

UCB

Société Anonyme / Naamloze Vennootschap

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RPM/RPR Brussels, 0403.053.608

Annual report of the Board of Directors for the financial year ended 31 December 2016

Dear Madam, Dear Sir,

In accordance with the legal requirements and those laid down in UCB SA/NV's Articles of Association, we are pleased to present you our report on the activities of our Company during the last financial year and submit to you, for your approval, the statutory annual accounts of UCB SA/NV for the financial year ended 31 December 2016.

UCB SA/NV is the parent company of the UCB Group and serves as a holding company, managing the activities of the UCB Group and its subsidiaries worldwide.

Please refer to the UCB Group 2016 Annual Report for an overview of the activities and consolidated results of the UCB Group.

1. Major events during the financial year 2016

1.1 Early redemption of the perpetual bond

On 27 January 2016, the Company notified the bondholders of the subordinated perpetual bond issued in March 2011 that it exercised its option to early redeem the securities in whole at the first call date, i.e. 18 March 2016.

At 18 March 2016, UCB SA/NV redeemed the securities at their principal amount for a total amount of € 300 million. On the same date, the dividend related to the financial year 2015, for a total amount of € 23 million has been paid to the bondholders.

1.2 Events following the 2015 Group structure changes

On 16 March 2016, UCB SA/NV entered into a new loan agreement with UCB Lux S.A for a total amount of € 235 million. UCB SA/NV used the full amount of € 235 million on 18 March 2016 to participate in a capital increase of its subsidiary UCB Pharma SA/NV, to enable the latter to participate in a capital increase of € 587 million in UCB Biopharma SPRL/BVBA. The received funds were used by UCB Biopharma SPRL/BVBA to settle the acquisition of UCB Biopharma Ireland Ltd., the entity holding the Rotigotine IP, from UCB Manufacturing Ireland Ltd. at the end of 2015.

UCB Manufacturing Ireland Ltd. used the received funds to settle its net debt position, and the remainder of the funds, for a total amount of € 175 million, have been distributed to its shareholder UCB SA/NV. Since this dividend does not result from profits realized during the period from the acquisition date to the distribution of the dividend, the dividend has been accounted for as a reduction of the initial investment value in UCB Manufacturing Ireland Ltd. of € 414 million.

As a result, on 31 December 2016, the participation of UCB SA/NV in UCB Manufacturing Ireland Ltd. amounts to € 239 million.

1.3 Capital increases of subsidiaries

During 2016, UCB SA/NV participated into several capital increases in its subsidiary UCB Farma Brasil Ltda for a total amount of € 36 million. After these increases the total shareholding in UCB Farma Brasil Ltda amounts to € 173 million.

On 31 December 2016 an impairment testing has been performed on the shareholdings of UCB SA/NV. Please see section 1.10 of this Board of Directors report for the impacts on the shareholding in UCB Farma Brasil Ltda.

1.4 Settlement of outstanding Belgian commercial paper (“BCP”) position

During 2016, the UCB Group pursued its strategy to reduce its global debt exposure. As a result, UCB SA/NV reimbursed the total amount of the outstanding Belgian commercial paper position for a total amount of € 104 million.

1.5 Transfer of obligations under 2016 Performance Share Plan from UCB SA/NV to UCB Fipar SA/NV

Similar to 2014 and 2015, the obligations of UCB SA/NV under the 2016 UCB Performance Share Plan have been transferred to UCB Fipar SA/NV. UCB Fipar SA/NV has received a compensation of € 11 million for assuming this plan.

1.6 Transfer of treasury operations

During the last quarter of 2016, the UCB Group aimed to centralize the treasury team and operations in Belgium in order to allow for synergies within, and to optimize the operational efficiency of the UCB treasury function.

Those treasury activities were managed partly in Luxembourg within UCB Lux S.A. until November 2016, and the centralization involved the following steps, as further described below:

- a) the acquisition of the participations owned by UCB Lux S.A. in certain UCB affiliates by UCB SA/NV;
- b) the assignment of intra-group receivables from UCB Lux S.A. partly to UCB SA/NV and partly to UCB Biopharma SPRL/BVBA;
- c) the assignment of loans from the European Investment Bank (“EIB”) to UCB SA/NV;
- d) the early repayment of all outstanding loan agreements between UCB SA/NV and UCB Lux S.A.; and
- e) the liquidation of UCB Lux S.A. following these transfers.

Acquisition of UCB affiliates owned by UCB Lux S.A.

On 7 November 2016, UCB SA/NV completed the share purchase agreements of several affiliates owned by UCB Lux S.A (or its affiliate Celltech Group Ltd.). The purchase price has been determined based on the fair value of the affiliates. The concerned affiliates are listed below:

- UCB (Investments) Ltd. shares acquired from UCB Lux S.A. for a total amount of € 1 110million;
- UCB Australia Pty. Ltd. shares acquired from Celltech Group Ltd. for a total amount of € 29 million;
- UCB Pharma S.p.A. (Italy) shares acquired from UCB Belgium SA/NV, UCB Finance N.V., UCB FIPAR SA/NV and Celltech Group Ltd. for a total amount of € 107 million; and

- UCB Pharma A.S. (Turkey) shares acquired from UCB Lux S.A. for a total amount of € 19 million.

Assignment of intra-group receivables

On 10 November 2016, UCB SA/NV concluded an agreement with UCB Lux S.A. in order to assign the receivables from various related parties from UCB Lux S.A. to UCB SA/NV. In return for the assignment UCB SA/NV paid a total consideration of € 2 964 million, based on an at arm's length valuation of these receivables.

The total nominal value of the assigned receivables amounts to € 2 731 million and concerns the following loan agreements:

- £ 200 million loan contracted with UCB Celltech (UK Branch of UCB Pharma SA/NV) maturing September 2018;
- £ 650 million loan contracted with UCB Celltech (UK Branch of UCB Pharma SA/NV) maturing December 2018;
- € 615 million loan contracted with UCB Celltech (UK Branch of UCB Pharma SA/NV) maturing December 2018; and
- € 1 150 million loan contracted with UCB Biopharma SPRL/BVBA maturing June 2026.

The remaining difference of € 234 million between the nominal value and fair value of these loans is partially allocated to accrued interests for a total amount of € 27 million and partially as premium paid on the acquisition for a total amount of € 207 million. The premium is initially recognised as deferred charges on the balance sheet and deferred over the remaining duration of the loans concerned, hence in 2016 a financial expense has been recognized for a total amount of € 3 million, covering the period from the date of contribution until 31 December 2016.

Assignment of loans from the European Investment Bank ("EIB")

On 24 October and 21 November 2016, the respective interest reset dates of the concerned loans, UCB Lux S.A. assigned 2 loans with the European Investment Bank to UCB SA/NV, for a total value of € 100 million for the loan maturing April 2020 and a total value of € 150 million for the loan maturing May 2019.

Early repayment of loan agreements between UCB SA/NV and UCB Lux S.A.

On 7 November 2016, UCB SA/NV and UCB Lux S.A. confirmed that they mutually agreed to early reimburse all outstanding loan agreements between UCB SA/NV and UCB Lux S.A.

UCB Lux S.A. early repaid UCB SA/NV for a total amount of € 1 126 million representing the nominal amount of the loans for a total amount of € 1 040 million, accrued interests for a total amount of € 40 million and break-up costs for a total amount of € 46 million. The break-up costs related to the early repayment are recognized as a financial income in the income statement of 2016.

In the framework of this mutual agreement, UCB SA/NV then early repaid UCB Lux S.A. for a total amount of € 235 million in relation to the loan agreement contracted on 16 March 2016. Considering the short term of this loan, almost no break-up costs, nor accrued interests, hence the total consideration paid almost fully represents the nominal amount of the loan.

Liquidation of UCB Lux S.A.

On 30 December 2016, UCB Lux S.A. has been liquidated and this resulted in liquidation proceeds distributed to UCB SA/NV for a total amount of € 4 489 million including € 4 258 million as reimbursement of the participating interest in UCB Lux S.A. The remainder of € 231 million is recognized as an income from financial assets in the income statement of 2016.

1.7 Transactions in Own Shares

During 2016, UCB SA/NV acquired 36 945 UCB shares and disposed 928 677 UCB shares.

As a result, on 31 December 2016, UCB SA/NV retained a total of 4 079 536 UCB securities representing, if exercised, 2.10% of the total number of UCB shares.

That holding of UCB securities consists of 3 079 536 shares and 1 000 000 assimilated financial instruments (outstanding options).

The 3 079 536 UCB shares represent 1.58% of the capital and a par value of € 9 million. The amount reported in the balance sheet under the section "own shares" represents € 141 million.

1.8 Redemption of senior unsecured bonds

In December 2009, UCB SA/NV completed an offering of € 500 million senior unsecured bonds, carrying a coupon of 5.75% and an effective interest rate of 5.8150% per annum, and aimed at institutional investors.

On 10 December 2016, these bonds matured and have been redeemed for a total nominal value of € 500 million on 12 December 2016.

1.9 Incorporation of UCB Ventures SA/NV

On 15 December 2016, UCB SA/NV incorporated a new subsidiary, UCB Ventures SA/NV, which will be used for investments in promising companies looking for venture capital or in partnerships. UCB SA/NV subscribed 99.99% of the capital for a total amount of € 60 million, of which € 45 million is uncalled.

As a result, on 31 December 2016, the participation of UCB SA/NV in UCB Ventures SA/NV amounts to € 15 million.

1.10 Risk of impairment on the shares held by UCB SA/NV – Impairment test on participations

On 31 December 2016, an impairment testing has been performed on the shareholdings of UCB SA/NV. This test resulted in the recognition of impairment charges amounting to € 87 million, fully related to its subsidiary UCB Biopharma SA in Brazil.

The impairment testing also revealed that some historical impairment charges were not relevant anymore. Hence those impairment charges have been reversed for a total amount of € 25 million:

- UCB Pharma Sp. z.o.o. for a total amount of € 4 million;
- UCB Korea Co. Ltd. for a total amount of € 2 million; and
- UCB GmbH for a total amount of € 19 million.

Both the new impairment charges as well as the reversal of the historical impairment charges have been recognized in the financial results in the income statement of 2016.

2. Change in accounting policies

The Board of Directors of UCB SA/NV approved the following modifications to the valuation rules in relation to the accounting treatment of derivatives and fair value adjustments on loans being acquired.

Accounting treatment of derivatives

Under the Belgian Generally Accepted Accounting Principles (BEGAAP), there is no specific accounting guidance available relating to the accounting treatment of derivatives. Until now, all derivatives were not affecting the balance sheet and/or income statement accounts before maturing and were only disclosed as off-balance sheet commitments, which was not in line with the IFRS treatment (where hedge accounting is applicable).

Considering the above and in order to avoid mismatches between both BEGAAP and IFRS, UCB amended the accounting treatment of derivatives under the Belgian Generally Accepted Accounting Principles (BEGAAP), applicable to the 2016 full year accounts, as follows: UCB SA/NV will account for derivatives at fair value through P&L unless the derivative has no offsetting exposure in the stand-alone financial statements, in which case, the derivative will only be disclosed as off-balance sheet commitment not affecting the balance sheet and/or income statement accounts. The amount disclosed as off-balance sheet commitment will be in line with IFRS methodology (spot-to-spot for cash flow hedges, clean market value for IRS).

Additionally, UCB will classify the effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges, on the same line, in the income statement or balance sheet, as the hedged item once the hedged item affects profit or loss or results in the recognition of a non-financial asset or liability.

As a result of this change, the 2016 annual accounts of UCB SA/NV have been affected as following:

- increase of the accrued income for a total amount of € 2 million;
- increase of the accrued charges for a total amount of € 31 million;
- net loss of € 29 million, presented in the income statement under other financial income for a total amount of € 2 million and other financial charges for a total amount of € 31 million.

Accounting treatment of fair value adjustments on loans being acquired

As a result of the transfer from the treasury operations from Luxembourg to Belgium, UCB has assigned some of its intercompany loans (receivables and payables) between UCB Lux S.A. and other UCB entities from UCB Lux S.A. to UCB SA/NV on 10 November 2016 (except those that were early repaid).

Considering the above, UCB amended the accounting treatment of fair value adjustments on loans being acquired under the Belgian Generally Accepted Accounting Principles (BEGAAP), applicable to the 2016 full year accounts, as follows: UCB SA/NV will recognize the intercompany loans that are transferred from UCB Lux S.A. at nominal value and will recognize the differences between the acquisition value (= fair value) and the nominal value of these loans on an accrual account.

As a result of this change, a fair market value of € 207 million has been recognized as a deferred charge on the balance sheet and will be taken in income statement pro rata temporis on a linear basis over the remaining duration of the loans. The total net result for accounting year 2016 has been negatively affected by an amount of € 3 million instead of € 207 million in case of immediate recognition in the income statement (as per the old accounting rules).

The new accounting treatments are in the best interest of the Company and are in accordance with applicable laws and regulations.

It is further acknowledged that the impacts of these new rules will be disclosed in the notes to the statutory financial statements for the accounting year 2016 for publication by the National Bank of Belgium.

3. Internal controls in place regarding the establishment of the annual accounts

The Audit Committee, on behalf of the Board of Directors of UCB SA/NV, assessed the adequacy and effectiveness of the internal control system in detecting fraud, irregularities or infringement of laws, rules and regulations or material control failures on a regular basis. Internal control mechanisms are further described in the UCB Group 2016 Annual Report.

4. Major events after the balance sheet date

No major events occurred after the balance sheet date.

5. Conflicts of interest met during the financial year

There were no transactions or contractual relationships in 2016 between UCB SA/NV and a member of the Board of Directors giving rise to conflicts of interest, except as reported in section 1.9 (Application of article 523 of the Belgian Companies Code) of the Corporate Governance Statement included in the UCB Group 2016 Annual Report.

6. Financial information

Results at 31 December 2016

The operations of UCB SA/NV generated in 2016 a net profit of € 161 million after tax compared to € 172 million in 2015.

The evolution in the net profit (decrease of € 11 million) is mainly due to:

- the decrease in dividends received from its subsidiaries for a total amount of € 233 million, mainly from UCB Finance N.V. (€ 100 million), UCB India Private Limited (€ 29 million) and UCB Lux S.A. (€ 100 million) fully compensated by the net liquidation proceeds of € 231 million from UCB Lux S.A. distributed to UCB SA/NV (please refer to section 1.6);
- the decrease in other operating income and services and other goods related to legal fees incurred in 2015 in the framework of the divestment of Kremers Urban Pharmaceuticals Inc.;
- the decrease in the provision, to cover risk of share price changes of long-term incentives granted to the Executive Committee and certain categories of employees, for a total amount of € 14 million mainly due to the drop in UCB share price;

- the one-off financial income amounting to € 46 million related to the early repayment of a loan agreement by UCB Lux S.A. (please refer to section 1.6);
- the net impairment charge on participations amounting to € 62 million (please refer to section 1.10); and
- the net financial loss for a total amount of € 29 million related to the recognition of derivatives in BEGAAP in 2016 (please refer to section 2).

Result appropriation

The total net profit of € 161 million is available for distribution. The Board of Directors proposes the following allocation:

- distribution to the shareholders of a gross dividend of € 1.15 per share; and
- drawing on available reserves for € 60 million.

The Board of Directors thus propose to pay, against delivery of coupon no. 20, a gross dividend of € 1.15 per share (giving right to a dividend net of Belgian 30% withholding tax of € 0.805). The aggregate amount to be distributed to the shareholders may fluctuate depending on the number of UCB shares held by UCB SA/NV (own shares) and its direct subsidiaries on the dividend approval date, as the UCB shares held by UCB SA/NV (own shares) and its direct subsidiaries are not entitled to a dividend. Per 1 January 2017, 191 426 122 UCB shares are entitled to a dividend, representing a total distribution of € 220 million. The Board of Directors will communicate at the General Meeting the total number of UCB shares entitled to the 2016 dividend and will submit the aggregate amount to be distributed to the shareholders for approval. The annual accounts of 2016 will be adapted accordingly.

Subject to the approval of the proposed dividend distribution by the General Meeting, coupon no. 20 will be payable as from 3 May 2017 at KBC Bank NV/SA, Havenlaan 12 Avenue du Port, 1080 Brussels (Belgium).

In accordance with the law, we request you to grant discharge to the Directors and the Statutory Auditor for the performance of their duties during the financial year ended 31 December 2016.

Balance Sheet items at 31 December 2016

On the balance sheet of UCB SA/NV at 31 December 2016, the total assets and liabilities amount to € 8 002 million, as compared to € 9 164 million at 31 December 2015.

The variation on the balance sheet is mainly driven by:

- the capital increase in its subsidiary UCB Farma Brasil Ltda for a total amount of € 36 million (please refer to section 1.3);

- the increase of participating interests in affiliates as a result of the acquisition of UCB affiliates owned by UCB Lux S.A. for a total amount of € 1 265 million (please refer to section 1.6), the capital increase in UCB Pharma SA/NV for a total amount of € 235 million (please refer to section 1.2) and the incorporation of UCB Ventures SA/NV for a total amount of € 15 million (please refer to section 1.9);
- the decrease of the initial investment in UCB Manufacturing Ireland Ltd. for a total amount of € 175 million (please refer to section 1.2);
- the decrease of participating interest in affiliates as a result of the liquidation of UCB Lux S.A. and the corresponding distribution of liquidation proceeds for a total amount of € 4 258 million (please refer to section 1.6) and the recognition of impairment charges for a total amount of € 62 million (please refer to section 1.10);
- the increase in the long term intercompany receivable position as a result of the assignment of intra-group receivables from UCB Lux S.A. for a total amount of € 2 115 million compensated by the early repayment by UCB Lux S.A. of loan agreements for a total amount of € 1 040 million (please refer to section 1.6);
- the increase in the short term intercompany receivable position as a result of the assignment of intra-group receivables from UCB Lux S.A. for a total amount of € 615 million (please refer to section 1.6);
- the increase of the deferred charges as a result of the premium paid for the assignment of the intra-group receivables for a total amount of € 221 million. The premium will be deferred over the remaining duration of the loans concerned, hence in 2016 a total amount of € 4 million has been deferred (please refer to section 1.6);
- the decrease in the provision, to cover risk of share price changes of long-term incentives granted to the Executive Committee and certain categories of employees, for a total amount of € 8 million mainly due to the drop in UCB share price;
- the increase in the long term financial debt position for a total amount of € 250 million due to the assignment of the loans from the European Investment Bank (“EIB”) from UCB Lux S.A. to UCB SA/NV (please refer to section 1.6). As of December 31, 2016 € 19 million is reclassified to short-term debt due to repayment in 2017;
- the settlement of the current portion of amounts payable after more than one year falling due within one year as a result of the early redemption of the perpetual bond for a total amount of € 300 million (please refer to section 1.1) and the redemption of senior unsecured bonds for a total amount of € 500 million (please refer to section 1.8);
- the decrease in the short term financial debt position due to the settlement of the final outstanding Belgian commercial paper position for a total amount of € 104 million (please refer to section 1.4);
- the increase of the deferred revenues as a result of the premium paid for the assignment of the intra-group receivables for a total amount of € 14 million. The premium will be deferred over the remaining duration of the loans concerned, hence in 2016 a total amount of € 1 million has been deferred (please refer to section 1.6); and



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- the decrease of the deferred revenues for a total amount of € 5 million as a result of the deferral of the revenue, related to stock options granted in 2013, in line with the exercise of options in 2016. On 31 December 2016 the outstanding revenue to be deferred amounts to € 15 million.

7. Changes to the composition of the Board

Please refer to the Corporate Governance Statement in the UCB Group 2016 Annual Report for the changes in the Board composition in 2016 as well as the proposals for changes to the composition for 2017.

8. Financial instruments, risks of credit, risks of liquidity and risks of treasury

Please refer to the UCB Group 2016 Annual Report, Financial Report, Notes to the Consolidated Financial Statements, Point 4 “Financial Risks Management”.

9. Change of control

Please refer to section 1.8.9 of the of the Corporate Governance Statement included in the UCB Group 2016 Annual Report for a complete overview of all agreements including change of control provisions approved in and/or prior to 2016.

10. Activities in the area of research and development

The activities of UCB SA/NV are holding activities. There are no research and development activities at the level of UCB SA/NV.

11. Branches of UCB SA/NV

UCB SA/NV has no branches.



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12. Corporate Governance Statement

The Corporate Governance Statement (including the Remuneration Report) is included in the UCB Group 2016 Annual Report.

Brussels, 22 February 2017.

A handwritten signature in blue ink, appearing to read 'J. Tellier'.

Jean-Christophe Tellier
Chief Executive Officer and Director

A handwritten signature in blue ink, appearing to read 'G. Mayr'.

Gerhard Mayr
Chairman of the Board