pursuant to the terms of the Merger; and
  - on the basis of the number of fully-diluted Skyepharma Shares outstanding.
3. The pro forma net cash position of the Enlarged Group of approximately £25 million is calculated as Vectura's cash balance as at 30 September 2015 plus Skyepharma's cash balance as at 31 December 2015 minus the maximum amount of the Partial Cash Alternative of £70 million and also minus transaction expenses.
4. The market capitalisation of the Enlarged Group is calculated by reference to the number of Vectura Shares and Skyepharma Shares set out in paragraph 6 below and the Closing Price of those Shares on 15 March 2016 (being the last Business Day prior to the date of this announcement).
5. The combined revenues of the Enlarged Group of £153.9 million and combined EBITDA of the Enlarged Group of £50.5 million are calculated by reference to Vectura's revenue of £58 million and EBITDA of £16.2 million according to the last annual report and accounts of Vectura for the year ended 31 March 2015 and to Skyepharma's revenue of £95.9 million and EBITDA of £34.3 million according to the preliminary announcement of Skyepharma's results for the financial year ended 31 December 2015.

6. As at the close of business on 15 March 2016, being the last Business Day prior to the date of this announcement, Skyepharma had in issue 104,812,259 Skyepharma Shares and Vectura had in issue 410,530,184 Vectura Shares. The International Securities Identification Number for Skyepharma Shares is GB00B3BFNB64 and for Vectura Shares is GB00B01D1K48.
7. The percentage of the share capital of the Enlarged Group that will be owned by Skyepharma Shareholders of 41.75 per cent. is calculated by dividing the number of New Vectura Shares to be issued under the terms of the Merger referred to in paragraph 11 below by the fully-diluted share capital of the Enlarged Group (as set out in paragraph 11 below) and multiplying the resulting sum by 100 to produce a percentage.
8. On a non-diluted basis, Skyepharma Shareholders would own 41.67 per cent. of the Enlarged Group. This is calculated by dividing the number of New Vectura Shares to be issued under the terms of the Merger referred to in paragraph 12 below by the non-diluted issued share capital of the Enlarged Group (as set out in paragraph 12 below) and multiplying the resulting sum by 100 to produce a percentage.
9. The fully-diluted share capital of Skyepharma (being 107,585,289 Skyepharma Shares) is calculated on the basis of:
  - the number of issued Skyepharma Shares referred to in paragraph 6 above; and
  - 2,773,030 Skyepharma Shares to be issued on the vesting of options or awards under the Skyepharma Share Schemes.
10. The fully-diluted share capital of Vectura (being 419,952,119 Vectura Shares) is calculated on the basis of:
  - the number of issued Vectura Shares referred to in paragraph 6 above; and
  - 9,421,935 Vectura Shares to be issued on the vesting of options or awards under the Vectura Share Schemes.
11. The fully-diluted share capital of the Enlarged Group (being 720,947,843) has been calculated as the sum of:
  - a fully-diluted share capital of 419,952,119 Vectura Shares referred to in Paragraph 10; and
  - 300,995,724 New Vectura Shares which would be issued under the terms of the Merger (being 2.7977 New Vectura Shares to be issued per Skyepharma Share multiplied by the fully-diluted share capital of Skyepharma as referred to in paragraph 9 above) and ignoring the effect of the Partial Cash Alternative.
12. The non-diluted issued share capital of the Enlarged Group (being 703,767,690) has been calculated as the sum of:

- a total number of 410,530,184 Vectura Shares in issue as at the close of business on 15 March 2016 (being the last Business Day prior to the date of this announcement); and
  - 293,237,506 New Vectura Shares which would be issued under the terms of the Merger (being 2.7977 New Vectura Shares to be issued per Skyepharma Share multiplied by the issued share capital of Skyepharma as referred to in paragraph 6 above) and ignoring the effect of the Partial Cash Alternative.
13. Unless otherwise stated, all prices and closing prices for Skyepharma Shares and Vectura Shares are closing middle market quotations derived from the Daily Official List.
  14. The 90 trading day Volume Weighted Average Prices of a Vectura Share and of a Skyepharma Share as of 15 March 2016 (being the last Business Day prior to the date of this announcement) are derived from data provided by Factset and refer to trading on the London Stock Exchange only.
  15. Synergy numbers are unaudited and are based on analysis by Vectura's management and on Vectura's and Skyepharma's internal records.
  16. The global inhaled respiratory market worth US\$35 billion in 2015 is based on the global IMS MIDAS 4Q15 Sales Data for all inhaled respiratory market revenues.
  17. Certain figures included in this announcement have been subject to rounding adjustments.

### APPENDIX 3

#### DETAILS OF IRREVOCABLE AND VOTING UNDERTAKINGS

##### 1. Skyepharma Directors and HBM

Vectura has received irrevocable undertakings in relation to the Merger as follows:

<b>Name of Skyepharma Shareholder giving undertaking</b>	<b>Number of Skyepharma Shares in respect of which undertaking is given<sup>(1)</sup></b>	<b>Percentage of Skyepharma existing issued ordinary share capital (%)</b>
Frank Condella	61,115	0.06
Thomas Werner	44,444	0.04
John Biles	15,000	0.01
Peter Grant <sup>(2)</sup>	207,366 <sup>(2)</sup>	0.20
Andrew Derodra	79,372	0.08
HBM Healthcare Investments (Cayman) Ltd	29,848,097	28.48
<b>TOTAL</b>	<b>30,255,394</b>	<b>28.87</b>

Notes: (1)The numbers referred to in this table refer to only those Skyepharma Shares in respect of which the Skyepharma Directors are registered holder and/or beneficial owner but exclude Skyepharma Shares which are the subject of options or awards under the Skyepharma Share Schemes. (2) Peter Grant may dispose of 20,000 Skyepharma Shares held by him to his spouse and the irrevocable undertaking provided by him shall continue to apply to such disposed Skyepharma Shares.

The irrevocable undertakings given by the Skyepharma Directors as set out above include undertakings:

- (iv) to vote, or procure the vote, in favour (or to submit, or procure the submission of, Forms of Proxy voting in favour) of the Scheme at the Court Meeting and the Special Resolution at the Skyepharma General Meeting; and
- (v) the Merger is implemented by way of an Offer, to accept, or procure the acceptance of, such Offer.

These irrevocable undertakings will cease to be binding if:

- (vi) this announcement is not released by 12.00 noon on 31 March 2016; or

- (vii) the Scheme Document is not posted within 28 days of the date of this announcement (or such longer period as agreed between Vectura and Skyepharma with the consent of the Panel) or, in the event the Merger is structured as an Offer, the Offer Document is not posted within 28 days of the announcement of the switch from a Scheme to an Offer; or
- (viii) the Scheme or Offer lapses or is withdrawn without becoming unconditional in all respects.

The irrevocable undertaking given by HBM includes undertakings:

- (i) to vote, or procure the vote, in favour (or to submit, or procure the submission of, Forms of Proxy voting in favour) of the Scheme at the Court Meeting and the Special Resolution at the Skyepharma General Meeting; and
- (ii) if Vectura exercises its right to structure the Merger as an Offer, to accept, or procure the acceptance of, such Offer.

The irrevocable undertaking given by HBM will cease to be binding if:

- (i) this announcement is not released by 12.00 noon on 16 March 2016; or
- (ii) the Scheme Document or (if applicable) Offer Document is not posted within 28 days of the date of this announcement (or such longer period agreed between HBM, Vectura and Skyepharma with the consent of the Panel); or
- (iii) Vectura publicly announcing that it does not intend to proceed with the Merger;
- (d) the Merger being withdrawn or lapsing without, in either case, becoming unconditional in all respects and effective;
- (e) the Merger not having become unconditional in all respects and effective by no later than the date 5 months after the date of the undertaking.

In addition, the irrevocable undertaking received from HBM will cease to be binding in the event of a competing offer, the value of which, in the opinion of Lazard (taking into account certain agreed valuation principles), exceeds the higher of:

- (i) 500 pence per Skyepharma Share; and
- (ii) 110 per cent. of the value of the consideration being offered by Vectura pursuant to the Merger as at 5 p.m. on the last dealing day immediately prior to the date of such competing offer,

provided further that such irrevocable undertaking will only terminate in these circumstances if:

- (aa) such competing offer is announced or made by no later than the later of 29 April 2016 and actual date of the Court Meeting and Skyepharma General Meeting or, if the Merger is implemented by way of an Offer, the date the Offer is declared unconditional as to acceptances; and
- (bb) Vectura has not made an improved offer within 5 calendar days of such competing offer being announced or made (as the case may be) the value of which is, in the opinion of Lazard (taking into account certain agreed valuation principles) at least as favourable to Skyepharma Shareholders as such competing offer

Pursuant to the terms of the HBM irrevocable undertaking, HBM has also agreed not to sell two thirds of the new Vectura Shares to be issued to it pursuant to the Merger (the “**HBM Restricted Shares**”) until the

earlier of 17 months from the date of the irrevocable undertaking and 365 days from the date on which it is issued such new Vectura Shares (the “**Restricted Period**”). Such restriction shall be subject to customary exceptions, including where Vectura gives its prior written consent and in circumstances where a third party makes a takeover offer for Vectura. The remaining New Vectura Shares shall remain subject to customary orderly market provisions governing any sale for the duration of the Restricted Period.

If, from time to time, the value of the HBM Restricted Shares exceeds 133 per cent. of the value (the “**Excess Value**”) of the HBM Restricted Shares on the date on which they are issued to HBM, then HBM shall be entitled to dispose of such a number of new Vectura Shares as is equal to the excess over the Excess Value.

## 2. Vectura Directors

The Vectura Directors have given voting undertakings in relation to the Merger as follows:

<b>Name of Vectura Director giving undertaking</b>	<b>Number of Vectura Shares in respect of which undertaking is given</b>	<b>Percentage of Vectura existing issued ordinary share capital (%)</b>
Dr Susan Foden	11,000	0.0027%
Neil Warner	30,477	0.0074%
Dr John Brown	322,570	0.0786%
Bruno Angelici	12,903	0.0031%
Andrew Oakley	2,505	0.0006%
Dr Trevor Philips	210,047	0.0512%
<b>TOTAL</b>	<b>589,502</b>	<b>0.1436%</b>

The voting undertakings as set out above include undertakings to vote in favour of the resolutions to be proposed at the Vectura General Meeting to approve the Merger and related matters.

These voting undertakings stipulate that they will cease to be binding if this announcement is not released by 16 March 2016 (or such later date as Vectura may determine) or Vectura announces that it has withdrawn its recommendation to Vectura Shareholders to vote in favour of the resolutions to be proposed at the Vectura General Meeting to approve the Merger and related matters.

## APPENDIX 4

### QUANTIFIED FINANCIAL BENEFITS STATEMENT

Vectura has made the following merger benefit statement in paragraph 5 of this announcement (the “**Quantified Financial Benefits Statement**”):

*Vectura and Skyepharma have highly complementary portfolios and the Merger represents an attractive opportunity to create a leading independent inhalation drug development company within airways diseases; covering DPI, pMDI and nebulised options for patients, physicians and payers.*

*The Vectura Board, following discussions with the Skyepharma Board, is confident that, as a direct result of the Merger, the Enlarged Group has the potential to generate attractive synergies and create additional shareholder value.*

*The Vectura Board has identified potential recurring cost synergies, which are in addition to savings previously targeted by Vectura and Skyepharma separately, including:*

- *savings generated by removing duplication and overlapping roles in management, corporate functions and other roles across the business (excluding the oral business and Lyon); and*
- *administrative costs related to the above role savings and procurement benefits resulting from the Enlarged Group’s scale.*

*The Vectura Directors expect the value of these pre-tax synergies to be approximately £10 million per annum and be fully realised by the 2018 calendar year, comprising £8 million of operating cost savings through the elimination of overlapping roles and £2 million through the reduction in administrative costs.*

*The Vectura Directors estimate that the implementation of the operating cost savings would give rise to one-off costs of £9 million incurred in the first 12 to 18 months following completion of the Merger. It is the intention of the Vectura Directors to establish a provision for the full £9 million costs in the financial year in which the Merger completes.*

*The Vectura Directors expect that there will be a net reduction in the number of Enlarged Group full-time equivalent roles of approximately 61. The number of roles, specific operating functions and locations affected by the integration will depend on the outcome of the integration planning and will be subject to consultation in accordance with local regulations. The role-related synergies will be realised only as the reductions are implemented.*

*In addition to the quantified synergies set out above and with its focus on inhaled airways disease, the Vectura Board intends to undertake a review following completion of the proposed Merger of the strategic options relating to Skyepharma’s oral business and related manufacturing assets in order to maximise future value for the Enlarged Group.*

*In preparing the estimated cost synergies available from the proposed Merger, Vectura and Skyepharma have both shared a limited amount of operating and financial information to facilitate Vectura undertaking its analysis. Data has been limited for commercial, competition or other reasons, and, therefore, estimates and assumptions have been made in arriving at the estimated cost synergies.*

*The Vectura Directors do not expect any material dis-benefits to arise in connection with the Merger.*



## Reports

The Vectura Board believes that the Enlarged Group should be able to achieve the synergies set out in the Quantified Financial Benefit Statement. As required by Rule 28.1(a) of the City Code, Deloitte LLP and J.P. Morgan Cazenove and Rothschild, as joint financial advisers to Vectura, have provided letters for the purposes of the City Code. These letters are appended to this Appendix.

### Bases of belief

Synergy planning commenced in September 2015, when a Vectura synergy development team was established to evaluate and assess the potential synergies available from the proposed merger and undertake an initial planning exercise.

The team, which comprises senior Vectura strategy and financial personnel, has worked collaboratively to identify and quantify potential synergies as well as estimate any associated costs.

In preparing the Quantified Financial Benefits Statement, both Vectura and Skyepharma have shared certain operating and financial information to facilitate an analysis in support of evaluating the potential synergies available from the proposed merger. In circumstances where data has been limited for commercial or other reasons, the team has made estimates and assumptions to aid its development of individual synergy initiatives.

Baseline cost numbers were agreed based on the actual costs (for example, current salary costs) and underlying business plans of both Vectura and Skyepharma and, for the synergies arising from the combination of group functions, organisation information was reviewed.

Cost saving assumptions were based on a detailed, bottom-up evaluation of the benefits available from elimination of duplicate activities, the leverage of combined scale economies and operational efficiencies arising from consolidation of procurement and activities within operational facilities. In determining the estimate of cost savings achievable through the Merger of Vectura and Skyepharma, no savings relating to operations have been included where no overlap exists, for example, at Skyepharma's Lyon facility.

In arriving at the estimate of synergies set out in this announcement, following discussions with Skyepharma, the Vectura Directors made the following operational assumptions:

- as regards synergies targeting role reductions, the removal of duplicative leadership, senior, operational and administrative roles,
- as regards synergies targeting general and administrative costs, the elimination of overlapping G&A spend, such as costs related to IT licences and the listing of Skyepharma, together with travel and other support costs related to potential role reductions

The Vectura Directors have, in addition, assumed that:

- the Merger will be completed in the third quarter of 2016 for these purposes;
- there will be no significant impact on the underlying operations of either company or their ability to continue to conduct their businesses;
- there will be no change in tax legislation or tax rates in the countries in which Vectura and Skyepharma operate that could materially impact the ability to achieve any benefits.

The cost bases used as the basis for the Quantified Financial Benefits Statement are:

- a) for Vectura, the outturn cost base for the current financial year, being the year ending 31 March 2016, or in certain cases the budget for the forthcoming year, ending 31 March 2017;
- b) for Skyepharma role reduction costs, actual current Skyepharma costs; and
- c) for Skyepharma non-role reduction costs, estimates based on Vectura current costs, sense-checked at a high level for reasonableness with Skyepharma.

The Vectura Directors consider that the expected benefits will accrue as a direct result of the Merger and could not be achieved independently of the Merger.

### **Important Notes**

1. The statements of estimated cost savings and synergies relate to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies. As a result, the cost savings and synergies referred to may not be achieved, or those achieved could be materially different from those estimated. No statement in the Quantified Financial Benefit Statement, or this announcement generally, should be construed as a profit forecast or interpreted to mean that Vectura's earnings in the first full year following the Merger, or in any subsequent period, would necessarily match or be greater than or be less than those of Vectura and/or Skyepharma for the relevant preceding financial period or any other period.
2. Due to the scale of the Enlarged Group, there may be additional changes to the Enlarged Group's operations. As a result, and given the fact that the changes relate to the future, the resulting cost savings may be materially greater or less than those estimated.
3. In arriving at the estimate of synergies set out in this announcement, the Vectura Directors have assumed that there will be no significant impact on the business of the Enlarged Group.

(a) from Deloitte LLP

The Board of Directors  
on behalf of  
Vectura Group plc  
One Prospect West  
Chippenham  
Wiltshire  
SN14 6FH

J. P. Morgan Limited  
25 Bank Street  
London  
E14 5JP

N M Rothschild & Sons Limited  
New Court  
St Swithin's Lane  
London  
EC4N 8AL

16 March 2016

Dear Sirs

**Vectura Group plc (the "Offeror") Recommended All Share Merger with Skyepharma PLC (the "Target")**

We report on the statement made by the directors of the Offeror (the "Directors") of synergy benefits set out in the announcement issued by the Offeror (the "Quantified Financial Benefits Statement" or the "Statement"). The Statement has been made in the context of the disclosures within Appendix 4 setting out, inter alia, the basis of the Directors' belief (identifying the principal assumptions and sources of information) supporting the Statement and their analysis, explanation and quantification of the constituent elements.

**Responsibilities**

It is the responsibility of the Directors to prepare the Statement in accordance with Rule 28 of the City Code on Takeovers and Mergers (the "Takeover Code").

It is our responsibility to form our opinion, as required by Rule 28.1(a) of the Takeover Code, as to whether the Statement has been properly compiled on the basis stated and to report that opinion to you.

This report is given solely for the purposes of complying with Rule 28.1(a)(i) of the Takeover Code and for no other purpose. Therefore, to the fullest extent permitted by law we do not assume any other responsibility to any person for any loss suffered by any such person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Rule 23.3 of the Takeover Code, or consenting to its inclusion in the announcement.

## **Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom.

Our work included considering whether the Statement has been accurately computed based upon the disclosed bases of belief (including the principal assumptions). Whilst the basis of belief (and the principal assumptions) upon which the Statement is based are solely the responsibility of the Directors, we considered whether anything came to our attention to indicate that any of the basis of belief (or principal assumptions) adopted by the Directors which, in our opinion, are necessary for a proper understanding of the Statement have not been disclosed or if any bases of belief (or principal assumption) made by the Directors appears to us to be unrealistic. Our work did not involve any independent examination of any of the financial or other information underlying the Statement.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Quantified Financial Benefits Statement has been properly compiled on the basis stated.

Since the Statement (and the principal assumptions on which it is based) relates to the future, the actual synergy benefits achieved are likely to be different from those anticipated in the Statement and the differences may be material. Accordingly, we can express no opinion as to the achievability of the synergy benefits identified by the Directors in the Statement.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices. We have not consented to the inclusion of this report and our opinion in any registration statement filed with the SEC under the US Securities Act of 1933 (either directly or by incorporation by reference) or in any offering document enabling an offering of securities in the United States (whether under Rule 144A or otherwise). We therefore accept no responsibility to, and deny any liability to, any person using this report and opinion in connection with any offering of securities inside the United States of America or who makes a claim on the basis they had acted in reliance on the protections afforded by United States of America law and regulation.

## **Opinion**

In our opinion, based on the foregoing, the Quantified Financial Benefits Statement has been properly compiled on the basis stated.

Yours faithfully

Deloitte LLP

Chartered Accountants

*Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited (“DTTL”), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see [www.deloitte.co.uk/about](http://www.deloitte.co.uk/about) for a detailed description of the legal structure of DTTL and its member firms.*

(b) from J.P. Morgan Limited and Rothschild

The Directors  
Vectura Group plc  
One Prospect West  
Chippenham  
Wiltshire  
SN14 6FH

16 March 2016

Dear Sirs,

**Vectura Group plc (the “Offeror”) Recommended All Share Merger with Skyepharma PLC (the “Target”)**

We refer to the statement of estimated quantified financial benefits, the bases of preparation thereof and the notes thereto (together the “Statement”) made by Vectura set out in this announcement, for which the directors of Vectura are solely responsible under Rule 28 of the City Code on Takeovers and Mergers (the “Code”).

We have discussed the Statement (including the assumptions and sources of information referred to therein), with the directors of Vectura and those officers and employees of Vectura who developed the underlying plans. The Statement is subject to uncertainty as described in this announcement and our work did not involve an independent examination of any of the financial or other information underlying the Statement.

We have relied upon the accuracy and completeness of all the financial and other information reviewed by us and have assumed such accuracy and completeness for the purposes of providing this letter. We have also reviewed the work carried out by Deloitte LLP and have discussed with them the opinion set out in their letter of 16 March 2016 addressed to yourselves and ourselves on this matter.

We do not express any opinion as to the achievability of the quantified financial benefits identified by the directors of Vectura.

This letter is provided pursuant to our engagement letter with Vectura solely to the directors of Vectura in connection with Rule 28.1(a)(ii) of the City Code and for no other purpose. We accept no responsibility to Vectura or its shareholders or any other person other than the directors of Vectura in respect of the contents of, or any matter arising out of or in connection with, this letter. No person other than the directors of Vectura can rely on the contents of this letter, and to the fullest extent permitted by law, we exclude all liability (whether in contract, tort or otherwise) to any other person, in respect of this letter, its results, or the work undertaken in connection with this letter, or any of the results that can be derived from this letter or any written or oral information provided in connection with this letter, and any such liability is expressly disclaimed except to the extent that such liability cannot be excluded by law.

On the basis of the foregoing, we consider that the Statement, for which you, the directors of Vectura are solely responsible, has been prepared with due care and consideration.

Yours faithfully,

J.P. Morgan Limited and N M Rothschild & Sons Limited

## APPENDIX 5

### PROFIT FORECAST

Further to the publication of the Vectura 2015 Unaudited Interim Financial Statements on 17 November 2015, the following profit forecast was made in the Vectura 2015 Interim Results Meeting:

*“The Company will grow EBITDA for the year ending 31 March 2016 as compared with the year ending 31 March 2015.”*

The Profit Forecast was published before Vectura made an approach with regard to a possible offer for Skyepharma and therefore the requirements of Rule 28.1(c) of the City Code apply in relation to the Project Forecast.

The Vectura Directors confirm that the Profit Forecast remains valid and confirm that the Profit Forecast has been properly compiled on the basis of the assumptions stated and that the basis of accounting used is consistent with Vectura’s accounting policies.

The Profit Forecast does not take into account any impact of the Merger.

The Vectura Directors prepared the Profit Forecast on the basis of the following assumptions, any of which could turn out to be incorrect and therefore affect whether the Profit Forecast is achieved:

#### *Factors outside the influence or control of the Vectura Board*

- a) there will be no material change in the political and/or economic environment that would materially affect the Vectura Group;
- b) there will be no material change in market conditions in relation to customer demand or the competitive environment;
- c) there will be no material change in legislation or regulatory requirements impacting on the Vectura Group’s operations or its accounting policies;
- d) there will be no material litigation in relation to any of the Vectura Group’s products;
- e) there will be no adverse regulatory filings relating to any of the Vectura Group’s products, causing, inter alia, the requirement for the Vectura Group to withdraw its products from the market;
- f) there will be no business disruptions that materially affect the Vectura Group, its customers or operations, including natural disasters, acts of terrorism, cyber-attack and/or technological issues or supply chain disruptions;
- g) foreign exchange rates will be an average US Dollar: Pounds Sterling exchange rate of US\$1.45: £1 and an average Euro: Pounds Sterling exchange rate of €1.34: £1; and
- h) there will be no material change in the management or control of the Vectura Group.

#### *Factors within the influence or control of the Vectura Board*

- a) there will be no material acquisitions or disposals;
- b) there will be no material change in the existing operational strategy of the Vectura Group; and

c) there are no material strategic investments over and above those currently planned.



## APPENDIX 6

### PROPOSED SERVICE ARRANGEMENTS

The principal terms of the Conditional Offer are as follows:

- Mr Derodra would be employed as Chief Financial Officer of the Enlarged Group.
- Mr Derodra would receive a salary of £281,875 per annum and would be entitled to:
  - (i) receive a discretionary performance-related bonus of up to 100 per cent. of basic salary based on individual and company performance conditions to be determined from time to time by the remuneration committee;
  - (ii) participate in Vectura's existing 2015 Long Term Incentive Plan with an opportunity to earn up to 250 per cent. of basic salary subject to the terms of such scheme rules and the remuneration policy in place from time to time; and
  - (iii) customary benefits including participation in the existing Vectura Group personal pension scheme.

The terms of the Conditional Offer are similar in all material respects to those in the service contract of Andrew Oakley, Vectura's current CFO.

Mr Derodra has not yet accepted the Conditional Offer and its terms remain subject to negotiation.

## APPENDIX 7

### DEFINITIONS

The following definitions apply throughout this announcement unless the context requires otherwise.

<b>"Admission"</b>	the admission of the New Vectura Shares by the FCA to the Official List with a premium listing and to trading on the London Stock Exchange's main market for listed securities;
<b>"Business Day"</b>	a day, (other than a Saturday, Sunday, public or bank holiday) on which banks are generally open for general banking business in London;
<b>"City Code"</b>	the City Code on Takeovers and Mergers, as amended from time to time;
<b>"Closing Price"</b>	the closing middle market price of a Vectura Share or Skyepharma Share, as applicable, on a particular trading day as derived from the Daily Official List for Vectura and Skyepharma;
<b>"CMA"</b>	the Competition and Markets Authority, being a UK statutory body established under the Enterprise and Regulatory Reform Act 2013 or its successor;
<b>"Combined Circular/Prospectus"</b>	the combined circular and prospectus relating to the approval of the Merger and the issue of the New Vectura Shares to be published and sent by Vectura to Vectura Shareholders;
<b>"Companies Act"</b>	the Companies Act 2006, as amended from time to time;
<b>"Conditions"</b>	the conditions to the implementation of the Merger set out in Appendix 1 to this announcement;
<b>"Co-operation Agreement"</b>	the co-operation agreement between Vectura and Skyepharma dated 16 March 2016;
<b>"Court"</b>	the High Court of Justice in England and Wales;
<b>"Court Meeting"</b>	the meeting of Skyepharma Shareholders to be convened at the direction of the Court pursuant to Part 26 of the Companies Act at which a resolution will be proposed to approve the Scheme (with or without amendment), including any adjournment thereof;
<b>"CREST"</b>	the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001/3755)) in respect of which Euroclear UK & Ireland Limited is the operator (as defined in the Regulations);
<b>"Daily Official List"</b>	the daily official list of the London Stock Exchange;

<b>"Dealing Disclosure"</b>	an announcement pursuant to Rule 8 of the City Code containing details of dealings in interests in relevant securities of a party to an offer;
<b>"Effective Date"</b>	the date on which the Scheme becomes effective in accordance with its terms;
<b>"Enlarged Group"</b>	the Vectura Group following the Merger, including the Skyepharma Group;
<b>"Enlarged Group Board"</b>	the board of directors of Vectura after the Effective Date;
<b>"Fairly Disclosed"</b>	the information which has been (i) fairly disclosed by Vectura or Skyepharma (as the case may be) in writing prior to the date of this announcement in relation to the Merger by them or on their behalf or by any of their respective officers or employees or any of their respective financial, accounting, tax or legal advisers; (ii) disclosed by Vectura or Skyepharma (as the case may be) in their annual and/or half year report and accounts for the relevant financial period or periods referred to in the relevant Condition; (iii) in the case of Skyepharma, fairly disclosed in the preliminary announcement of Skyepharma's results for the financial year ended 31 December 2015; (iv) fairly disclosed by Vectura or Skyepharma (as the case may be) in a public announcement made via a Regulatory Information Service by them or on their behalf prior to the date of this announcement; or (v) disclosed in this announcement;
<b>"FCA"</b>	the United Kingdom's Financial Conduct Authority, or its successor from time to time;
<b>"Forms of Proxy"</b>	the forms of proxy in connection with each of the Court Meeting and the Skyepharma General Meeting, which shall accompany the Scheme Document;
<b>"Form of Election"</b>	the form of election in relation to the Partial Cash Alternative which shall accompany the Scheme Document;
<b>"J.P. Morgan Cazenove"</b>	J.P. Morgan Limited, which conducts its UK investment banking business as J.P. Morgan Cazenove;
<b>"Lazard"</b>	Lazard & Co., Limited;
<b>"Listing Rules"</b>	the listing rules and regulations made by the FCA under Part VI of the Financial Services and Markets Act 2000 (as amended from time to time), and contained in the FCA's publication of the same name (as amended from time to time);
<b>"London Stock Exchange"</b>	London Stock Exchange plc or its successor;

<b>"Merger"</b>	the proposed recommended acquisition of the entire issued and to be issued ordinary share capital of Skyepharma by Vectura, to be effected by way of the Scheme (or by way of the Offer under certain circumstances described in this announcement), on the terms and subject to the conditions set out in this announcement and to be set out in the Scheme Document;
<b>"New Vectura Shares"</b>	the new Vectura Shares proposed to be issued credited as fully paid pursuant to the Scheme;
<b>"Offer"</b>	should the Merger be implemented by way of a takeover offer as defined in Chapter 3 of Part 28 of the Companies Act, the recommended offer to be made by or on behalf of Vectura to acquire the entire issued and to be issued ordinary share capital of Skyepharma and, where the context admits, any subsequent revision, variation, extension or renewal of such offer and includes any election available in connection with it;
<b>"Offer Period"</b>	the period commencing on 16 March 2016 and ending on the earlier of the date on which the Scheme becomes effective and/or the date on which the Scheme lapses or is withdrawn (or such other date as the Panel may decide);
<b>"Official List"</b>	the official list of the FCA;
<b>"Opening Position Disclosure"</b>	an announcement containing details of interests or short positions in, or rights to subscribe for, any relevant securities of a party to the offer if the person concerned has such a position;
<b>"Overseas Shareholders"</b>	Skyepharma Shareholders (or nominees of, or custodians or trustees for Skyepharma Shareholders) not resident in, or nationals or citizens of, the United Kingdom;
<b>"Panel"</b>	the Panel on Takeovers and Mergers;
<b>"Partial Cash Alternative"</b>	the alternative whereby eligible Skyepharma Shareholders may elect, subject to submitting a valid form of election, to receive cash instead of some or all of the New Vectura Shares to which they would otherwise be entitled to receive under the Scheme, as described in, and subject to the terms of, paragraph 12 of this announcement;
<b>"Phase 2 Investigation"</b>	a reference by the CMA to its chair for the constitution of a group under schedule 4 to the Enterprise and Regulatory Reform Act 2013;
<b>"Profit Forecast"</b>	the profit forecast contained in the Vectura 2015 Interim Results Meeting as reproduced in Appendix 5 to this announcement;
<b>"Quantified Financial Benefits Statement"</b>	the quantified financial benefits statement contained in paragraph 5 of this announcement;

<b>"Registrar of Companies"</b>	the Registrar of Companies in England and Wales;
<b>"Restricted Jurisdiction"</b>	any jurisdiction where local laws or regulations may result in a significant risk of civil, regulatory or criminal exposure if information concerning the Merger is sent or made available in that jurisdiction to Skyepharmaceutical Shareholders (in accordance with Rule 30.3 of the City Code);
<b>"Regulatory Information Service"</b>	any information service authorised from time to time by the FCA for the purposes of disseminating regulatory announcements;
<b>"Rothschild"</b>	NM Rothschild & Sons Limited;
<b>"Scheme"</b>	the proposed scheme of arrangement under Part 26 of the Companies Act between Skyepharmaceutical and Scheme Shareholders to implement the Merger with, or subject to any modification, addition or condition approved or imposed by the Court;
<b>"Scheme Court Hearing"</b>	the hearing of the Court to sanction the Scheme under section 899 of the Companies Act;
<b>"Scheme Court Order"</b>	the order of the Court sanctioning the Scheme under section 899 of the Companies Act;
<b>"Scheme Document"</b>	the document to be dispatched to Skyepharmaceutical Shareholders including (amongst other things) the particulars required by section 897 of the Companies Act and the full terms and conditions of the Scheme;
<b>"Scheme Record Time"</b>	the time and date to be specified as such in the Scheme Document or such later time and/or date as Vectura and Skyepharmaceutical may agree;
<b>"Scheme Shareholders"</b>	holders of Scheme Shares;
<b>"Scheme Shares"</b>	<ol style="list-style-type: none"> <li>1. the Skyepharmaceutical Shares in issue at the date of the Scheme Document;</li> <li>2. any Skyepharmaceutical Shares issued after the date of the Scheme Document and prior to the Voting Record Time; and</li> <li>3. any Skyepharmaceutical Shares issued at or after the Voting Record Time and prior to the Scheme Record Time in respect of which the original or any subsequent holder thereof is bound by the Scheme, or shall by such time have agreed in writing to be bound by the Scheme,</li> </ol> <p>in each case, save for any Skyepharmaceutical Shares legally or beneficially held by any member of the Vectura Group;</p>
<b>"Skyepharmaceutical"</b>	Skyepharmaceutical PLC, incorporated in England with registered number 107582;

"Skyepharma Board"	the board of directors of Skyepharma;
"Skyepharma Directors"	the directors of Skyepharma and ' <b>Skyepharma Director</b> ' means any one of them;
"Skyepharma General Meeting"	the general meeting of Skyepharma Shareholders to be convened to consider and if thought fit pass, <i>inter alia</i> , the Special Resolution;
"Skyepharma Group"	Skyepharma and its subsidiary undertakings from time to time;
"Skyepharma Shareholders"	holders of Skyepharma Shares;
"Skyepharma Shares"	the issued ordinary shares of 100 pence each in the capital of Skyepharma;
"Skyepharma Share Schemes"	the Skyepharma Long Term Incentive Plan 2012, the Skyepharma Share Incentive Plan 2014 and the Skyepharma International Share Plan;
"Special Resolution"	the special resolution to be proposed by Skyepharma at the Skyepharma General Meeting in connection with, amongst other things, the approval of the Scheme, and such other matters as may be necessary to implement the Scheme and the delisting of the Skyepharma Shares;
"Third Party"	a central bank, government or governmental, quasi-governmental, supranational, statutory, regulatory, environmental or investigative body or authority, court, trade agency, professional association, institution, employee representative body or any other body or person whatsoever in any jurisdiction;
"UK" or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland;
"US" or "United States"	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia;
"US Exchange Act"	the US Securities Exchange Act of 1934, as amended;
"US Securities Act"	the US Securities Act of 1933, as amended;
"Vectura"	Vectura Group plc, incorporated in England with registered number 3418970;
"Vectura Board"	the board of directors of Vectura;
"Vectura Directors"	the directors of Vectura and ' <b>Vectura Director</b> ' means any one of them;

<b>"Vectura General Meeting"</b>	the general meeting of Vectura to be convened in connection with the Merger, notice of which will be set out in the Combined Circular/Prospectus, including any adjournment thereof;
<b>"Vectura Group"</b>	Vectura and its subsidiary undertakings from time to time;
<b>"Vectura Shareholders"</b>	holders of Vectura Shares;
<b>"Vectura Shares"</b>	the ordinary shares of 0.025 pence each in the capital of Vectura;
<b>"Voting Record Time"</b>	the date and time specified in the Scheme Document by reference to which entitlement to vote at the Court Meeting will be determined, expected to be 6.00 p.m. on the day prior to the day immediately before the Court Meeting or any adjournment thereof (as the case may be);
<b>"Volume Weighted Average Price"</b>	the volume weighted average price of the relevant security for the specified number of trading days prior to the specified value date derived from Factset and referring to trading on the London Stock Exchange only;
<b>"Wider Vectura Group"</b>	the Vectura Group and associated undertakings and any other undertaking in which Vectura and/or such undertakings (aggregating their interests) have a direct or indirect interest in 20 per cent. or more of the equity share capital (as defined in the Companies Act); and
<b>"Wider Skyepharma Group"</b>	the Skyepharma Group and associated undertakings and any other undertaking in which Skyepharma and/or such undertakings (aggregating their interests) have a direct or indirect interest in 20 per cent. or more of the equity share capital (as defined in the Companies Act).

For the purposes of this announcement, '**subsidiary**', '**subsidiary undertaking**' and '**undertaking**' have the meanings given by the Companies Act and '**associated undertaking**' has the meaning given by paragraph 19 of Schedule 6 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 other than paragraph 19(1)(b) of Schedule 6 to those Regulations which shall be excluded for this purpose.