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UCB

Société Anonyme / Naamloze Vennootschap

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Annual report of the Board of Directors for the financial year ended 31 December 2017

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 2017.

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 2017 Annual Report for an overview of the activities and consolidated results of the UCB Group.

1. Major events during the financial year 2017

1.1 End of product payment monetization agreement

In 2009, UCB SA/NV entered into a product payment monetization agreement with Bibeca Holdings Luxembourg SARL. In exchange for a fixed lump-sum payment of \$ 111 million, Bibeca Holdings Luxembourg SARL was entitled to receive a portion of the royalty streams that UCB SA/NV earned on the net sales of Asacol and Zyrtec in the United States of America over a fixed period of time.

In September 2017 UCB SA/NV completed the last reimbursement under this agreement for a total amount of \$ 26 million, as such UCB SA/NV has no further outstanding financial obligations anymore in relation to Bibeca Holdings Luxembourg SARL.

1.2 Pay up capital of subsidiaries

In order to enable UCB Ventures SA/NV to fulfil its financial obligations in relation to its investments, UCB SA/NV has been requested during 2017, as shareholder of UCB Ventures SA/NV, to pay up the capital for an additional amount of € 10 million. After this payment, the total paid-up capital in UCB Ventures SA/NV amounts to € 25 million.

1.3 Transfer of obligations under 2017 Performance Share Plan from UCB SA/NV to UCB Fipar SA/NV

Similar to previous years, the obligations of UCB SA/NV under the 2017 UCB Performance Share Plan have been transferred to UCB Fipar SA/NV. UCB Fipar SA/NV has received a compensation of € 8 million for assuming the obligations under this plan.

1.4 Transactions in UCB securities

During 2017, UCB SA/NV acquired 932 055 UCB shares and disposed of 903 430 UCB shares.

On 6 March 2017, UCB SA/NV also sold 1 000 000 options on UCB shares, previously purchased on 22 June 2015 and 7 July 2015 and with various maturity dates between 25 September 2017 and 25 June 2018, over-the-counter in two tranches of each 500 000 options, to the original bank counterparties. This operation generated a loss of € 4 million.

As a result, on 31 December 2017, UCB SA/NV retained a total of 3 108 161 UCB shares representing 1.60% of the capital and a par value of € 9 million. The amount reported in the balance sheet under the section "own shares" represents € 156 million.

1.5 Acquisition of participations held by Vedim Pharma S.A. in two UCB affiliates

On 21 December 2017, UCB SA/NV completed the share purchase agreements for the participations in two affiliates previously held by Vedim Pharma S.A. The purchase price has been determined based on the fair value of the affiliates. The concerned participations are listed below:

- 38 942 shares of UCB Pharma S.A. (France) for a total amount of € 8 million; and
- 88 500 shares of UCB Pharma (Produtos Farmacêuticos Lda) for a total amount of € 9 million.

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

On 31 December 2017, an impairment testing has been performed on the shareholdings of UCB SA/NV. We can conclude that there is no risk and that there is no additional impairment to be considered.

This impairment testing also revealed that two historical impairment charges were not relevant anymore. Hence those impairment charges have been reversed for a total amount of € 3 million related to UCB Pharma SA/NV and UCB Hungary Ltd.

The reversal of the historical impairment charges have been recognized in the financial results in the income statement of 2017.

2. Change in accounting policies

There were no changes in the accounting policies in 2017.

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 2017 Annual Report.

4. Major events after the balance sheet date

On January 8 2018, the credit facility of €1 billion has been amended and extended till January 9 2023 (including the option to request further extensions of the maturity date by two additional years).

5. Conflicts of interest met during the financial year

There were no transactions or contractual relationships in 2017 between UCB SA/NV, including its affiliated companies, 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 2017 Annual Report.

6. Financial information

Results at 31 December 2017

The operations of UCB SA/NV generated in 2017 a net profit of € 36 million after tax compared to € 161 million in 2016.

The evolution in the net profit (decrease of € 125 million) is mainly due to:

- the decrease in dividends received from its subsidiaries for a total amount of € 157 million, mainly due to the absence of a dividend from UCB Lux S.A., which has been liquidated in 2016 with net liquidation proceeds amounting to € 231 million, partly compensated by the dividends received in 2017 from UCB Manufacturing Ireland for a total amount of € 20 million and from UCB Finance NV for a total amount of € 65 million;
- the increase in other operating income for € 7 million related to service agreements with the other affiliates;
- the increase 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 € 1 million;
- the increase of the non-recurring operating expenses for an amount of € 1 million related to a restructuring provision;
- the decrease of the interests income for a total amount of € 35 million compensated by the decrease of the interests expense for a total amount of € 17 million, both driven by the Euribor rate;
- the reversal of impairment charges on participation in 2017 for a total amount of € 3 million compared to an impairment charge of € 62 million in 2016 (please refer to section 1.6);
- the increase of the other net financial loss for a total amount of € 10 million mainly as a result of the realised loss on the sale of options for a value of € 4 million (please refer to section 1.4).

Result appropriation

The total net profit of € 36 million is available for distribution. The Board of Directors proposes the following allocation:

- distribution to the shareholders of a gross dividend of € 1.18 per share; and
- drawing on available reserves for € 190 million.

The Board of Directors thus propose to pay, against delivery of coupon no. 21, a gross dividend of € 1.18 per share (giving right to a dividend net of Belgian 30% withholding tax of € 0.826). 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 2018, 191 397 497 UCB shares are entitled to a dividend, representing a total distribution of € 226 million. The Board of Directors will communicate at the General Meeting the total number of UCB shares entitled to the 2017 dividend and will submit the aggregate amount to be distributed to the shareholders for approval. The annual accounts of 2017 will be adapted accordingly.

Subject to the approval of the proposed dividend distribution by the General Meeting, coupon no. 21 will be payable as from 2 May 2018 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 2017.

Balance Sheet items at 31 December 2017

On the balance sheet of UCB SA/NV at 31 December 2017, the total assets and liabilities amount to € 7 970 million, as compared to € 8 002 million at 31 December 2016.

The variation on the balance sheet is mainly driven by:

- the increase of participating interests in affiliates as a result of the acquisition of the participations in two UCB affiliates previously held by Vedim Pharma S.A. for a total amount of € 17 million (please refer to section 1.5) and the paid-up capital in UCB Ventures SA/NV for € 10 million (please refer to section 1.2);
- the reclassification of an intra-group receivable amounting to € 850 million with maturity date in 2018 from the long term intercompany receivable position to the short term intercompany receivable position;
- the increase of the investments in own shares for a total amount of € 15 million as a result of the acquisition of 932 055 UCB shares at a higher average price than the price applied for the disposal of 903 430 UCB shares during the year (please refer to section 1.4);

- the decrease in other investments due to the sale of 1 000 000 options on UCB shares for € 12 million (please refer to section 1.4);
- the decrease of the deferred charges as a result of the deferral of the premium paid in 2016 for the assignment of the intra-group receivables for a total amount of € 221 million, hence in 2017 a total amount of € 25 million has been deferred;
- the decrease in the available reserves for a total amount of € 190 million mainly driven by the proposed dividend distribution (please refer to section 6 Financial information – Result appropriation);
- 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 € 7 million mainly due to the transfer of obligations under the 2017 Performance Share Plan from UCB SA/NV to UCB Fipar SA/NV (please refer to section 1.3);
- the reclassification of the portion of the loan with the European Investment Bank (“EIB”) maturing in 2018, for a total value of € 26 million, from the long term financial debt position to the short term financial debt position;
- the increase in the short term financial debt position for a total amount of € 233 million as a result of the increase in the bank overdraft for a total amount of € 9 million and the increase of the cash pooling position for a total amount of € 226 million;
- the decrease of the deferred revenues for a total amount of € 30 million as a result of decrease of the derivative financial instruments; and
- the decrease of the deferred revenues for a total amount of € 10 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 2017. On 31 December 2017, the outstanding revenue to be deferred amounts to € 18 million.

7. Changes to the composition of the Board

Please refer to the Corporate Governance Statement in the UCB Group 2017 Annual Report for the changes in the Board composition in 2017 as well as the proposals for changes to the composition for 2018.

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

Please refer to the UCB Group 2017 Annual 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 2017 Annual Report for a complete overview of all agreements including change of control provisions approved in and/or prior to 2017.

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.

12. Corporate Governance Statement

The Corporate Governance Statement (including the Remuneration Report) is included in the UCB Group 2017 Annual Report.

13. Non-financial information

In September 2017, a new Belgian legislation on non-financial information became effective. As relates to the Sustainability report, this legislation requires the company to report on five CSR areas: environmental, social and employee matters, human rights, anticorruption and bribery and diversity & inclusion.

The first four of these five areas are detailed in the UCB 2017 Sustainability Report. Further information on diversity and inclusion can be found in the management report of the Board of Directors included in the UCB Group 2017 Annual Report.

Brussels, 21 February 2018.



Jean-Christophe Tellier
Chief Executive Officer and Director



Evelyn du Monceau
Chair of the Board