



Carolin, living with epilepsy and axial spondyloarthritis



# ANNUAL REPORT 2016



Inspired by **patients.**  
Driven by **science.**

# 2016 FACTS IN NUMBERS



**2 586 000**  
PATIENTS

Using our main medicines  
across **78** countries



**4**  
MAIN MEDICINES

Cimzia®, Vimpat®,  
Neupro® and Keppra®  
**81%** of global net sales



**1**  
NEW MEDICINE

Briviact® in epilepsy – partial  
onset seizures



**1 020** MILLION  
R&D EXPENSES

**24%** of our revenue  
10 new molecular entities



**7 563**  
EMPLOYEES

across **38** countries



**4.2** BILLION  
REVENUE

**1 031** million recurring EBITDA  
**3.19** core EPS

Miranda  
UCB

# UCB IN BRIEF

Everything we do starts with **one simple question:**

“How will this create value  
for **people** living with severe diseases?”

Patients are waiting for solutions for their health issues.

It is our ambition to be the patient preferred biotech leader, creating value for millions of patients whilst delivering sustainable value for stakeholders and shareholder value.

Our activities and performance towards these ambitions are reflected in multiple reports and updates. Please visit our website: [www.ucb.com](http://www.ucb.com) for more detailed information about UCB, including our CSR reports, the corporate governance charter and our code of conduct.

Thank you for your attention and your feedback – we are looking forward to continuing our dialogue with you!  
Please contact us: [investor-relations@ucb.com](mailto:investor-relations@ucb.com)

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# UCB

## A GLOBAL PLAYER

PRESENCE IN 38 COUNTRIES  
COMPLEMENTED BY A ROBUST  
NETWORK OF PARTNERS

2

### RESEARCH CENTERS

BRAINE-L'ALLEUD – Belgium  
SLOUGH – United Kingdom

5

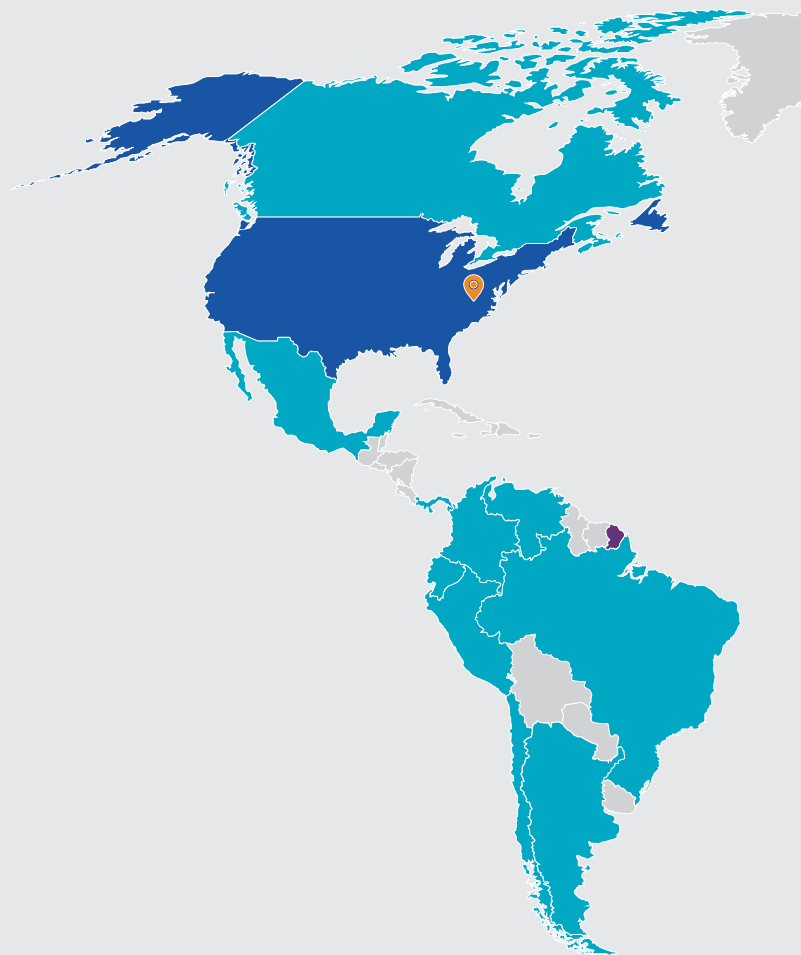
### DEVELOPMENT HUBS

RTP NORTH CAROLINA – U.S.  
MONHEIM – Germany  
BRUSSELS – Belgium  
TOKYO – Japan  
SHANGHAI – China

4

### MANUFACTURING FACILITIES

BRAINE-L'ALLEUD – Belgium  
BULLE – Switzerland  
SAITAMA – Japan  
ZHUHAI – China



Founded in 1928, UCB has constantly evolved to face the challenges and opportunities of an everchanging world.

Today, UCB is an innovation-driven global biopharmaceutical company engaged in the business of researching, developing, manufacturing, selling and distributing biopharma medicinal products to create value for patients by improving the lives of patients and thereby create value for the company, its shareholders and society in general.

#### UNITED STATES



+9%

€ 1 851  
MILLION NET SALES



48%  
OF NET SALES

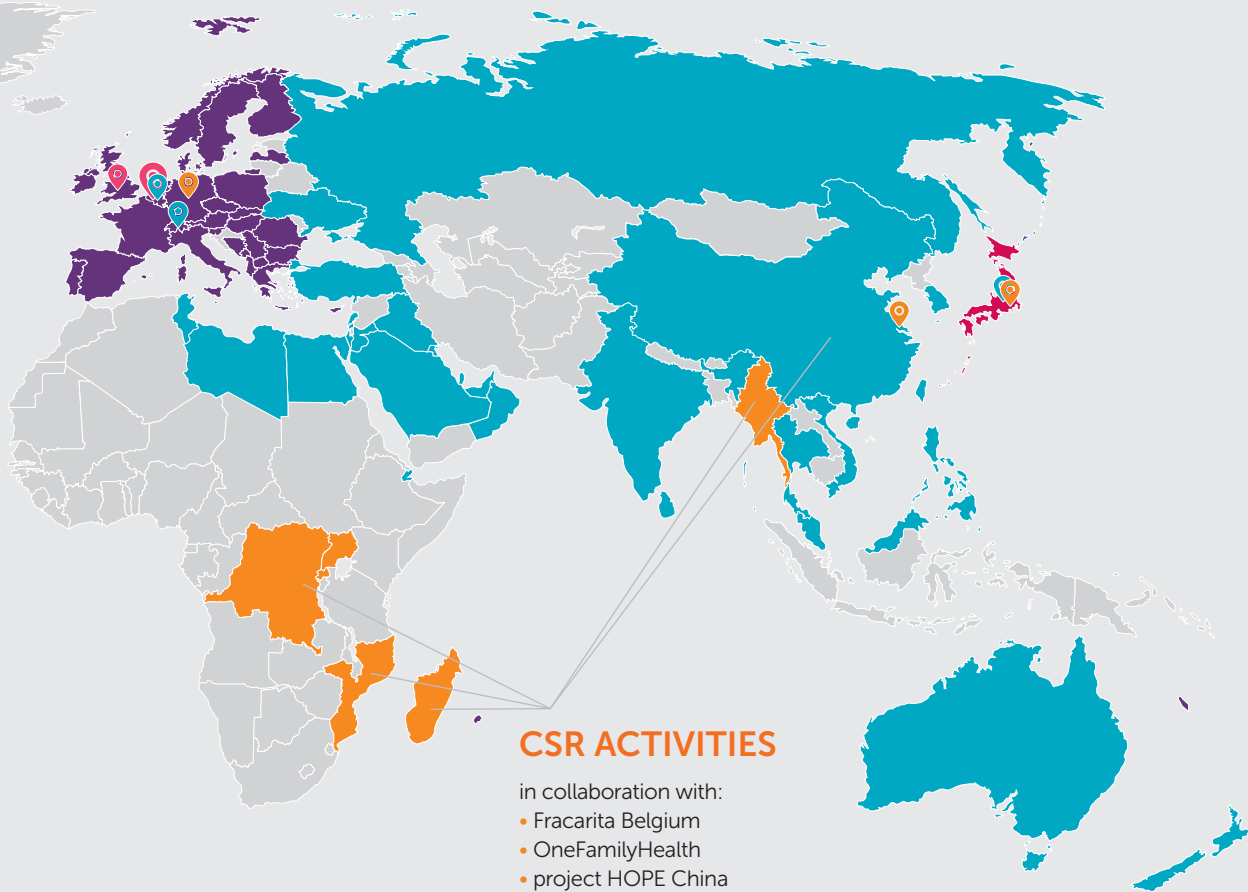


45% 55%

1 156  
EMPLOYEES

15% OF TOTAL





### CSR ACTIVITIES

in collaboration with:

- Fracarita Belgium
- OneFamilyHealth
- project HOPE China
- Red Cross Society of China
- World Health Organization

#### EUROPE

#### INTERNATIONAL MARKETS

#### JAPAN



+4%

€ 1 256

MILLION NET SALES



+3%

€ 502

MILLION NET SALES



+29%

€ 268

MILLION NET SALES



32%

OF NET SALES



13%

OF NET SALES



7%

OF NET SALES



51% 49%

4 284

EMPLOYEES

57% OF TOTAL



47% 53%

1 724

EMPLOYEES

23% OF TOTAL



78% 22%

399

EMPLOYEES

5% OF TOTAL

01.

# LETTER TO OUR STAKEHOLDERS



Jean-Christophe Tellier,  
CEO

## Dear shareholders, partners, colleagues and those living with severe diseases,

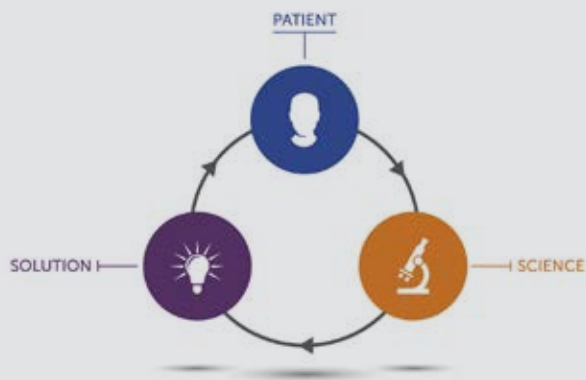
UCB's ambition is to be the patient preferred biotech leader, creating value for millions of patients whilst delivering sustainable company growth as well as sustainable shareholder value.

Our strategy requires innovation, focus and agility and therefore an evolution to an integrated business model with "biotech characteristics", impacting each part of our value chain. Our operating model from patient to science, from science to solution and from solution to patient is based on understanding the patient needs to deliver compelling value propositions.

We, at UCB, are progressively implementing our Patient Value Strategy. In an environment of pressured healthcare budgets, increasing involvement of patients in their own healthcare and the potential of scientific and technological innovation overall healthcare will shift towards recognition of true differentiation, outcome orientation and value generation.

“ We deliver highly differentiated solutions to specific populations, striving for a unique experience for each patient. ”

Our Patient Value Strategy is going beyond price-cost discussion, reflecting a shift from volume orientation to patient value creation and striving for long-term sustainable patient value outcomes.



#### TO ACHIEVE THESE GOALS:

- > We integrate patient insights and focus on patient value at every step in our value chain, from research to commercialization;
- > We focus on specific patient populations within our current therapeutic areas: immunology, neurology and bone;
- > We build up our scientific capabilities and networks to enhance our competitive innovation strengths;
- > We progress innovative assets outside our core focus *via* partnerships, to create new royalty income flow in the mid-term – we call this “biotech characteristics” of our strategy. Examples in the past are royalties for an overactive bladder treatment. In the future this might be a royalty stream from CMC544, a new potential cancer treatment from our research and currently under regulatory review;
- > We continue to nurture and foster our patient value culture to ensure strategy execution.

## LETTER TO OUR STAKEHOLDERS



**LaKeisha**, living with epilepsy



**Vivienne**, living with osteoporosis



**Kenichiro**, living with rheumatoid arthritis

We are progressing on our growth path with our three strategic phases:

### TODAY, WE ARE IN THE **GROW & PREPARE PHASE**

- We continue to grow positive momentum on Cimzia®, Vimpat®, Neupro® and the newly launched Briviact®;
- We carefully prepare the launch of Evenity™ (*romosozumab*) for people living with osteoporosis;
- We carry on broadening our early pipeline.

### THE **ACCELERATE & EXPAND PHASE**

WILL FOLLOW

- We accelerate uptake of Briviact® and Evenity™ while maximizing the potential of Cimzia®, Vimpat® and Neupro®;
- We invest in R&D and emphasize the innovation focus;
- We enhance our financial and strategic flexibility and realize income from assets outside our core focus.

### DURING THE **BREAKTHROUGH & LEAD PHASE**

- We compensate the loss of exclusivity for Cimzia®, Vimpat® and Neupro® by continuing growth from Briviact® and Evenity™;
- We successfully launch breakthrough products and accelerate growth.

Our recent performance confirms our ambition. UCB continues to deliver above industry growth, with financials that enable UCB to become the patient preferred biotech leader with a healthy balance between short-term profitability and long-term sustainable growth.



In 2016 – and as part of the Grow and Prepare Phase, we reached continuous growth of 20% for **Cimzia®**, **Vimpat®** and **Neupro®** to € 2.4 billion net sales – or better: touching the lives of 823 000 patients living with severe neurological and immunological disorders, 31% more since the start of the Growth Phase two years ago. This also reflected further expansion of our offered solutions for patients with Vimpat® in Japan, Cimzia® by the AutoClicks® prefilled pen in the EU, and the launch of Briviact® for 13 000 patients living with epilepsy in Europe and North America.

With our partner Amgen, we saw scientific presentations of the positive results from the Phase 3 program with **Evenity™** for the treatment of osteoporosis and filing with the U.S. and Japanese authorities. Together, we prepare to bring Evenity™ to people living with osteoporosis at high risk of fracture.

Our current **early clinical pipeline is the broadest** in company history: comprising 10 different new molecular entities. We have assets focusing on specific patients within immunology and neurology, as well as innovative assets outside our core focus with the potential for partnerships.

In 2016, we generated an 8% growth of revenue to € 4.2 billion, thereof € 3.9 billion of net sales, an increase of 10%. This growth was driven by products in our core focus in neurology and immunology. Our underlying profitability – recurring EBITDA\* – improved to € 1.0 billion, a growth of 26% and representing a ratio to revenue of 25% after 21% in 2015. The net profit attributable to the UCB shareholders amounted to € 520 million, reflected also in core earnings per share of € 3.19. We are satisfied that **we reached our financial targets** for 2016. We also outperformed our recurring EBITDA\* to net debt ratio target of 1:1 – two years earlier than expected. The Board of Directors proposes a gross dividend of € 1.15 per share after € 1.10 per share in 2015 – reflecting the continuous improvement of the earnings base.

**2017 is another “Grow and Prepare” year** and we will not only continue our growth path towards our peaks sales target of at least € 3.1 billion combined net sales for Cimzia®, Vimpat® and Neupro® by 2020. We will also, with our partner, prepare and – subject to regulatory approval – launch Evenity™ in the U.S. towards the end of 2017, and later for Japan and the EU.

Supported by the growth of Cimzia®, Vimpat® and Neupro®, the continued launch of Briviact® and the substantial Keppra® franchise, we aim to reach revenue in the range of € 4.25-4.35 billion in 2017. While tracking towards our aim of a 30% recurring EBITDA\* ratio in 2018, we aim for a recurring EBITDA for 2017 in the range of € 1.15-1.20 billion, reflecting core earnings of € 3.70-4.00 per share.

To all of our employees, the Board of Directors, shareholders, partners, colleagues and those living with severe diseases: **many thanks** for your continuous support, your encouragement, your creative challenges and inspiration.

2016 was a year we will all remember: the world around us has seen tremendous change. We witnessed natural disasters, terrorist attacks, the rise of populism and question marks over the future of the European Union – leading to less stability and more uncertainty. It is thus no surprise, that changes in the healthcare systems around the world have accelerated and pressure has increased. These external changes are reflected in our strategy. We continue to implement the cultural and organizational change in our company to ensure we are fit for the future, with highly differentiated medicines that provide sustainable value to patients and stakeholders, including shareholders. The Patient Value Strategy will enable us to master those challenges. We still have a long way to go while we have made significant progress throughout the year – thank you for continuing our journey with us.

Sincerely,

**Jean-Christophe Tellier**  
*Chief Executive Officer*

**Gerhard Mayr**  
*Chairman*

February 2017

\* EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization charge

2016

# MILESTONES



## JANUARY

**Cimzia®**: successful FDA inspection of manufacturing site in Bulle (Switzerland)

**Vimpat®**: filing in epilepsy POS – monotherapy (EU)

**Briviact®**: approval in epilepsy POS – adj. therapy (EU)

UCB signs a deal with **Merus Labs**

**Beyond the drug**: creation of an app, **CimpleTrack™**, to help patients living with rheumatoid arthritis track their treatment experience

## APRIL

**Evenity™ (romosozumab)**: presentation of STRUCTURE Phase 3 study at ENDO congress

## MAY

**Seletalisib**: Phase 1b start in activated PI3 kinase delta syndrome

**Divestiture** of nitrate franchise in China

**Beyond the drug**: UCB launches **UCBCares®**, a single customer care point for medical information

## FEBRUARY

**E Keppra®**: approval in epilepsy PGTCS – adj. therapy (Japan)

**Briviact®**: approval in epilepsy POS – adj. therapy (U.S.)

**Evenity™ (romosozumab)**: FRAME Phase 3 topline results

**Pascale Richetta** joined UCB as Head of Bone Patient Value Unit

**Divestiture** of Shannon plant (Ireland)

UCB joins major pharma companies in consortium **“Critical path for Parkinson’s”**

## MARCH

**Cimzia®**:  
> Phase 3 results in juvenile idiopathic arthritis  
> EXXELERATE Phase 4 topline results  
> CRADLE Phase 4 topline results

> EXXELERATE Phase 4 topline results  
> CRADLE Phase 4 topline results

**Evenity™ (romosozumab)**: BRIDGE Phase 3 topline results

**UCB7665**: start of Phase 2 in immune thrombocytopenia

**UCB1332**: Phase 1 results

**Redemption** of the € 300 million perpetual bond

**UCB 20 years in China**

**UCB and Baylor College of Medicine** launch strategic alliance

## JUNE

**Briviact®**: launch in epilepsy POS – adj. therapy (U.S.)

**bimekizumab**: presentation of Phase 1b study at EULAR

**dapirolizumab pegol**: Phase 2b started in systemic lupus erythematosus

**UCB4144/VR942**: Phase 1 results in **asthma**



Sheryl  
UCB

## JULY

**Vimpat®**: approval in epilepsy POS – adj. therapy (Japan)

**Evenity™ (romosozumab)**: filing in osteoporosis in postmenopausal women (U.S.)

**UCB7858**: Phase 1 start

**UCB6352** outlicensed to Syndax Pharmaceuticals

**Divestment** of nitrate franchise in Russia and Ukraine

## AUGUST

**Cimzia®**:  
> filing in in juvenile idiopathic arthritis (U.S.)

> Phase 3 results in rheumatoid arthritis (China)

**Vimpat®**:  
> filing in epilepsy POS – monotherapy (Japan)  
> U.S. District Court confirms validity of patent

## SEPTEMBER

**Evenity™ (romosozumab)**:  
> publication of FRAME Phase 3 study in the New England Journal of Medicine

> presentation of FRAME Phase 3 study at ASBMR congress

**bimekizumab**: start of Phase 2b in psoriasis

**Beyond the drug**: Cimzia® **AutoClicks® prefilled pen** – CHMP positive opinion (EU)

## OCTOBER

**Cimzia®**: presentation of CRADLE Phase 4 study at ACG congress

**bimekizumab**:  
> start of Phase 2b in psoriatic arthritis

> start of Phase 2b in ankylosing spondylitis

**UCB 20 years in Switzerland**

**Beyond the drug**: UCB pilots an innovative **patient “concierge service”** (U.S.)

## NOVEMBER

**Cimzia®**: publication of EXCELERATE Phase 4 study in The Lancet

**Evenity™ (romosozumab)**: presentation of BRIDGE Phase 3 study at ACR congress

**Venlafaxine ER**: divestiture to Osmotica

**Zyrtec®** celebrates its 30<sup>th</sup> anniversary

## DECEMBER

**Vimpat®**: approval in epilepsy POS – monotherapy (EU)

**Evenity™ (romosozumab)**: filing in osteoporosis (Japan)

**Board of Directors**: new appointments

**Redemption** of the € 500 million institutional Eurobond

Creation of **UCB Ventures Fund** to capture external innovation

Evenity™ is the trade name of *romosozumab* which has been provisionally approved by the U.S. Food & Drug Administration (FDA) and the European Medicines Agency (EMA).

POS: partial onset seizures, also known as focal seizures

PGTCS: primary generalized tonic-clonic seizures

CHMP: European Medicines Agency's (EMA's) Committee for Medicinal Products for Human Use

For more details, please refer to the R&D update (p.68-69)



# UCB TODAY

## GROWTH PHASE



### Cimzia®



Reaching more than  
**98 000**  
patients, across  
62 countries



- > Crohn's disease
- > Rheumatoid arthritis
- > Psoriatic arthritis
- > Axial spondyloarthritis/ankylosing spondylitis



- > Astellas (Japan)
- > Dermira (psoriasis)



Patent expiry  
**2024**  
(U.S. & EU)



**Approval**  
> AutoClicks® prefilled pen (EU)



**Filing**  
> Juvenile idiopathic arthritis (U.S. – Aug 2016)

**Phase 3**  
> Rheumatoid arthritis (China – Aug 2016)  
> Psoriasis (Jan 2017)  
> Non-radiographic axial spondyloarthritis (U.S. – 2018)



**1 307** million net sales  
**€ ≥ 1.5** billion expected peak sales (by 2020)

### Vimpat®



Reaching more than  
**404 000**  
patients, across  
58 countries



Epilepsy partial onset seizures (POS)



Daiichi Sankyo (Japan)



Patent expiry  
**2022**  
(U.S. & EU)



**Approval**  
> epilepsy POS – adj. therapy (Japan – July 2016)  
> epilepsy POS – monotherapy (EU – Dec. 2016)



**Filing**  
> epilepsy POS – adj. therapy (China – July 2015)  
> epilepsy POS pediatric – adj. therapy (EU – Aug 2016)  
> epilepsy POS – monotherapy (Japan – Aug 2016)  
> epilepsy POS pediatric – adj. therapy (U.S. – Jan 2017)

**Phase 3**  
> epilepsy POS pediatric – adj. therapy (Q2 2017)  
> epilepsy PGTCs – adj. therapy (2019)



**814** million net sales  
**€ ≥ 1.2** billion expected peak sales (by 2020)



Alexander,  
living with epilepsy,  
and UCB employees

## Neupro<sup>®</sup>



Reaching more than  
**321 000**  
patients, across  
53 countries



**Filing**  
> Parkinson's disease  
(China - Aug 2015)



**302** million  
net sales  
**≥400** million  
expected peak sales  
(by 2020)



> Parkinson's  
disease  
> Restless legs  
syndrome



Otsuka (Japan)



Patent expiry  
**2021**  
(U.S. & EU)

## Keppra<sup>®</sup>



Reaching more than  
**1.75** million  
patients, across  
more than  
60 countries



**Approval**  
> epilepsy PGTCs –  
adj. therapy  
(Japan – Feb 2016)



> Epilepsy POS  
> Epilepsy PGTCs  
> Epilepsy myoclonic  
seizures



**724** million  
net sales  
**1.2** billion  
peak sales (2008)



Otsuka (Japan)



**Exclusivity**  
> Japan – until **2018**  
> U.S. – **2008**  
> Europe – **2010**

POS: partial onset seizures, also known as focal seizures  
PGTCs: primary generalized tonic-clonic seizures  
For more details, please refer to the R&D update (p. 68-69)



# UCB TOMORROW EXPANSION PHASE

In a challenging environment, our pipeline builds the basis of UCB's sustainable long-term growth. To create a pipeline that will make a real difference in people's lives, we have to remain focused on our key assets: our expertise in the fields of neurology and auto-immune diseases, and our expertise in small and large molecules.



Zhu Jie, living with epilepsy

## Briviact® (brivaracetam)



Reaching more than  
**13 000**  
patients, across  
12 countries



**Epilepsy partial  
onset seizure (POS)**



Patent expiry  
**2026** (U.S. & EU)



**Approval**  
> epilepsy POS – adj. therapy  
(EU – Jan 2016)  
> epilepsy POS – adj. therapy  
(U.S. – Feb 2016)



**Filing**  
> epilepsy POS –  
monotherapy  
(U.S. – Jan 2017)



**18 million**  
net sales  
**≥ 450 million**  
peak sales (by 2026)

## Evenity™ (romosozumab)



**75** million  
people<sup>1</sup>



**Osteoporosis**



**Amgen**



Patent expiry  
**2026** (U.S. & EU)



**Filing**  
> osteoporosis in  
postmenopausal women  
at high risk of fracture  
(U.S. – Jul 2016)  
> osteoporosis at  
high risk of fracture  
(Japan – Dec 2016)

### Phase 3

> postmenopausal women  
(ARCH)



### Studies

- > STRUCTURE (Sep 2015)
- > FRAME (Feb 2016)
- > BRIDGE (Mar 2016)
- > ARCH (Q2 2017)

For more details, please refer to the R&D update (p. 68–69)

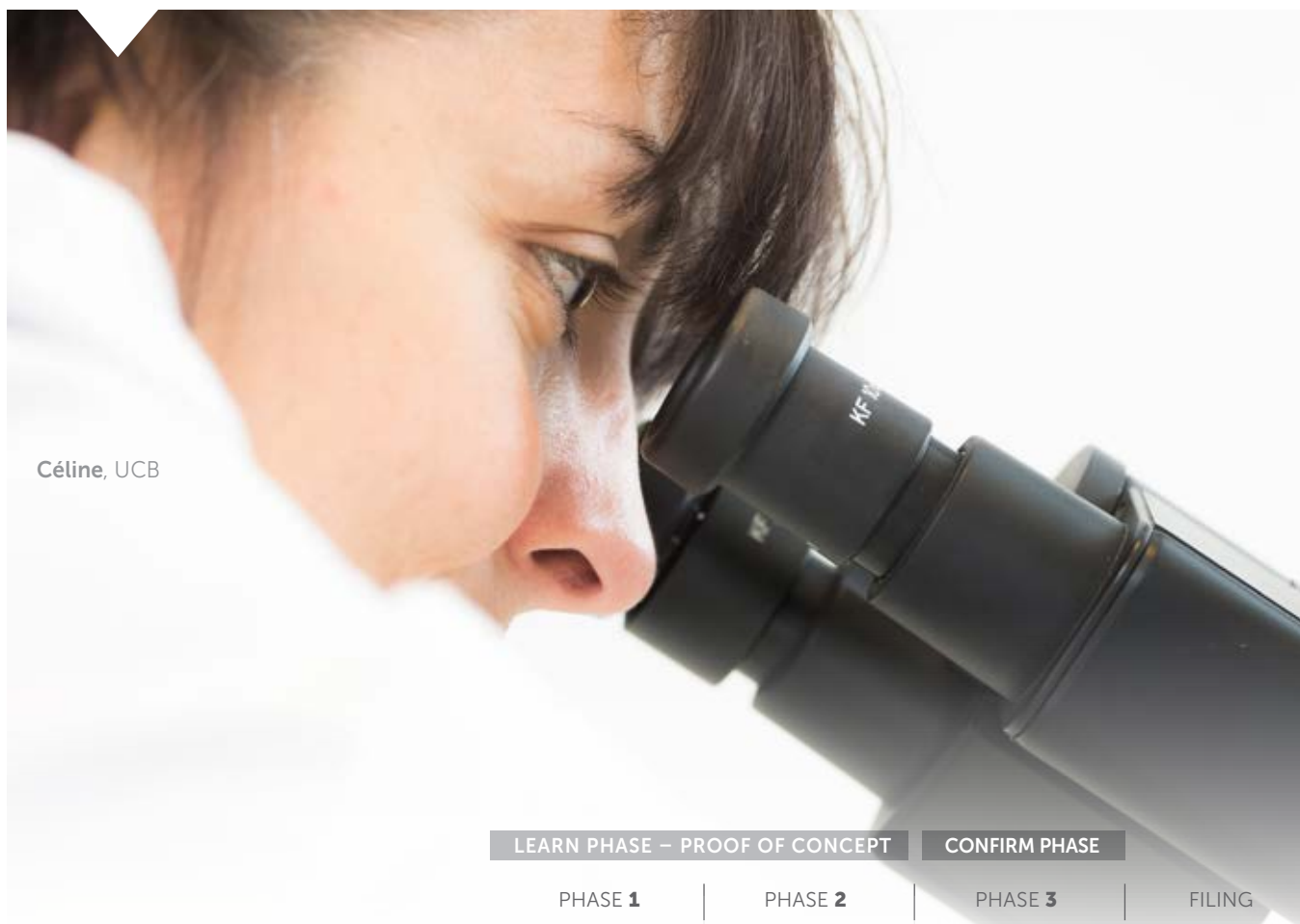
Evenity™ is the trade name of *romosozumab* which has been provisionally approved by the U.S. Food & Drug Administration (FDA) and the European Medicines Agency (EMA).

POS: partial-onset seizures, also known as focal seizures

<sup>1</sup> Estimated prevalent cases for all osteoporosis in U.S., Europe and Japan; WHO 2007 – WHO Scientific Group on the assessment of osteoporosis at primary health care level

# UCB THE DAY AFTER TOMORROW

## BREAKTHROUGH PHASE



Céline, UCB



\* Psoriasis Phase 2b results expected in Q3 2017  
 Psoriatic arthritis Phase 2b results expected in Q3 2018  
 Ankylosing spondylitis Phase 2b results expected in Q3 2018



# R&D MILESTONES



# MANAGING RISK TO ADD VALUE AT UCB



Younes, Jacques & Gergely, UCB

“

UCB aims to create superior value for patients through risk informed decision making.

”

## Overview and Vision

In the pharmaceutical industry, risk is always inherent to the business and wide ranging in source. At UCB we recognize that it is critical to our success to implement excellence in enterprise risk management, not only to manage external and internal threats, but to recognize and collectively take advantage of opportunities. This ability to consider risk – upside and downside, and to take risk-informed rather than risk constrained decisions when planning and implementing patient value strategies is what we call “**Risk2Value**”.

## Framework and Governance

In 2016 the **Risk2Value** Table was established as an evolution to UCB’s risk management committee. The Table consists of key representatives from all areas of the business, with connectivity to their respective leadership teams and executive members. The Table assesses and responds to operational, strategic and emerging uncertainties (risks), both internally and externally, that may impact UCB’s strategic objectives. Enterprise-level risks are measured in one or more ways:

- **Impact on financial assumptions** that comprise UCB’s near-term and long term forecasts (Financial Impact Scale)
- **Impact on the trust** of those that regulate or rely on us; and the welfare of our employees and communities (Reputation & Welfare Impact Scale)
- **Impact on the value** we provide our patients (Patient Value Impact Scale)

## Oversight

The **Risk2Value** Table maintains strong connectivity to UCB’s board of directors/audit committee and executive committee to ensure the risks identified are indeed representative of UCB’s top risks, and that responses are in alignment to the executive committees risk appetite. The executive committee regularly reviews the top risks with the Risk2Value Table leadership and aligns with the communication of top risks to the board of directors and the audit committee.

All UCB top risks are owned by a member of the executive committee, and that member is accountable for it. The Global Internal Audit function is responsible for independently and regularly reviewing as well as validating the risk management process in UCB and jointly agreeing with the business functions on actions to respond to enterprise-level risks.

*In our efforts to both protect and create value for our patients, UCB continually assesses and responds to risks from across the enterprise. These may include a spectrum of risks; from supply chain disruption and emerging regulation compliance, to foreign exchange uncertainties. The risks articulated represent our top uncertainties for 2017*





## COMPETITION FROM BIOSIMILARS

Biosimilars entrants, adoption and market impact are increasing, with a complex interplay of 1) payer and regulatory frameworks 2) stakeholder attitudes 3) manufacturer and commercialization capabilities and 4) competitor responses. UCB supports increasing access of biologics to patients who may benefit from them

UCB continues to pursue a strategy of differentiation as an innovator company with a value-focused pipeline and brands which offer demonstrable superior patient outcome at a competitive total unit cost of care.



## PRICING & ACCESS PRESSURES AND CHANGES

With healthcare and pharmaceutical costs high on the agenda across major markets, there is ongoing pressure for cost control measures, although much uncertainty remains around how these will evolve. Nonetheless, payers remain firm on intent to fund innovation for unmet needs.

UCB proactively engages and innovates with patients and ecosystem stakeholders to ensure access *via* value-based care policies, solutions and price/access mechanisms. This builds on the basis of an aligned view on patient, system and societal needs, and the demonstrated value of our highly differentiated solutions.



## CYBER SECURITY

The cyber threat landscape is rapidly evolving and increasing in complexity. It embodies the potential of data theft or corruption and operational disruption.

UCB manages this ever-changing threat with a comprehensive security program composed of a strong governance process to ensure appropriate security controls, protective measures to prevent security incidents from occurring, and recovery processes to limit impact in case of compromise.



## INTELLECTUAL PROPERTY

Intellectual Property rights (IP) are essential to foster innovation in rapidly evolving R&D paradigms and a politically challenging environment. UCB must protect its intellectual property rights, be proactively aware of the competitive landscape and engage in external policy debates around IP and access.

UCB is developing its IP strategies at all stages of innovation and adapting as warranted. We continue to enhance our proactive awareness of the competitive landscape and engage in external policy debates around IP.

# UCB PEOPLE

**7 563**  
EMPLOYEES GLOBALLY  
at 31 December 2016  
2012: 9048 employees

Our ability to make a significant difference to the lives of people living with severe diseases depends on the talent and commitment of our people. Each team member brings expertise in a specific aspect of drug development such as manufacturing, commercialization, safety, quality, regulatory affairs or medical compliance.

Essential to our success are the engagement, expertise, persistence and compliance of our colleagues.

**50%**  
WOMEN – MEN  
2012: 47/53

WOMEN DISTRIBUTION  
PER FUNCTION

ADMINISTR/SUPPORT	65%
MANAGER	50%
SALES FORCE	50%
EXECUTIVE	30%
TECHNICAL OPERATIONS	19%



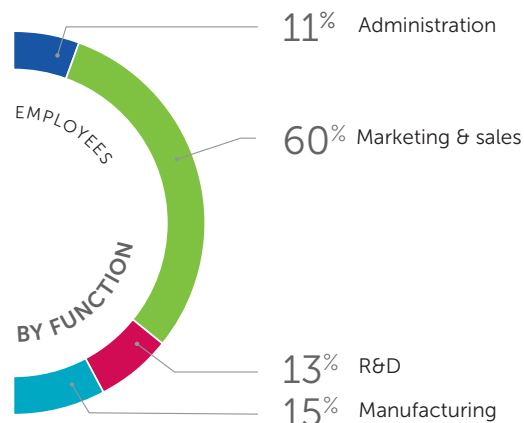
**8%**  
ARE BELOW 30  
2012: 12%

**24%**  
ARE OVER 50  
2012: 19%



**39%**  
JOINED UCB IN  
THE LAST 3 YEARS  
2012: 37%

**34%**  
HAVE BEEN WITH UCB FOR  
MORE THAN 10 YEARS  
2012: 28%



Every year, all employees have a unique chance to voice their opinions through a global employee engagement survey, UCB Voices. In 2016, 87% employees shared their views on different aspects of our working environment. This survey enables us to identify our strengths as well as areas of improvement as a company.



**88%**  
 HAVE THE SENSE OF PERSONAL ACCOMPLISHMENT  
 2012: 76%



**83%**  
 THINK UCB HAS A PROMISING FUTURE  
 2012: 78%



**84%**  
 ARE ENERGIZED TO "GO THE EXTRA MILE"  
 2012: NOT AVAILABLE



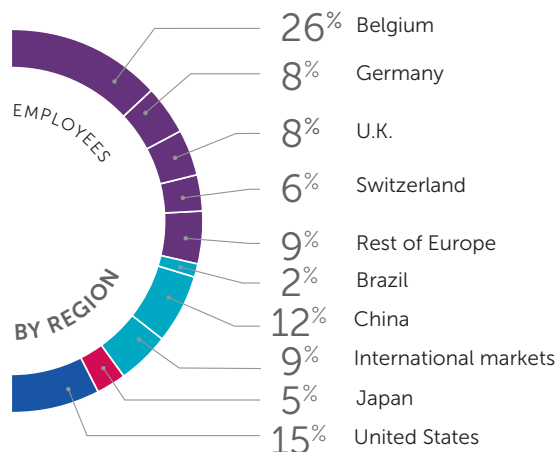
**87%**  
 ARE PROUD TO WORK FOR UCB  
 2012: 73%



**87%**  
 THINK UCB IS A SOCIALLY RESPONSIBLE COMPANY  
 2012: NOT AVAILABLE

A cultural shift takes time; hence 2012 was used for benchmarking purposes.

Further employee information is available in the CSR/Sustainability Report on: [www.ucb.com/our-company/csr](http://www.ucb.com/our-company/csr)



## Cimzia® brings value to patients

REACHING MORE THAN  
98 000 PATIENTS  
LIVING WITH IMMUNOLOGICAL  
DISORDERS

### FILING

> juvenile idiopathic arthritis  
(U.S. – Aug 2016)

### RESULTS

> EXXELERATE (Mar 2016)

> CRADLE (Mar 2016)

> CRIB (Jan 2017)

> juvenile idiopathic arthritis –  
Phase 3 (Mar 2016)

> rheumatoid arthritis – Phase 3  
(China – Aug 2016)

> psoriasis – Phase 3 (Jan 2017)

### BEYOND THE DRUG

> AutoClick® prefilled pen  
(EU – Sep 2016)

€ 1 307 MILLION NET SALES

Since its first approval in 2008, more and more patients living with inflammatory TNF-mediated diseases such as rheumatoid arthritis, psoriatic arthritis, ankylosing spondylitis and Crohn's diseases have benefitted from Cimzia® (*certolizumab pegol*). In a competitive environment, Cimzia® is striving to show its added value in specific patient populations where it can make a real difference with remarkable progress in 2016.

In March 2016, results from a Phase 3 study demonstrated that Cimzia® is a potential treatment for **children aged 2-18 years living with juvenile idiopathic arthritis**, a form of rheumatoid arthritis. Within a few months, UCB filed the data with U.S. health authorities.

Emphasizing UCB's pioneering approach, the EXXELERATE Phase 4 study was the first ever head-to-head superiority study between two anti-TNFs, Cimzia® and Humira® (*adalimumab*), in rheumatoid arthritis. Even though superiority was not achieved, the study showed no statistically significant difference between the two treatments in terms of how well they worked in the short term (at 12 weeks) and in the long term (at two years). Among the patients who did not respond initially to either Cimzia® or Humira®, **more than half did respond when they switched** to the other drug.

UCB is continuously broadening patient access to Cimzia® and aims to serve patients who might benefit most. UCB has conducted two important Phase 4 studies, CRIB and CRADLE, for **women of child-bearing age**. CRADLE is the first prospective study to specifically examine the level of Cimzia® transferred from mother's plasma to breast milk. CRIB is a study designed to evaluate the placental transfer of Cimzia® from pregnant mothers to fetus. Both studies were completed and provided positive results; submission to health authorities is planned for 2017. UCB is committed to generating more data for specific patients, such as women of child-bearing age.

Because up to 30% of **people living with psoriasis** will develop psoriatic arthritis<sup>1</sup>, psoriasis was an obvious next step for UCB. In 2016 and January 2017, UCB and partner Dermira announced positive top line results for three Phase 3 studies for Cimzia® in psoriasis. The submission of marketing authorization applications to regulatory authorities are planned in the third quarter of 2017.

Our R&D programs are designed to differentiate Cimzia® and provide a better understanding of its **clinical value for people living with immunological disorders**, healthcare professionals and payers. The broad portfolio of data we have collected for Cimzia® over the year and across the approved indications highlights the potential Cimzia® has to serve patients, to differentiate from alternative treatment options and to compete in the market place.

<sup>1</sup> International Federation of Psoriasis Associations. Accessed 10 February 2017 at <http://www.worldpsoriasisday.com/web/page.aspx?refid=130>

For more information, please refer to Cimzia® overview (p. 14) and the R&D update (p. 68).



# NEUROLOGY

## Epilepsy: 3 treatment options to fit patients needs

REACHING MORE THAN  
2 167 000 PATIENTS  
LIVING WITH EPILEPSY

### APPROVALS

- > Briviact® epilepsy POS – adj. therapy (EU – Jan 2016/U.S. – Feb 2016)
- > E Keppra® epilepsy PGTCs (Japan – Feb 2016)
- > Vimpat® epilepsy POS
  - adj. therapy (Japan – Jul 2016)
  - monotherapy (EU – Dec 2016)

### € 1 555 MILLION NET SALES

- > Vimpat® € 814 million
- > Keppra® € 724 million
- > Briviact® € 18 million



Alexander,  
living with epilepsy

Epilepsy is one of the most common serious neurological conditions. There are many different types of epilepsy but the main characteristic is recurrent seizures which are due to brief disturbances in the electrical functions of the brain. The choice of treatment needs to be carefully tailored to each patient and the type of seizure. UCB has made a major contribution to improving epilepsy care by bringing several treatment options to patients and healthcare professionals: Keppra®, Vimpat® and Briviact®.

**Keppra®** (*levetiracetam*) is a broad spectrum anti-epileptic drug first marketed in 2000. Thanks to its proven efficacy and favorable tolerability profile across a range of epilepsies, Keppra® is a trusted therapeutic option for patients at the start of their epilepsy journey. Keppra® continues to create value as it reaches more and more patients in Japan, China and Brazil.

**Vimpat®** (*lacosamide*) offers a unique mechanism of action to treat adult patients with partial onset seizures. To tailor the right treatment to the right individual patient, healthcare professionals have the choice to use Vimpat® as add-on or as monotherapy thanks to its established efficacy and tolerability profile. The approval of Vimpat® as adjunctive therapy in Japan broadens the therapeutic options for Japanese adult patients living with epilepsy.

**Briviact®** (*brivaracetam*) is UCB's latest addition to the epilepsy portfolio for adult patients who are still experiencing uncontrolled partial seizures with their current therapy. Briviact® may be effective from the start. Patients receive a therapeutic dose on day 1. Titration is not required when initiating treatment, so they do not have to put their lives on hold. Briviact® has been available to patients in some European countries, Canada, and the U.S. since early 2016. In January 2017, less than a year after the launch, UCB announced the filing for Briviact® as monotherapy in the treatment of partial onset seizures in adults in the U.S.

UCB currently offers three differentiated treatments to patients living with epilepsy and continues to focus research on addressing key unmet needs in epilepsy, notably drug-resistant epilepsy and disease modification.

POS: partial onset seizures, also known as focal seizures

PGTCs: primary generalized tonic-clonic seizures

For more information, please refer to Keppra®, Vimpat® or Briviact® overview (p. 14-17) and the R&D update (p.68).



# BONE

## Evenity™ getting closer to patients

1 IN 3 WOMEN AND  
1 IN 5 MEN  
OVER 50 ARE AT RISK OF AN  
OSTEOPOROTIC FRACTURE<sup>1</sup>.

### FILINGS

- > U.S. (Jul 2016)
- > Canada (Aug 2016)
- > Japan (Dec 2016)

### PHASE 3 RESULTS

- > FRAME (Feb 2016)
- > BRIDGE (Mar 2016)
- > ARCH (Q2 2017)



Manorama,  
living with osteoporosis

Our bones undergo constant changes: some cells are responsible for making bone while others break it down. **Osteoporosis** is essentially an imbalance in this system: the body breaks down bone faster and to a greater extent than forming new bone to replace that deficit. The microstructure and density of bone is reduced making bones porous and fragile, greatly increasing the risk of a fragility fracture.

A **fragility fracture** is commonly the first sign of osteoporosis. Thus, the first fracture should be taken as an important warning sign. It should lead patients to talk with their doctor to inquire about osteoporosis and determine whether they require therapy to reduce the risk for additional fractures. Today's treatments options can be broadly divided into two categories: anti-resorptive (which reduce bone resorption) and bone forming agents (which stimulate bone formation). Evenity™ (*romosozumab*) is a monoclonal antibody that binds and inhibits the protein sclerostin, resulting in a dual effect on bone, both increasing bone formation and decreasing bone breakdown. This dual effect differentiates it from other treatments in the field of bone medicine.

In February, we announced positive topline results from the **FRAME** study. It showed that post-menopausal women with osteoporosis treated with Evenity™ had significantly fewer new vertebral (spine) fractures compared to calcium and vitamin D alone. Clinical fractures (a composite of non-vertebral fractures and symptomatic vertebral fractures) were also reduced, all within 12 months.

In March, the **BRIDGE** study which focused on male patients with osteoporosis reported positive topline results showing a significant increase in bone mineral density at the lumbar spine, hip and the femoral neck at 12 months in men with osteoporosis treated with Evenity™ compared with those receiving placebo.

In 2017, we expect the results of **ARCH** comparing the effect of Evenity™ followed by *alendronate* versus *alendronate* alone in post-menopausal women with osteoporosis – an active comparator study which has never been done before. This study will provide detailed data on the impact of Evenity™ on fracture risk against an active comparator, *alendronate*.

The completed studies are very important milestones and formed the basis for the **filing** in the U.S., Canada and Japan. In Europe, filing will rely on all studies, including ARCH. Altogether we are definitely on the right track to making a significant difference to patients living with osteoporosis at high risk of fragility fractures.

Evenity™ is the trade name of *romosozumab* which has been provisionally approved by the U.S. Food & Drug Administration (FDA) and the European Medicines Agency (EMA).

<sup>1</sup> International Osteoporosis Foundation. "Facts and Statistics." Accessed 10 February 2017 at [www.iofbonehealth.org/facts-statistics#category-16](http://www.iofbonehealth.org/facts-statistics#category-16)

For more information, please refer to Evenity™ overview (p. 17) and the R&D update (p. 69).

# Prepare the **breakthrough phase**

INVOLVING MORE THAN  
8 000 PATIENTS  
ACROSS 104 CLINICAL TRIALS

## R&D MILESTONES

- > dapirolizumab pegol: Phase 2b start in lupus (Jun 2016)
- > bimekizumab: Phase 2b start in
  - psoriasis (Sep 2016)
  - psoriatic arthritis (Oct 2016)
  - ankylosing spondylitis (Oct 2016)
- > UCB7665: Phase 2 start in immune thrombocytopenia (Mar 2016)
- > seletalisib: Phase 1 start in APDS (May 2016)
- > UCB1332: Phase 1 results (Mar 2016)
- > UCB4144/VR942: Phase 1 results (Jun 2016)
- > UCB7858: Phase 1 start (Jul 2016)

At UCB, we focus on breakthrough innovative approaches with the goal of developing new highly differentiated solutions that will **significantly impact the lives** of patients.

Everything starts and ends with the patients. We connect with them to get their insight which lead us to a **deeper understanding** of their needs. We then match with our scientific excellence leveraging our internal scientific expertise, our proprietary technology platforms and external networks of internationally renowned scientists and academics to identify the next generation of breakthrough candidates. Moreover, building on recent advance in human biology, genetics and biomarkers, we are working on new ways to scientifically stratify patient populations so that we can better predict the patients who will respond to our medicines.

UCB applies CTTI's recommendations\* to develop mechanisms for implementing patient engagement strategies across the drug development life cycle. As a result, UCB has developed a strategic vision to **partner with patients** at every step of the clinical development process to identify needs and inform study design and operations. Implementing these processes involved creating a culture shift towards patient centricity and delivering patient value. Under the new patient-centric model, there is a strategic vision considerate of all patient engagement opportunities, a focus on identifying true and actionable patient insights, a goal of delivering value to patients, and an appreciation of patients as valued partners.

Key to success for our pipeline is the focus and discipline to only progress solutions **where UCB can make a difference**. We carefully design our clinical trials, set up clear milestones and decision points to enable us to rapidly stop unviable options and reallocate resources within our pipeline. If a drug candidate does not fit into our therapeutic areas, we partner with companies that have the specific know-how and resources to maximize the asset's potential. This approach enables to rapidly advance promising molecules into innovative therapies for patients.

We aim for **strong signals**, positive or negative, so we can make an informed decision where to allocate our resources.



\* CTTI: Clinical Trials Transformation Initiative which is based out of Duke University

For more information, please refer to UCB pipeline (p. 18) and the R&D update (p. 68-69).

# FINANCIAL PERFORMANCE



**Lloyd,**  
living with epilepsy

2016

€ million	2012*	2013	2014	2015
<b>REVENUE</b>	<b>3 462</b>	<b>3 133</b>	<b>3 344</b>	<b>3 876</b>
Cimzia®, Vimpat® and Neupro® combined sales	934	1 187	1 468	2 020
Research and development expenses	861	886	928	1 037
R&D expense/revenue ratio	25%	28%	28%	27%
<b>RECURRING EBITDA</b>	<b>684</b>	<b>536</b>	<b>609</b>	<b>821</b>
Recurring EBITDA/revenue ratio	20%	17%	18%	21%
Profit attributable to UCB shareholders	249	160	209	623
<b>Core EPS (€ per non-diluted share)</b>	<b>2.10</b>	<b>1.24</b>	<b>1.69</b>	<b>2.17</b>
Net debt	1 766	1 998	1 611	921
Net debt/recurring EBITDA ratio	2.58	3.73	2.65	1.12
Cash flow from continuing operations	355	267	537	204
Capital expenditure (including intangible assets)	221	344	161	146

<b>4 178</b>
2 422
1 020
24%
<b>1 031</b>
25%
520
<b>3.19</b>
838
0.81
726
138

\* 2012 financial data still include Kremers Urban, which was divested in 2015.

EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization charge

## FINANCIAL TARGETS

2016 REVENUE  
**€ 4.0-4.1** BILLION

2016 RECURRING EBITDA  
**€ 970-1 010** MILLION

2016 CORE EPS  
**€ 2.90-3.20**

NET DEBT/RECURRING  
 EBITDA RATIO  
**1:1** BY 2018

RECURRING EBITDA/  
 REVENUE RATIO  
**30%**  
 IN 2018

CIMZIA®, VIMPAT®, NEUPRO®  
 COMBINED PEAK SALES  
**≥ € 3.1** BILLION BY 2020

## 2016 ACHIEVEMENTS

2016 revenue increased by 8% to **€ 4 178 million**. Net sales went up to € 3 858 million (+10%). This growth was driven by the continued performance of the core products Cimzia®, Vimpat® and Neupro®, supported by the launch of Briviact® and the relatively stable Kepra® franchise

Recurring EBITDA grew to **€ 1 031 million** by 26%, reflecting sustainable net sales growth and a continued under-proportional growth of operating expenses.

We spent € 1 020 million in research and development; this is 24% of revenue – above industry average of 20%.

Core earnings per share reached **€ 3.19** based on 188 million shares outstanding; from € 2.17 per share based on 192 shares outstanding.

At the end of 2016, the net debt decreased to € 838 million. The net debt to recurring EBITDA ratio for 2016 was **0.8** thus mid-term target of 1:1 **reached two years ahead**.

To reach our competitive profitability target and bring UCB to peers margin level, we expect that the increase in net sales generated by Cimzia®, Vimpat®, Neupro® and Briviact® worldwide, the continuously improved reallocation of resources as well as tight cost management will improve and accelerate towards 30% recurring EBITDA/revenue ratio. In 2016, the recurring EBITDA/revenue ratio reached **25%**, from 21% in 2015.

In 2010, UCB provided peak sales expectations for its recently launched medicines: at least € 1.5 billion for Cimzia®, at least € 1.2 billion for Vimpat® and at least € 400 million for Neupro®.

In 2016, combined net sales of those three products reached **€ 2.4 billion**, on track to deliver this guidance.



# 02.

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LaKeisha,  
living with epilepsy

# MANAGEMENT REPORT OF **THE BOARD OF DIRECTORS**

1. CORPORATE  
GOVERNANCE  
STATEMENT

2. BUSINESS  
PERFORMANCE  
REVIEW



# 1. CORPORATE GOVERNANCE STATEMENT



Kenichiro, living with rheumatoid arthritis

As a Belgian-headquartered company with a commitment to the highest standards of corporate governance, the Board of Directors (the "Board") of UCB SA/NV ("UCB") adopted a Charter of Corporate Governance (the "Charter") in October 2005, as required by the Belgian Code on Corporate Governance (first edition, 2004). Pursuant to article 96, section 1, 1° of the Belgian Companies Code, UCB follows the principles of the 2009 Belgian Code on Corporate Governance (the "Corporate Governance Code"), taking into account the specific international aspects of UCB<sup>1</sup>.

The Charter is available on the UCB website at [www.ucb.com/investors/UCB-Governance](http://www.ucb.com/investors/UCB-Governance) and describes the main aspects of the corporate governance of UCB, including its governance structure and the terms of reference of the Board, as well as those of its committees and the Executive Committee, and of the shareholders meetings. The Charter is updated from time to time during the year and annually reviewed by the Board to be in line with the applicable Laws and regulations, the Corporate Governance Code and their interpretation.

In accordance with the Belgian Companies Code and with the Corporate Governance Code, the following pages provide factual information about the corporate governance of UCB. This includes changes to the corporate governance of UCB, together with relevant events that occurred in 2016, such as changes in UCB's capital or shareholder structure, the amendments in the governance and in the composition of the Board as well as the committees, the main features of UCB's internal control and risk management systems, and the remuneration report. It also includes explanations, where applicable, of any deviations from the Corporate Governance Code.

<sup>1</sup>The "2009 Belgian Code on Corporate Governance" is available on the website of the Belgian Corporate Governance Committee (<http://www.corporategovernancecommittee.be>)

## DIRECTORS AND AUDITORS

SITUATION AS OF 1 JANUARY 2017

### BOARD OF DIRECTORS

- > Gerhard Mayr, Chair
- > Evelyn du Monceau, Vice Chair
- > Jean-Christophe Tellier, Executive Director and CEO
- > Alice Dautry, Director
- > Kay Davies, Director
- > Albrecht De Graeve, Director
- > Harriet Edelman, Director
- > Pierre L. Gurdjian, Director
- > Charles-Antoine Janssen, Director
- > Cyril Janssen, Director
- > Norman J. Ornstein, Director
- > Cédric van Rijckevorsel, Director
- > Ulf Wiinberg, Director

### SECRETARY OF THE BOARD OF DIRECTORS

- > Xavier Michel, Vice President and Secretary General

### STATUTORY AUDITOR

- > PwC Bedrijfsrevisoren BV CVBA/Reviseurs d'Entreprises SC SCRL, with permanent representative SC SPRL Romain Seffer, represented by Mr. Romain Seffer, registered auditor

### HONORARY DIRECTORS

- > Mark Eyskens, Honorary Chair
- > Georges Jacobs de Hagen, Honorary Chair
- > Karel Boone, Honorary Chair
- > Daniel Janssen, Honorary Deputy Chair
- > Prince Lorenz of Belgium
- > Alan Blinken
- > Arnoud de Pret
- > Michel Didisheim
- > Roch Doliveux
- > Peter Fellner
- > Guy Keutgen
- > Jean-Pierre Kinet
- > Paul Etienne Maes
- > Tom McKillop
- > Gaëtan van de Werve
- > Jean-Louis Vanherweghem
- > Bridget van Rijckevorsel

### HONORARY CHAIRMEN OF THE EXECUTIVE COMMITTEE

- > Daniel Janssen
- > Paul Etienne Maes
- > Georges Jacobs de Hagen
- > Roch Doliveux



# BOARD OF DIRECTORS



## Gerhard Mayr

Chairman of the Board

1946 – Austrian

### UCB BOARD

- > Member since 2005
- > Chairman of the Board since 2012
- > End of term: 2017

### EXPERIENCE

Over 30 years of global operating experience in the pharmaceutical industry with Eli Lilly, and experience in other industries and banking through several Board mandates

### MAIN EXTERNAL APPOINTMENTS

- > Member of the Board of Almirall SA



## Evelyn du Monceau

Vice Chair of the Board

1950 – Belgian

### UCB BOARD

- > Member since 1984
- > Vice Chair of the Board since 2006
- > Chair of the Governance, Nomination and Compensation Committee since 2006
- > End of term: 2019

### EXPERIENCE

Over 30 years in the industrial sector, through several Board mandates and holding companies

### MAIN EXTERNAL APPOINTMENTS

- > Member of the Board of Financière de Tubize SA
- > Member of the Board of Solvay SA
- > Member of the Compensation and Nomination committees of Solvay SA



## Jean-Christophe Tellier

Executive Director

1959 – French

### UCB BOARD

- Member since 2014

### EXPERIENCE

Over 25 years in the pharmaceutical sector, with Ipsen and Novartis where he held several senior executive positions

### MAIN EXTERNAL APPOINTMENTS

- > Member of the Board of BIO
- > Member of the Board of the EFPIA
- > Chairman of the Innovation Board Sponsored Committee (EFPIA)
- > Member of the Board of PhRMA
- > Member of the Board of WELBIO

#### BOARD OF DIRECTORS

- > 13 members
- > 54% independent
- > 31% women
- > 4-year mandate
- > age limit is 70

#### AUDIT COMMITTEE

- > 3 members
- > 66% independent (including Chair)

#### GOVERNANCE, NOMINATION AND COMPENSATION COMMITTEE

- > 3 members
- > 66% independent

#### SCIENTIFIC COMMITTEE

- > 2 members
- > 100% independent

#### INDEPENDENCE OF DIRECTORS

A Director qualifies as independent if he or she complies with all requirements imposed by the Belgian Companies Code, the Corporate Governance Charter and the Belgian Corporate Governance Code, ensuring that he or she has not had business or other relations with the UCB Group which could compromise his/her independent judgment.



#### Alice Dautry

Independent Director

1950 – French

#### UCB BOARD

- > Member since 2015
- > Member of the Scientific Committee since 2015
- > End of term: 2019

#### EXPERIENCE

Over 30 years in the scientific domain, mainly with Institut Pasteur of which she was the president (2005-2013)

#### MAIN EXTERNAL APPOINTMENTS

- > Member of the Board of Trustees of Institute of Science and Technology (Austria)
- > Member of the Supervisory Board of KLM



#### Kay Davies

Independent Director

1951 – British

#### UCB BOARD

- > Member since 2014
- > Chair of the Scientific Committee since 2014
- > End of term: 2018

#### EXPERIENCE

Over 20 years in scientific research at Oxford University

#### MAIN EXTERNAL APPOINTMENTS

- > Director of Biotech Growth Trust
- > Director of Genome England
- > Deputy Chair of the Wellcome Trust



#### Albrecht De Graeve

Independent Director

1955 – Belgian

#### UCB BOARD

- > Member since 2010
- > Member since 2010 and Chairman since 2015 of the Audit Committee
- > End of term: 2017

#### EXPERIENCE

Over 30 years in global operations in various industry sectors (Alcatel, VRT and Bekaert)

#### MAIN EXTERNAL APPOINTMENTS

- > Chairman of the Board of Bekaert NV
- > Chairman of the Board of Telenet NV
- > Chairman of the Board of Sibelco NV

## BOARD OF DIRECTORS



### Harriet Edelman

Independent Director

1956 – American

#### UCB BOARD

- > Member since 2012
- > Member of the Governance, Nomination and Compensation Committee since 2015
- > End of term: 2017 (resignation)

#### EXPERIENCE

Over 30 years in consumer goods and banking with senior positions in global operations, marketing and technology. Now with Emigrant Bank

#### MAIN EXTERNAL APPOINTMENTS

- > Vice Chair of Emigrant Bank
- > Member of the Board of Brinker International, Inc.
- > Member of the Board of Trustees of Bucknell University
- > Member of the Board of Trustees of New York Blood Center



### Cyril Janssen

Director

1971 – Belgian

#### UCB BOARD

- > Member since 2015
- > End of term: 2019

#### EXPERIENCE

Over 20 years in project management and supporting SME's, through several Board mandates, funds and holding companies

#### MAIN EXTERNAL APPOINTMENTS

- > Member of the Board of Financière de Tubize SA
- > Member of the Board of Financière Eric Janssen



### Pierre L. Gurdjian

Independent Director

1961 – Belgian

#### UCB BOARD

- > Member since 2016
- > Member of the Governance, Nomination and Compensation Committee since 2016
- > End of term: 2020

#### EXPERIENCE

Senior Partner at McKinsey and Co. where he was active for nearly three decades and senior professional in the field of Philanthropy and Education

#### MAIN EXTERNAL APPOINTMENTS

- > President of the Board of the Université Libre de Bruxelles



### Cédric van Rijckevorsel

Director

1970 – Belgian

#### UCB BOARD

- > Member since 2014
- > End of term: 2018

#### EXPERIENCE

Over 20 years in the banking and financial sector, mainly with IDS Capital

#### MAIN EXTERNAL APPOINTMENTS

- > Member of the Board of Financière de Tubize SA
- > Member of the Board of Barnfin SA
- > Managing Director and Founder of IDS Capital (Switzerland and UK)



### Charles-Antoine Janssen

Director

1971 – Belgian

#### UCB BOARD

- > Member since 2012
- > Member of the Audit Committee since 2015
- > End of term: 2020

#### EXPERIENCE

Over 20 years in operations, including UCB where he held several management positions, now managing private equity and impact investing activities

#### MAIN EXTERNAL APPOINTMENTS

- > Member of the Board of Financière de Tubize SA
- > Managing Partner Kois Invest
- > Co-founder, Board member and advisory Board member of various private companies, nonprofit organizations and private equity funds

# SHAREHOLDING STRUCTURE 2016

Since 13 March 2014, UCB's capital amounts to € 583 516 974, divided in 194 505 658 ordinary shares with no nominal value, with an average of 188 million shares outstanding.

Based on the transparency notifications and other notifications received from major shareholders, the shareholder structure of UCB can be summarized as follows per 31 December 2016:



## Norman J. Ornstein

Independent Director

1948 – American

### UCB BOARD

- > Member since 2008
- > End of term: 2019

### EXPERIENCE

Over 40 years as scholar and analyst of American politics and policy

### MAIN EXTERNAL APPOINTMENTS

- > Chairman of Campaign Legal Center



## Ulf Wiinberg

Independent Director

1958 – Danish

### UCB BOARD

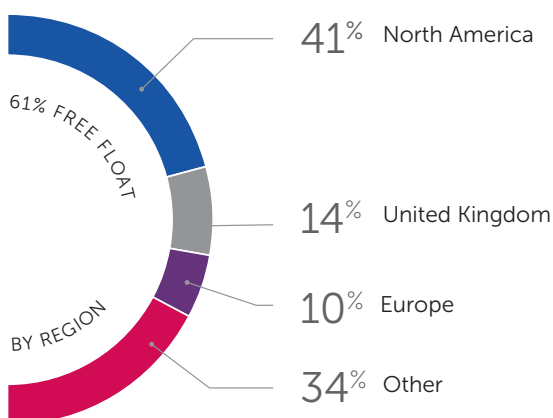
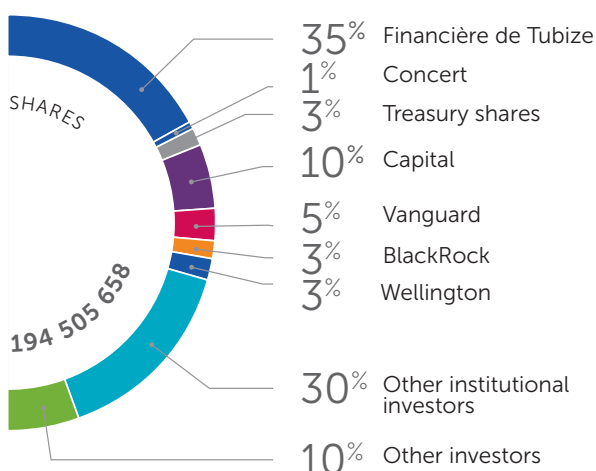
- > Member since 2016
- > Member of the Audit Committee since 2016
- > End of term: 2020

### EXPERIENCE

Almost 20 years of senior leadership experience in pharmaceutical companies and healthcare industry associations

### MAIN EXTERNAL APPOINTMENTS

- > Chairman of the Board of Avillion
- > Chairman of the Board of Hansa Medical
- > Board member at Alfa Laval
- > Board member at Agenus



In-line with UCB's long-term dividend policy the Board of Directors proposes a gross dividend of € 1.15 (2015: € 1.10). If the dividend is approved by the Annual General Meeting on 27 April 2017, the net dividend of € 0.805 per share will be payable as of 3 May 2017 against the delivery of coupon #20.

Board biographies available on <http://www.ucb.com/investors/UCB-Governance>



# EXECUTIVE COMMITTEE



## Jean-Christophe Tellier

Chief Executive Officer and  
Chairman of the Executive Committee

1959 – French

### JOINED UCB IN 2011

Appointed as CEO in 2015

### EXPERIENCE

Over 25 years in the pharmaceutical sector, with Ipsen and Novartis where he held several senior executive positions.

### MAIN EXTERNAL APPOINTMENTS

- > Member of the Board of BIO
- > Member of the Board of the EFPIA
- > Chairman of the Innovation Board Sponsored Committee (EFPIA)
- > Member of the Board of PhRMA
- > Member of the Board of WELBIO



## Ismail Kola

Executive Vice President  
New Medicines™ Head and Chief  
Scientific Officer

1957 – American/Australian

### JOINED UCB IN 2009

Appointed in 2009

### EXPERIENCE

Ph.D. in medicine with more than 25 years of experience in the pharmaceutical research sector with Schering-Plough, Merck and Pharmacia where he held several senior executive positions. Prior to that 15 years in academia with still ongoing professorships at key academic institutions such as Oxford, Cambridge, Washington, St. Louis, Karolinska, Monash.

### MAIN EXTERNAL APPOINTMENTS

- > Member of the Board of Athersys Inc.



## Emmanuel Caeymaex

Executive Vice President  
Immunology Patient Value Unit Head

1969 – Belgian

### JOINED UCB IN 1994

Appointed in 2015

### EXPERIENCE

Over 20 years experience in biopharmaceuticals marketing and sales, general management and global project leadership.

### MAIN EXTERNAL APPOINTMENTS

- > Member of the Board of Dermira, Inc.



## Iris Löw-Friedrich

Executive Vice President  
Chief Medical Officer and Head  
of Development and Medical Patent  
Value Practices

1960 – German

### JOINED UCB IN 2006

Appointed in 2008

### EXPERIENCE

Physician, board-certified in internal medicine, with more than 20 years of experience in the development of medicines, with senior executive positions at Hoechst, Aventis, BASF Pharma/Knoll, Abbott and Schwarz Pharma.

### MAIN EXTERNAL APPOINTMENTS

- > Member of the Supervisory Board of Fresenius SE & Co. KGaA
- > Chair of the Board of Directors of TransCelerate
- > Member of the Supervisory Board of Evotec AG



## Fabrice Enderlin

Executive Vice President  
Chief Talent Officer

1965 – French

### JOINED UCB IN 2008

Appointed in 2008

### EXPERIENCE

25 years of HR experience in the pharmaceutical industry

### NO EXTERNAL APPOINTMENTS



## Mark McDade

Executive Vice President  
Chief Operating Officer

1955 – American

### JOINED UCB IN 2008

Appointed in 2008  
Retired in December 2016

### EXPERIENCE

Varied responsibilities including animal health product development and launches, biotech company start-ups, extensive and global deal-making in licensing and M&A, and building/managing publicly traded U.S.-based biotech companies

### MAIN EXTERNAL APPOINTMENTS

- > Chairman of the Board of Aimmune Therapeutics
- > Member of the Board of Dermira, Inc.
- > Member of the Board of Five Prime Therapeutics



### Pascale Richetta

Executive Vice President  
Bone Patient Value Unit Head

1959 – French

**JOINED UCB IN 2016**  
Appointed in 2016

**EXPERIENCE**

Over 20 years of experience in the pharma and biotech industry with Ipsen, GSK, Abbott and Abbvie.

**MAIN EXTERNAL APPOINTMENTS**

> Member of the Board of Capio



### Anna S. Richo

Executive Vice President  
General Counsel

1960 – American

**JOINED UCB IN 2012**  
Appointed in 2012

**EXPERIENCE**

Over 25 years in the biopharmaceutical and medical device with Amgen and Baxter Healthcare Corp., where she held several senior executive positions.

**NO EXTERNAL APPOINTMENTS**

## EXECUTIVE COMMITTEE

11 members

6 nationalities

3 women



### Bharat Tewarie

Executive Vice President  
Chief Marketing Officer

1961 – Dutch

**JOINED UCB IN 2015**  
Appointed in 2015

**EXPERIENCE**

Physician, with more than 25 years experience in pharma and biotech industry with Boehringer Ingelheim, F. Hoffman La Roche, Merck Serono and EMD Serono in several senior executive positions in the Netherlands, Germany, Switzerland and U.S.

**NO EXTERNAL APPOINTMENTS**



### Detlef Thielgen

Executive Vice President  
Chief Financial Officer

1960 – German

**JOINED UCB IN 2006**  
Appointed in 2007

**EXPERIENCE**

More than 25 years in the pharma industry with Schwarz Pharma and UCB, where he held several senior executive positions

**NO EXTERNAL APPOINTMENTS**



### Jeff Wren

Executive Vice President  
Neurology Patient Value Unit Head

1963 – American

**JOINED UCB IN 2010**  
Appointed in 2015

**EXPERIENCE**

Over 25 years in the pharmaceutical sector, with Sepracor (now Sunovion) and TAP Pharmaceuticals, in senior positions spanning sales, marketing, and managed markets.

**NO EXTERNAL APPOINTMENTS**

## 1.1 | CAPITAL AND SHARES

### 1.1.1 | CAPITAL

The capital of UCB has not been modified in 2016.

On 31 December 2016, it amounted to € 583 516 974 and was represented by 194 505 658 shares.

### 1.1.2 | SHARES

Since 13 March 2014, the share capital of UCB is represented by 194 505 658 shares, all fully paid up ("UCB shares"). UCB shares may be registered or dematerialized shares, at the request of the shareholder, in accordance with the Belgian Companies Code.

Pursuant to the Belgian Law of 14 December 2005, bearer securities have been subject to a gradual abolishment, leading to their conversion into registered or dematerialized securities as from 1 January 2014 and their complete abolishment at the end of 2015.

On 1 January 2014, the UCB bearer shares were by force of Law automatically converted into dematerialized shares. UCB had to register them in its securities account in its own name. However, this did not grant UCB any title on the shares, as UCB merely held them on behalf of their unknown owners. The rights attached to the claimed bearer shares – such as the dividend rights, the right to participate in and vote at the General Meetings and the preferential subscription rights in the case of a capital increase – were suspended since 1 January 2014 until the rightful owners had obtained the timely registration of their shares in their own name or until the mandatory sale of the unclaimed bearer shares.

As of 1 January 2015, through a mandatory sale process imposed by the above mentioned Belgian Law of 14 December 2005, UCB offered all unclaimed bearer shares for sale on the Euronext Brussels Stock Exchange. UCB announced this mandatory sale on 7 May 2015 in accordance with the applicable regulations. After the unclaimed bearer shares were sold, UCB has deposited the net proceeds of the sale with the Belgian Deposit and Consignments Fund ("Caisse des depots et consignations"/"Deposito- en Consignatiekas") on 23 June 2015. As of that moment, UCB no longer intervenes in the process. As of 1 January 2016, the rightful owners of the underlying bearer shares have the right to claim the payment of the corresponding net proceeds from the Belgian Deposit and Consignment Fund subject to evidence of their valid title to the shares. The Belgian Law of 14 December 2005 provides that, as of 1 January 2016, such repayment is subject to a fine of 10% of the proceeds of the sale of the underlying bearer shares per each commenced year of arrears. More details on the dematerialization and conversion process are available on UCB website (<http://www.ucb.com/investors/governance/shareholders-information>).

Registered UCB shares are recorded in the share register of UCB.

All UCB shares are admitted for listing and trading on Euronext Brussels.

### 1.1.3 | TREASURY SHARES

In accordance with article 12, §2 of the Articles of Association of UCB, the Extraordinary General Meeting of 28 April 2016 decided to renew, for a period of 2 years (and two months) expiring on 30 June 2018, the authorization granted to the Board of Directors to acquire, directly or indirectly, whether on or outside of the stock exchange, by way of purchase, exchange, contribution or any other way, up to 10% of the total number of UCB shares as calculated on the date of each acquisition, for a price or an exchange value per share of maximum the highest price of the UCB share on Euronext Brussels on the day of the acquisition and minimum € 1, without prejudice to article 208 of the Royal Decree of 31 January 2001. As a result of such acquisition(s), UCB SA, together with its direct or indirect subsidiaries, as well as persons acting on their own behalf but for the account of UCB or its direct or indirect subsidiaries, can hold no more than 10% of the total number of shares issued by UCB at the moment of the acquisition concerned. The authorization granted to the Board of Directors extends to any acquisitions of UCB shares, directly or indirectly, by the direct subsidiaries of UCB as defined in article 627 of the Belgian Companies Code. This authorization replaced the previous 2 year authorization granted by decision of the Extraordinary General Meeting of 24 April 2014. As the case may be, any disposal of own shares by UCB or its direct subsidiaries can be made pursuant to the authorization granted to the Board of Directors as set forth in article 12 in fine of the Articles of Association.

UCB SA acquired 36 945 UCB shares from UCB Fipar SA and transferred 928 677 UCB shares in 2016. On 31 December 2016, UCB SA held 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).

UCB Fipar SA, an indirect subsidiary of UCB, acquired 700 000 UCB shares in 2016 and sold 193 183 UCB shares in 2016. On 31 December 2016, UCB Fipar SA held a total of 3 183 826 UCB securities representing, if exercised, 1.64% of the total number of UCB shares. That holding of UCB securities consists of 2 748 826 shares and 435 000 assimilated financial instruments (outstanding options).

The UCB shares were acquired by UCB and UCB Fipar SA amongst others in order to cover part of UCB's obligations resulting from the employees' stock option plans, stock award plans and performance share plans. Some of these shares were thereafter transferred to other UCB affiliates during 2016 for the sole purpose of delivering them to the employees of such other affiliates. Since these shares have all been delivered to eligible employees, none of such other affiliates is still holding UCB shares on 31 December 2016. For additional details, please refer to note 24.3 Treasury shares.

### 1.1.4 | AUTHORIZED CAPITAL

The Extraordinary General Meeting of 28 April 2016 decided to renew the authorization to the Board (and to amend the Articles of Association accordingly), for another period of 2 years, to increase the share capital, amongst other by way of the issuance of shares, convertible bonds or warrants, in one or more transactions, within the limits set by the Belgian Company Code,

- i with up to 5% of the share capital calculated at the time of the decision of the Board to make use of this authorization, in the event of a capital increase with cancellation or limitation of the preferential subscription rights of the shareholders (whether or not for the benefit of one or more specific persons who are not employees of the company or of its subsidiaries);
- ii. with up to 10% of the share capital calculated at the time of the decision of the Board to make use of this authorization, in the event of a capital increase without cancellation or limitation of the preferential subscription rights of the existing shareholders.

In any event, the total amount by which the Board may increase the share capital by a combination of the authorizations set forth in (i) and (ii) above, is limited to 10% of the share capital at the time of the decision of the Board to make use of this authorization.

The Board is moreover expressly authorized to make use of this mandate, within the limits as set out under (i) and (ii) above, for the following operations:

1. a capital increase or the issuance of convertible bonds or warrants with cancellation or limitation of the preferential subscription rights of the existing shareholders;
2. a capital increase or the issuance of convertible bonds with cancellation or limitation of the preferential subscription rights of the existing shareholders for the benefit of one or more specific persons who are not employees of the company or of its subsidiaries;
3. a capital increase by incorporation of reserves.

Any such capital increase may take any and all form, including, but not limited to, contributions in cash or in kind, with or without share premium, the incorporation of reserves and/or share premiums and/or profits carried forward, to the maximum extent permitted by the Law.

Any decision of the Board to use this authorization requires a 75% majority within the Board.

The Board is empowered, with full power of substitution, to amend the Articles of Association to reflect the capital increases resulting from the exercise of its authorization.

## 1.2 | SHAREHOLDERS AND SHAREHOLDERS STRUCTURE

### 1.2.1 | REFERENCE SHAREHOLDER

The main shareholder of UCB is Financière de Tubize SA (also referred to herein as the "Reference Shareholder" or "Tubize"), a Belgian company listed on Euronext Brussels.

Based on the transparency declarations received by Tubize and, as the case may be, more recent public disclosures, the shareholder structure of Tubize per 31 December 2016 can be summarized as follows:

	CONCERT		OUTSIDE CONCERT		TOTAL	
	VOTING RIGHTS	%	VOTING RIGHTS	%	VOTING RIGHTS	%
Financière Eric Janssen SPRL	8 525 014	19.14%	1 988 800	4.46%	10 513 814	23.60%
Daniel Janssen	5 881 677	13.20%	-	-	5 881 677	13.20%
Altaï Invest SA	4 969 795	11.16%	11 500	0.03%	4 981 295	11.18%
Barnfin SA	3 899 833	8.75%	-	-	3 899 833	8.75%
Jean van Rijckevorsel	7 744	0.02%	-	-	7 744	0.02%
<b>Total voting rights held by the reference shareholders</b>	<b>23 284 063</b>	<b>52.27%</b>	<b>2 000 300</b>	<b>4.49%</b>	<b>25 284 363</b>	<b>56.76%</b>
Other shareholders	-	-	19 264 235	43.24%	19 264 235	43.24%
<b>Total voting rights</b>	<b>23 284 063</b>	<b>52.27%</b>	<b>21 264 535</b>	<b>47.73%</b>	<b>44 548 598</b>	<b>100.00%</b>

Altaï Invest SA is controlled by Evelyn du Monceau, born Evelyn Janssen. Barnfin SA is controlled by Bridget van Rijckevorsel, born Paule Bridget Janssen.

The reference shareholders of Tubize, belonging to the Janssen family, act in concert, *i.e.* they have entered into a shareholders' agreement concerning

the concerted exercise of their voting rights in order to pursue a sustainable common policy with regard to Tubize and concerning the possession, acquisition or transfer of voting securities cf. article 3, §1, 13°, a), b) and c) of the Law on the disclosure of large shareholdings and article 3, §1, 5°, a) and b) of the Law on public takeover bids.



### 1.2.2 | **TRANSPARENCY DECLARATIONS**

During 2016, UCB received the following transparency notifications:

On 8 January 2016, UCB sent a transparency notification to the Financial Services and Markets Authority ("FSMA"), providing an annual update on the transactions in UCB shares and assimilated financial instruments by UCB SA and its indirect subsidiary UCB Fipar SA.

UCB received transparency notifications from Wellington Management Group LLP dated 17 August (as amended on 22 August), 5 September, 7 September, 14 September, 21 September, 4 October, 19 October, 29 November, 22 December and 27 December 2016 respectively. The last notification received in 2016 stated that Wellington Management Group LLP, including the holdings of its affiliates, as of 23 December 2016, owned 5 814 498 UCB shares with voting rights, representing 2.99% of the total number of shares issued by UCB.

UCB received transparency notifications from BlackRock Inc., dated 2 November, 3 November, 14 November, 1 December, 2 December, 12 December, 15 December and 30 December 2016 respectively. The last notification dated in 2016 stated that BlackRock Inc., including the holding of its affiliates, as of 29 December 2016, owned 5 923 369 UCB shares with voting rights, representing 3.05% of the total number of shares issued by UCB.

All these notifications as well as more recent notifications received in 2017 can be found on UCB's website.

### 1.2.3 | **RELATIONSHIP WITH AND BETWEEN SHAREHOLDERS**

Please refer to note 40.2 for an overview of the relationship of UCB with shareholders. Furthermore, UCB is not aware of any agreements between its shareholders, apart from the information mentioned below.

With respect to its shareholding in UCB, Tubize is acting in concert with Schwarz, *i.e.* they have entered into an agreement concerning the concerted exercise of their voting rights in order to pursue a sustainable common policy with regard to UCB and concerning the possession, acquisition or transfer of voting securities (cf. article 3, §1, 13°, b) and c) of the Law on the disclosure of large shareholdings and article 3, §1, 5°, b) of the Law on public takeover bids).

UCB has received notifications pursuant to article 74, §7 of the Law of 1 April 2007 on public takeover bids from Tubize, Schwarz and UCB Fipar SA respectively on 22 November 2007, 11 December 2007 and 28 December 2007. On 25 August 2016, UCB received an updated notification pursuant to article 74, §8 of the Law on public takeover bids from Tubize and Schwarz (this notification is available on UCB website), in which is declared that:

- > Tubize and Schwarz are acting in concert;
- > since 31 July 2015, Tubize acquired 1 706 981 UCB shares;
- > on 31 July 2016, Tubize held 68 076 981 UCB shares on a total number of 194 505 658 (*i.e.* 35.00%);
- > on 31 July 2016, Schwarz held 2 471 404 UCB shares on a total number of 194 505 658 (*i.e.* 1.27%).

Following the transparency notification from Tubize and Schwarz received on 18 December 2015, Tubize and Schwarz now collectively hold 36.27% of the total number of UCB shares.

### 1.2.4 | **SHAREHOLDER STRUCTURE**

Apart from the notifications mentioned above under 1.2.2 and 1.2.3 as well as the notifications made in previous years by The Capital Group Companies Inc. and Vanguard Health Care Fund reflected in the table on the next page, UCB and its subsidiaries also hold UCB shares.

The remaining UCB shares are held by the public.

Please find on the next page an overview of the large shareholdings of UCB (including assimilated financial instruments), taking into account the shareholders' register of UCB, the transparency notifications received pursuant to the Law of 2 May 2007 on the disclosure of large shareholdings, the notification received pursuant to article 74, §8 of the Law of 1 April 2007 on public takeover bids, the notifications to the FSMA pursuant to the Law of 2 August 2002 on the supervision of the financial sector and the financial services and as the case may be, more recent public disclosures (situation as per 31 December 2016):

<b>Share capital €</b>		<b>583 516 974</b>		13 March 2014
<b>Total number of voting</b>		<b>194 505 658</b>		13 March 2014
<b>1</b>	<b>Financière de Tubize SA ("Tubize")</b>			
	securities carrying voting rights (shares)	68 076 981	35.00%	18 December 2015
<b>2</b>	<b>Schwarz Vermögensverwaltung GmbH &amp; Co. KG ("Schwarz")</b>			
	securities carrying voting rights (shares)	2 471 404	1.27%	13 March 2014
<b>Tubize + Schwarz<sup>3</sup></b>				
	securities carrying voting rights (shares)	<b>70 548 385</b>	<b>36.27%</b>	
<b>3</b>	<b>UCB SA/NV</b>			
	securities carrying voting rights (shares)	3 079 536	1.58%	30 December 2016
	assimilated financial instruments (options) <sup>1</sup>	1 000 000	0.51%	17 November 2015
	assimilated financial instruments (other) <sup>1</sup>	0	0.00%	18 December 2015
	<b>TOTAL</b>	<b>4 079 536</b>	<b>2.10%</b>	
<b>4</b>	<b>UCB Fipar SA</b>			
	securities carrying voting rights (shares)	2 748 826	1.41%	30 December 2016
	assimilated financial instruments (options) <sup>1</sup>	435 000	0.22%	03 June 2015
	assimilated financial instruments (other) <sup>1</sup>	0	0.00%	18 December 2015
	<b>TOTAL</b>	<b>3 183 826</b>	<b>1.64%</b>	
<b>UCB SA/NV + UCB Fipar SA<sup>2</sup></b>		<b>7 263 362</b>	<b>3.73%</b>	
	securities carrying voting rights (shares)	5 828 362	3.00%	
	assimilated financial instruments (options) <sup>1</sup>	1 435 000	0.74%	
	assimilated financial instruments (other) <sup>1</sup>	0	0.00%	
<b>Free float<sup>4</sup> (securities carrying voting rights (shares))</b>		<b>118 128 911</b>	<b>60.73%</b>	
<b>5</b>	<b>The Capital Group Companies Inc.</b>			
	securities carrying voting rights (shares)	19 462 506	10.01%	13 November 2015
<b>6</b>	<b>Vanguard Health Care Fund</b>			
	securities carrying voting rights (shares)	9 741 353	5.01%	28 October 2014
<b>7</b>	<b>BlackRock Inc.</b>			
	securities carrying voting rights (shares)	5 923 369	3.05%	29 December 2016

(all percentages are calculated on the basis of the current total number of voting rights)

<sup>1</sup> Assimilated financial instruments within the meaning of article 6 of the Royal Decree of 14 February 2008 on the disclosure of large shareholders, which, if exercised, grant an additional voting right: *i.e.*, securities, options, futures, swaps, interest term agreements and other derivatives concerning existing securities carrying voting rights that grant their holder the right to acquire such securities carrying voting rights pursuant to an agreement that is binding under the applicable law and only on the holders' own initiative.

<sup>2</sup> UCB SA/NV indirectly controls UCB Fipar SA | article 6, §5, 2° and article 9, §3, 2° of the Law on the disclosure of large shareholdings.

<sup>3</sup> Tubize and Schwarz have declared to be acting in concert | article 6, §4 and article 9, §3, 3° of the Law on the disclosure of large shareholdings.

<sup>4</sup> Free float being the UCB shares not held by the Reference Shareholder (Tubize), Schwarz, UCB SA/NV or UCB Fipar SA. Only securities carrying voting rights (shares) held by these entities are taken into account for this calculation, to the exclusion of assimilated financial instruments.

## 1.2.5 | GENERAL MEETING OF SHAREHOLDERS

In accordance with the Articles of Association, the Annual General Meeting takes place on the last Thursday of April at 11.00 AM CET. In 2017, this will be on 27 April.

The rules on the agenda, the procedure for convening meetings, admittance to the meetings, the procedure on the exercise of voting rights and other details can be found in the Articles of Association and in the Corporate Governance Charter, which are available on the UCB website (<http://www.ucb.com/investors/UCB-Governance>).

## 1.3 | BOARD OF DIRECTORS AND BOARD COMMITTEES

### 1.3.1 | BOARD OF DIRECTORS

#### COMPOSITION OF THE BOARD AND INDEPENDENT DIRECTORS

As of the General Meeting held on 28 April 2016, the Board of Directors was composed as follows:

	FIRST APPOINTED AS DIRECTOR	END OF TERM OF OFFICE	INDEPENDENT DIRECTOR
Gerhard Mayr, Chair	2005	2017	
Evelyn du Monceau, Vice Chair	1984	2019	
Jean-Christophe Tellier, Executive Director and CEO	2014	2018	
Alice Dautry	2015	2019	x
Kay Davies	2014	2018	x
Albrecht De Graeve	2010	2017	x
Harriet Edelman	2012	2017	x
Pierre L. Gurdjian	2016	2020	x
Charles-Antoine Janssen	2012	2020	
Cyril Janssen	2015	2019	
Norman J. Ornstein	2008	2019	x
Cédric van Rijckevorsel	2014	2018	
Ulf Wiinberg	2016	2020	x

Pierre Gurdjian and Ulf Wiinberg were appointed as independent Directors at the General Meeting of 28 April 2016. At the same time, the mandate of Tom McKillop, independent Director, was expiring and was not renewed, Tom McKillop having reached the age limit. The mandates of Harriet Edelman (independent Director) and of Charles-Antoine Janssen were renewed for a new term of 4 years.

Alice Dautry, Kay Davies, Albrecht De Graeve, Harriet Edelman, Pierre Gurdjian, Norman Ornstein and Ulf Wiinberg all qualify as independent Directors and meet the independence criteria as set forth by article 526ter of the Belgian Companies Code, the Board and the Corporate Governance Code.

Evelyn du Monceau, Charles-Antoine Janssen, Cyril Janssen and Cédric van Rijckevorsel are representatives of the Reference Shareholder and, as such, are not eligible to qualify as independent Director.

The mandate of Albrecht De Graeve will expire at the General Meeting of 27 April 2017. Gerhard Mayr, Chairman of the Board, will reach the age limit by the General Meeting of 27 April 2017 and, as a consequence, his mandate will end with effect on 27 April 2017. Harriet Edelman, of which the mandate was renewed in 2016, has decided, for personal reasons, to resign from her mandate as independent Director with effect as at the General Meeting of 27 April 2017.

Considering the above, and upon recommendation of the GNCC, the Board of Directors will propose to the General Meeting of 27 April 2017:

- > the appointment of Viviane Monges as independent Director for a mandate of four years;
- > the renewal of the mandate of Albrecht De Graeve as independent Director for a new term of four years;
- > the appointment of Roch Doliveux as Director for a mandate of four years.

In accordance with the information provided to the Company, Viviane Monges and Albrecht De Graeve both meet the independence criteria stipulated by article 526ter of the Belgian Companies Code, the Board and the Corporate Governance Code. Upon confirmation of the above renewal and appointments by the General Meeting of 27 April 2017, and by decision of the Board upon recommendation of the GNCC, Evelyn du Monceau will replace Gerhard Mayr as Chair of the Board and Pierre Gurdjian, independent Director, will become Vice Chair of the Board. Kay Davies, independent Director, will replace Harriet Edelman as member of the GNCC. The composition of the other special Board Committees (Audit Committee and Scientific Committee) will not change.

As a result of the above mentioned appointments and renewals, the Board will continue to be composed of a majority of independent non-executive Directors in 2017. J.-C. Tellier is the only executive Director (CEO). The GNCC and the Audit Committee will also continue to be composed of a majority of independent Directors. On top, the Audit Committee will still be chaired by Albrecht De Graeve, independent Director.

The Board of Directors of UCB is composed of 1/3<sup>th</sup> of women, in compliance with article 518bis §1 of the Belgian Companies Code<sup>1</sup>.

Pursuant to article 96, §2, 6° of the Belgian Companies Code, UCB also confirms that when replacements or appointments for the Board are considered, UCB – via its Board and the Governance, Nomination and Compensation Committee (“GNCC”) – is taking into account the need to enhance gender diversity in its Board, which systematically includes searching for senior female profiles which could add a complementary value to the Board. Accordingly, the appointment of Viviane Monges in replacement of Harriet Edelman as well as the appointment of Evelyn du Monceau as Chair of the Board are a clear sign of the commitment of the Board of UCB to ensure gender diversity. Notably, Evelyn du Monceau will be one of the few women chairing the Board of a Belgian company listed on Euronext Brussels.

<sup>1</sup>The Board is and will still be composed of 4 women out of a total of 13 members. In accordance with article 518bis § 1 of the Belgian Companies Code setting the minimum required number of directors of the other gender to 1/3<sup>th</sup> (i.e. women in the case of UCB), such minimum number should be rounded up to the closest entire number (13/3 = 4.33, the closest entire number being therefore 4).

## FUNCTIONING OF THE BOARD

In 2016, the Board met six times. The attendance rate of its members was as follows:

Gerhard Mayr, Chair	100%
Evelyn du Monceau, Vice Chair	100%
Jean-Christophe Tellier, Executive Director	100%
Alice Dautry	100%
Kay Davies	100%
Albrecht De Graeve	83%
Harriet Edelman	83%
Pierre L. Gurdjian*	100%
Charles-Antoine Janssen	100%
Cyril Janssen	100%
Tom McKillop**	100%
Norman J. Ornstein	83%
Cédric van Rijckevorsel	100%
Ulf Wiinberg*	100%

\* As from 28 April 2016 (appointment by the General Meeting of 28 April 2016)

\*\* Until 28 April 2016

In addition to its ordinary meetings, the Board also had one exceptional meeting and one decision by unanimous written consent to decide on urgent or important matters. During the year, the Board also had several calls to be informed or updated on important projects or matters. All Board members were duly present or represented at these Board conference calls or meetings.

During 2016, the Board's main areas of discussion, review and decisions were: strategy of UCB, the reports of the Audit Committee, the Scientific Committee and the GNCC, Corporate Governance and (re)organization of UCB, risk and risk management (including the new "Risk to Value approach"), succession planning, intragroup restructuring, the appointments reserved to the Board, the remuneration and Long Term Incentives Plan policies, the financial statements and financial reporting, business development and M&A projects, including but not limited to R&D contracts, investment, divestments, financial and commercial partnerships, license agreements, as well as the reports and resolution proposals to the General Meeting as published in the invitations to the General Meeting in compliance with the Belgian Companies Code.

There were no transactions or contractual relationships in 2016 between UCB, including its affiliated companies, and a member of the Board, giving rise to conflicts of interest, except as reported in section 1.9 below.

During 2016, the Board ensured an induction program for its new Directors to cover UCB organization and activities as well as the various areas of expertise required in a biopharmaceutical company.

Since 2014 and twice a year (July and December Board meetings), the Board also holds a special session where the executive member (the CEO) is not present.

## ASSESSMENT OF THE BOARD

In accordance with its Charter (section 3.5), the Board is to conduct an (internal) assessment on a regular basis and at least every other year. In 2015, the Board conducted a full Board internal assessment, the results of which were analyzed in the course of the first half of 2016. Appropriate action has been taken to implement the main outcomes of the assessment.

Considering the numerous changes in the composition of the Board and its specialized committees, including the changes that will be implemented in 2017, another board assessment has been organized in 2016, focusing on board membership diversity and profiles, the meeting organization as well as the communication of relevant information to the Board outside of the meetings. The Board members are pleased with the way the Board is functioning. Some suggestions for further improvement or for the succession planning were made and will be taken into account for implementation as from 2017.

### 1.3.2 | BOARD COMMITTEES

#### AUDIT COMMITTEE

The Board has set up an Audit Committee whose functioning and terms of reference are in accordance with the Belgian Companies Code, the Corporate Governance Code and the Charter. It is composed of a majority of independent Directors, all non-executive Directors, and is chaired by Albrecht De Graeve, also independent Director. All members have the competences in audit and accounting matters as required in accordance with article 526bis of the Belgian Companies Code.

	END OF TERM OF OFFICE	INDEPENDENT DIRECTOR	ATTENDANCE RATE
Albrecht De Graeve, Chair & independent Director	2017	x	100%
Charles-Antoine Janssen, Director	2020		100%
Ulf Wiinberg, independent Director	2020	x	100%

The Audit Committee met four times in 2016. Each Audit Committee meeting includes separate private sessions attended solely by the internal and external auditors without management presence. As necessary, the external auditors attended all or part of each Audit Committee meeting.

The Audit Committee meetings were also attended by Detlef Thielgen (Executive Vice President and Chief Financial Officer), Doug Gingerella (Senior Vice President Global Internal Audit/M&A) and Xavier Michel (Vice President and Secretary General), who acts as secretary of the Audit Committee.

The meetings were also partly attended on regular basis by Jean-Christophe Tellier (CEO), Raf Remijnsen (Head of Treasury & Risk Management) for subjects relating to



treasury and financial risk management, Thomas Debeys (Head of Tax) for tax updates, Caroline Vancoillie (Chief Accountant Officer) for accounting matters, Anna Richo (Executive Vice President and General Counsel) for litigation and risk management topics, Aaron Bartlone (Senior Vice President Corporate QA HSE and Patient Safety) for risk management topics, Veronique Gendarme (Head of Global Benefits) for pension related matters and Cristina Bautista (Senior Director Global Internal Audit) for global internal audit matters. The Audit Committee also had a special session focusing on Cyber Security and Digital Solutions with Herman De Prins (CIO).

In 2016, and in accordance with its terms of reference (see the Charter available on the UCB website), the Audit Committee monitored the financial reporting process (including the financial statements); internal control and risk management systems of UCB and their effectiveness; the internal audit and its effectiveness; the Audit Plan and resulting achievements; the statutory audit of the annual and consolidated accounts; and the independence of the external auditor including the provision of additional services to UCB, which the Audit Committee reviewed and for which it authorized the fees. In addition, the Audit Committee worked on updating the External Auditor Policy to bring it in line with new European and Belgian legislation and reviewed corporate restructuring projects, global risk management (including cyber & IT risks, litigation and tax review, as well as the UCB Group global risk mapping and policy), impairment and equity value of subsidiaries, pensions schemes and liabilities, new IFRS rules, other new tax or accounting treatments and the external auditor satisfaction surveys.

## GOVERNANCE, NOMINATION AND COMPENSATION COMMITTEE

The Board has set up a Governance, Nomination and Compensation Committee, whose composition, functioning and terms of reference are in accordance with the Belgian Companies Code and the Corporate Governance Code.

The composition of the GNCC is currently as follows:

	END OF TERM OF OFFICE	INDEPENDENT DIRECTOR	ATTENDANCE RATE
Evelyn du Monceau, Chair	2019		100%
Harriet Edelman, independent Director	2017	x	100%
Pierre L. Gurdjian, independent Director	2020	x	100%

After the General Meeting of 2017, Kay Davies will replace Harriet Edelman as independent Director of the GNCC.

A majority of the members of the GNCC meets the independence criteria stipulated by article 526ter of the Belgian Companies Code, the Board and the Corporate Governance Code, and all members have the competencies and the expertise required in matters of remuneration policies as required by article 526quater, §2 of the Belgian Companies Code.

The GNCC met four times in 2016. The committee was attended by Jean-Christophe Tellier (CEO), except when discussing issues relating to him, and by Fabrice Enderlin (Chief Talent Officer), who acts as secretary of the GNCC, except when discussing issues relating to him and to CEO compensation. It was also attended on a regular basis by the Chair of the Board, Gerhard Mayr.

In 2016, and in accordance with its terms of reference (see the Charter available on the UCB website), the GNCC reviewed the appointment proposals to be submitted to Board approval (Board and Executive management as well as senior management positions), the performance of the Executive Committee members and their remuneration. It also proposed and reviewed the succession planning of the members of the Board, the Executive Committee and senior executives. It reviewed and made relevant proposals or recommendations to the Board with respect to the future composition of the Board, to be effective as from the General Meeting of 27 April 2017. It reviewed and submitted to Board approval the remuneration policy, the long-term incentives to be granted to the management (including the CEO) and the performance criteria to which these grants were linked. The GNCC made an overall review of the Corporate Governance at UCB, including an annual report on Corporate Governance to the Board. It also ensured the follow up on the outcome of the Board evaluation which was carried out in 2015. It was also involved in the Board assessment carried out in 2016.

## SCIENTIFIC COMMITTEE

The Scientific Committee assists the Board in its review of the quality of UCB R&D science and its competitive standing. The Scientific Committee is composed of members who have scientific and medical expertise and who are currently all independent.

	END OF TERM OF OFFICE	INDEPENDENT DIRECTOR	ATTENDANCE RATE
Kay Davies, Chair	2018	x	100%
Alice Dautry	2019	x	100%

The Scientific Committee met three times in 2016.

The members of the Scientific Committee meet regularly with Ismail Kola, the New Medicines Patient Value Unit Head & Chief Scientific Officer. The members of the Scientific Committee are also closely involved in the activities of the Scientific Advisory Board (SAB) of UCB, composed of external leading scientific medical experts. The SAB was created in September 2005 by the Executive Committee to critically review the R&D activities of UCB, provide scientific appraisal and strategic input as to the best way for UCB to become a thriving biopharmaceutical leader and to advise the Executive Committee on the strategic choices related to early stage R&D and R&D technology. The Scientific Committee reports to the Board on the SAB's appraisal of UCB's research activities and strategic orientations.

### 1.3.3 | EXECUTIVE COMMITTEE

#### COMPOSITION AND FUNCTIONING OF THE EXECUTIVE COMMITTEE

As of 1 February 2016, the composition of the Executive Committee was as follows:

- > Jean-Christophe Tellier, CEO and Chair of the Executive Committee
- > Emmanuel Caeymaex, Immunology Patient Value Unit Head
- > Fabrice Enderlin, Chief Talent Officer
- > Ismail Kola, New Medicines Patient Value Unit Head and Chief Scientific Officer
- > Iris Löw-Friedrich, Chief Medical Officer
- > Mark McDade, Head of Patient Value Operations
- > Pascale Richetta, Bone Disorders Patient Value Unit Head
- > Anna Richo, General Counsel
- > Bharat Tewarie, Chief Marketing Officer
- > Detlef Thielgen, Chief Financial Officer
- > Jeff Wren, Neurology Patient Value Unit Head

Mark McDade, Head of Patient Value Operations, retired and left UCB with effect as at 31 December 2016.

As of 1 January 2017, Bharat Tewarie and Detlef Thielgen have headed the Patient Value Operations *ad interim*. As of 1 March 2017, Charl van Zyl has been appointed to replace Mark McDade as Head of Patient Value Operations.

In 2016, the Executive Committee met two to three days a month.

There were no transactions or contractual relationships in 2016 between UCB, including its affiliates, and a member of the Executive Committee.

### 1.4 | REMUNERATION REPORT

The remuneration report describes UCB's executive and non-executive director remuneration philosophy and policies and how executive compensation levels are set in view of individual and company performance.

The GNCC oversees our executive and non-executive director compensation policies and plans. The Committee's roles and responsibilities are set forth in the Corporate Governance Charter adopted by our Board of Directors.

#### REMUNERATION FOR NON-EXECUTIVE DIRECTORS

UCB's Board members are compensated for their services through a cash-based compensation program. The level of pay has been set based on benchmarks which include the remuneration of Board members of comparable European biopharmaceutical companies.

The Board members' pay consists of a fixed annual payment for the Board and committee membership which can vary based on the specific mandate. Board members also receive a fee per meeting attended with the exception of the Chairman of the Board who receives only a fixed annual payment. The annual payments are pro-rated according to the number of months served as an active Board member during the calendar year. No long-term equity incentives nor other form of variable pay are granted. An update to the level of pay was approved at the General Meeting of shareholders of 25 April 2013. The remuneration levels for UCB Board members are set as follows:

#### ANNUAL FEES

- > Chairman of the Board – € 210 000
- > Vice Chair – € 105 000
- > Directors – € 70 000

#### BOARD ATTENDANCE FEES

- > Chairman of the Board – no fee (included in annual fees)
- > Vice Chair – € 1 500 per meeting
- > Directors – € 1 000 per meeting

#### AUDIT COMMITTEE/SCIENTIFIC ADVISORY COMMITTEE (ANNUAL FEES – NO MEETING FEES)

- > Chairman of the Committees – € 30 000
- > Members of the Committees – € 20 000

#### GOVERNANCE NOMINATION AND COMPENSATION COMMITTEE (ANNUAL FEES – NO MEETING FEES)

- > Chairman of the Committee – € 20 000
- > Members of the Committee – € 15 000

In application of these rules the total remuneration of the members of the Board including committee fees for 2016 was as follows:

> Gerhard Mayr, Chairman	€ 216 667
> Evelyn du Monceau, Vice Chair	€ 134 000
> Jean-Christophe Tellier, Executive Director and CEO	€ 76 000
> Alice Dautry	€ 96 000
> Kay Davies	€ 106 000
> Albrecht De Graeve	€ 105 000
> Harriet Edelman	€ 90 000
> Pierre L. Gurdjian *	€ 60 667
> Charles-Antoine Janssen	€ 96 000
> Cyril Janssen	€ 76 000
> Tom McKillop **	€ 30 333
> Norman J. Ornstein	€ 75 000
> Cédric van Rijckevorsel	€ 76 000
> Ulf Wiinberg *	€ 64 000

\* As from 28 April 2016 (appointment by the General Meeting of 28 April 2016)

\*\* Until 28 April 2016

### 1.4.1 | UCB'S REWARD PRINCIPLES

UCB is a global biopharmaceutical company focusing on creating value for people living with neurology and immunology conditions. To help us achieve our goals we require engaged world-class talents working closely together to create superior and sustainable value for patients. Our compensation plans are aimed at driving and rewarding outstanding performance and innovation while aligning all employees closely to our patient value creation priorities. Our Global Reward program is built around the following principles:

- > to provide a strong motivation for delivering on our strategy ultimately driving the achievement of our patient-value goals;
- > to link executive remuneration to both individual contribution and to our collective successes;
- > to recognize and reward sustained high performance while requiring behaviors that are fully aligned with our patient value principles;
- > to be fair and equitable according to market practices;
- > and to enable UCB to attract engage and retain the right talents.

To ensure that pay appropriately reflects performance variable pay constitutes the most significant component of total remuneration for our executive committee team. UCB's variable pay programs are directly linked to both short-term achievements and long-term individual and company performance to ensure a balanced focus on financial results company sustainability and value creation for our stakeholders.

### 1.4.2 | THE UCB EXECUTIVE REMUNERATION POLICY

The remuneration policy for members of the Executive Committee is set by the Board on the basis of recommendations by the GNCC. The GNCC meets at least twice per year during which time it:

- > considers the market factors affecting the company's current and future pay practices;
- > evaluates the effectiveness of our remuneration policies in recognizing performance and determines the appropriate evolution of the plans;
- > reviews the financial targets of the different performance-based compensation programs;
- > determines the compensation levels of UCB's management team in view of their individual roles competencies and performance.

The GNCC ensures that the total reward programs applicable to the members of the Executive Committee including equity incentives pension schemes and other benefits are fair and appropriate to attract retain and motivate the Executive Committee team.

### 1.4.3 | STATEMENT ON THE REMUNERATION POLICY APPLIED TO THE REPORTED YEAR: REMUNERATION FOR EXECUTIVE DIRECTORS

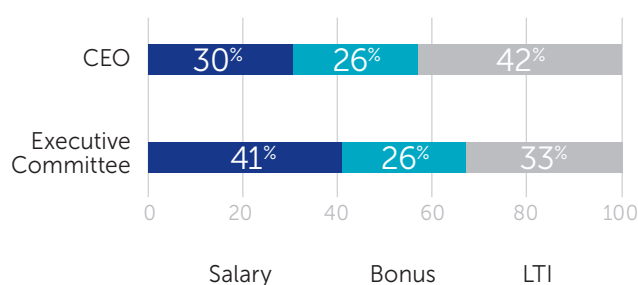
This section covers the competitive positioning strategy that UCB adopts against the market in which it operates. It also provides an overview of our executive compensation structure the purpose of the different elements of pay and the link between pay and performance.

#### BENCHMARK FOR OUR REWARD PROGRAM

In line with our total reward principles our executive remuneration must be reasonable in view of the company economics and the relevant practices of comparable global biopharmaceutical companies. The GNCC regularly considers the appropriate mix and level of cash and equity awards to offer to its executives based on recommendations from the Talent and company reputation department. These recommendations are reviewed with our independent compensation consultant Willis Towers Watson to ensure the market competitiveness of our total direct compensation and to take into consideration market trends affecting our sector. An individual market assessment is typically conducted every other year to assess the competitiveness of the total direct compensation components for each executive which is composed of two main elements:

- > a fixed compensation element: base salary
- > a variable compensation element: consisting of a bonus and long-term incentives

The CEO and Executive Committee target total direct compensation mix is as follows:



UCB benchmarks its executive total compensation against a defined comparator group of international companies within the biopharmaceutical sector (companies with pharmaceutical and/or biotechnology activities). In the benchmark we take a focused approach to peer companies in Europe as well as the U.S.. The companies in our peer group vary in size and therapeutic area. We typically target peer companies that are fully-integrated biopharmaceuticals operating in a complex research-driven environment and including development and commercialization capabilities. Where possible we aim to include

companies competing in the same therapeutic areas. While we target companies that broadly reflect UCB's size, company size is not the primary factor as regression analysis is also used to adjust data to UCB's size.

The composition of our compensation peer group is monitored regularly and adjusted when appropriate for instance when industry consolidation leads our peer group to be reduced below acceptable levels for robust benchmarking.

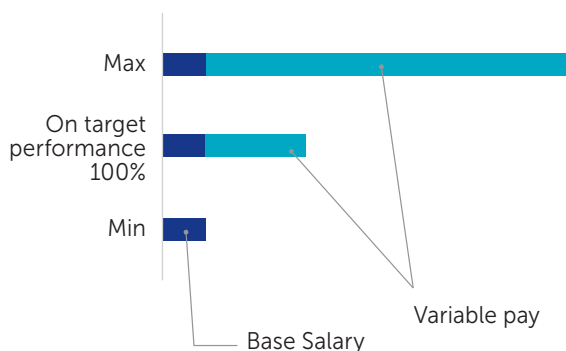
UCB's competitive positioning policy is to target median pay levels of this comparator group for all elements of total direct compensation. The actual compensation for each individual is determined considering their experience in relation to the benchmark as well as their impact on company performance.

### COMPENSATION ELEMENTS AND PAY FOR PERFORMANCE

Our compensation program compensates executives for their responsibilities skills as well as individual and corporate performance. Both the short-term (bonus) and long-term incentives take into account performance against targets which are set by the Board. Throughout the performance period, the ongoing achievements are monitored and at the moment of vesting or payout, the final results are validated by the corporate finance department before final approval by the Audit Committee and the Board.

The total direct compensation (base salary bonus and long-term incentives) is highly variable depending on individual and corporate performance as illustrated below. A bonus will only be due if an acceptable threshold of company or individual performance is achieved. To reach 100% of bonus a stretched target must be met and only with very exceptional company and individual performance can the maximum be achieved. The pay for performance impact can be illustrated as follows for the CEO and is described in more detail later in this section:

#### CEO Theoretical Pay opportunity



In addition to the base salary and performance-related incentive pay our executives are eligible for a range of benefits and perquisites. The compensation structure is in line with market compensation practices and fully aligned with Belgian corporate governance legislation and European regulations on executive compensation.

The GNCC makes compensation proposals for the CEO to the Board. The CEO provides compensation recommendations for the other Executive Committee members to the GNCC for endorsement.

Below we describe how each element of remuneration is determined and how performance is embedded in the variable components.

#### FIXED COMPENSATION COMPONENT: BASE SALARY

The target base salary is defined in relation to the specific job dimensions and criteria and the median level of base salary that the market typically pays for such a role. The specific compensation level of the individual depends on the extent to which he/she impacts the business and their level of skill and experience. The evolution of base pay depends on the individual's level of sustained performance and the evolution of the benchmark. Annual increases are largely in line with average salary movements across the wider workforce in the applicable geography.

#### VARIABLE COMPENSATION COMPONENTS

Target variable compensation levels (bonus and long-term incentives or "LTI") are set considering the median market level of our compensation peer group. These targets are subject to the application of performance multipliers which consider company performance, individual results as well as individual behaviors and a holistic consideration of long-term value creation for the patient.

#### VARIABLE COMPENSATION: BONUS

The bonus is designed to reward employees for the performance of the company and of the individual over a time horizon of one year. The bonus target is subject to a double performance multiplier which consists of corporate and individual performance multipliers. The mechanism guarantees a direct link between individual contribution and company performance which are interdependent. The calculation mechanism delivers significant value when both company and individual performance are excellent. Conversely if company and/or individual performance levels are lower than expectations this is reflected through significantly diminished value.



UCB considers annual Recurring Earnings Before Interest Tax Depreciation and Amortization ("REBITDA") as the short-term corporate performance metric for its executives and for the wider workforce. The Corporate Performance Multiplier ("CPM") is defined by the percentage of actual REBITDA versus the budget, at constant exchange rates, translated into a payout curve which ensures that only an acceptable range of performance is rewarded. The payout curve is translated into a payout range between 0% and 150%. A minimum payout threshold is set and performance falling below this threshold results in a CPM of 0% for senior management. As the calculation of bonus considers a double multiplier a CPM of 0% results in there being no bonus payout regardless of individual performance.

The Individual Performance Multiplier ("IPM") is defined considering the extent to which annual objectives have been met as well as the behaviors demonstrated by the individual evaluated against UCB's Patient Value principles. Again the IPM can be 0% and can reach a maximum of 175% of target for very exceptional performance.

The objectives for the CEO are proposed by the GNCC for approval by the Board of Directors. The GNCC proposes the Individual Performance Multiplier ("IPM") for the CEO to the Board based on the performance assessment at the end of the year. The CEO proposes the IPM for each of the other Executive Committee members to the GNCC for endorsement. In discussing individual performance the GNCC deliberates the achievement of the financial and quantitative objectives of the CEO and the non-financial aspects.

For the CEO and the Executive Committee the evaluation includes the extent to which the individuals have carried out their duties in line with UCB's Patient Value principles and expected leadership behaviors. Below are the criteria which are evaluated for each Executive Committee member:

- > Specific business achievements
- > Strategic input and vision
- > Team leadership
- > Executive Committee team membership
- > Impact

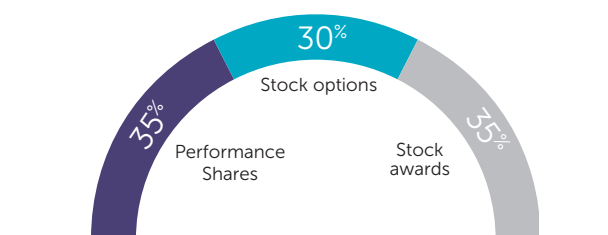
The target bonus is set at 90% of base salary for the CEO and 65% for the other Executive Committee members in line with market practices.

Each executive has the opportunity to exceed the targets when both company and individual performance are outstanding or to have a reduced payout compared to the target if either corporate or individual performance is not reaching expected levels.

## VARIABLE COMPENSATION: LONG-TERM INCENTIVES (LTI)

To ensure sustainable performance, our Upper Management remuneration practice links a significant portion of equity-based compensation to mid-term and long-term company financial and non-financial strategic goals. The LTI program is benchmarked against European biopharmaceutical company practices. It is a three-tiered incentive program which includes a stock option plan, a free share plan (stock award) and a performance share plan. Eligibility for participation in the LTI Plans is at the Board's discretion.

The long-term incentive target is expressed as a percentage of base pay. At target levels long-term incentives represent 140% of base pay for the CEO (increased from 120% previously due to evolutions observed in the competitive landscape) and 80% for the other Executive Committee members. The actual grant size is adjusted in view of individual performance considering a mix of short-term achievements and the impact on long-term value creation. The resulting value is translated into a number of long-term incentives using the binomial value of each award and spread across our long-term incentive vehicles based on the following allocation:



### STOCK OPTIONS

The Stock Option Plans give the beneficiary the option to purchase a UCB share at a certain price following a defined vesting period. The vesting period is typically three years from the date of grant but can be longer depending on local legislative requirements. Once vested, stock options can be exercised when the share price exceeds the grant price and thus executives are incentivized to increase the share price over the vesting period. In the U.S., Stock Appreciation Rights are granted instead of stock options. These follow the same vesting rules as the Stock Option Plans but are settled in cash rather than in shares according to the appreciation in value of UCB stock. All stock options and stock appreciation rights expire on their tenth anniversary from the date of grant. The grant price is fixed on the grant date without further discount on the underlying UCB share price. For executives holding a Belgian contract taxes are due at the moment of grant based on the underlying value of the options.

## STOCK AWARDS

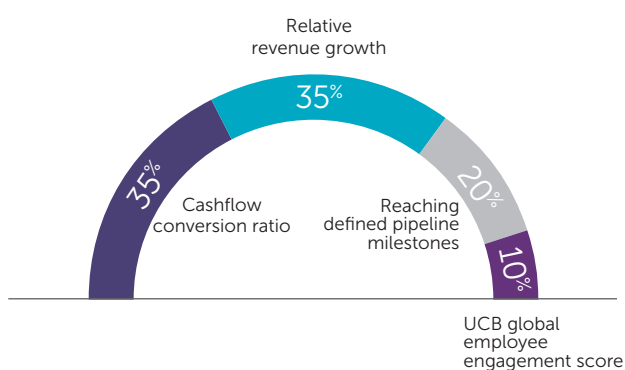
The Stock Award Plans provide conditional rights to UCB common stock fulfilled upon remaining in employment with UCB three years after the grant date. The vesting period is three years from the date of grant. Executives are incentivized to increase the company share price over the vesting period to optimize the value of their stock awards at the moment of vesting. In some countries delivery of the award may also be made in phantom shares (an award the value of which is based on the evolution of the share price but which is settled in cash on a pre-determined vesting date) depending on the local legislative environment.

## PERFORMANCE SHARE PLAN

The Performance Share Plan aims at rewarding senior executives for specific achievements aligned with company strategic priorities. Performance shares are grants of UCB common stock to the senior executive group for which certain pre-established companywide targets must be met at the time of vesting to trigger payout. The performance criteria and targets are defined by the Board upon proposal of the GNCC at the time of grant. The metrics used in this plan must be relevant to company and stakeholders interests while being within the influence and control of our executives. They also must be measurable over the plan's time horizon.

The vesting period is three years. The number of shares awarded is adjusted at the end of the vesting period based on the company's performance against its goals. If actual company performance is below a specified threshold or the beneficiary leaves prior to vesting then no shares are awarded. The maximum award is 150% of the original grant which is due if results are significantly above the original targets. The target is set at a level which is sufficiently stretched and the maximum is linked to performance that would be considered exceptional. The 2016 grant was based on the following performance criteria to be measured at the end of 2018:

- > Relative Revenue Growth – 35%
- > Cashflow conversion ratio – 35%
- > Reaching defined pipeline milestones – 20%
- > UCB global employee engagement score – 10%



The choice of metrics captures UCB's growth and financial health while rewarding the advancement of a differentiated pipeline and with a highly engaged workforce. The performance criteria are evaluated regularly to ensure the maximum alignment with company priorities. The same metrics will be used in the 2017 plan.

In some countries delivery of the award may also be made in phantom shares depending on the local legislative environment.

## EMPLOYEE STOCK PURCHASE PLAN (U.S. ONLY)

The Employee Stock Purchase Plan provides employees with an opportunity to purchase UCB common shares with a 15% discount. The plan has been established as a means of further aligning the interests of the employees with those of UCB's shareholders.

## PENSIONS

As the Executive Committee is international in composition the members participate in the pension plans available in their country of contract. Each plan varies in line with the local competitive and legal environment. All defined benefit plans at UCB are either frozen or closed to new entrants to the extent feasible. Any new Executive Committee members would therefore automatically join either a defined contribution or cash balance plan.

### Belgium

The Executive Committee members participate in a cash balance retirement benefit plan which is fully funded by UCB. The benefit at retirement age is the capitalization at a guaranteed rate of return of the employer's annual contributions during affiliation with the plan. UCB contributes an amount equal to 9.15% of the annual base salary and target bonus. UCB also provides an annual guaranteed return of 2.5% increased by the Belgian health index (to a minimum defined by the Belgian legislation and with a maximum of 6%).

The Executive Committee members also participate in the UCB senior executive supplementary defined contribution plan. Contributions to the plan are twofold:

- > a company contribution linked to the actual corporate results as defined by the Board and;
- > a company contribution equal to 10% of their annual basic salary.

The CEO participates in the same plans applicable to the other Belgian-based Executive Committee members.

## U.S.

Members participate in the UCB Retirement Savings Plan. The plan is composed of qualified and non-qualified components. UCB's total contribution under the plan ranges from 3.5%-9% of annual pay based on age. Contributions up to the Internal Revenue Services ("IRS") limits are made in the qualified part of the plan. Contributions above this IRS limit are made in the non-qualified component.

The Executive Committee members can also participate in a deferred compensation plan which is fully funded by the employees. Participants contribute on individual basis and can defer salary and/or bonus.

## Germany

Those Executive Committee members with a German contract are covered by a closed defined benefit pension plan. The plan promises pensions in case of retirement disability and death. Benefits in case of retirement and disability amount to 50% of the last annual base salary before retirement or disability.

### OTHER REMUNERATION ELEMENTS

Members of the Executive Committee also participate in an international healthcare plan and to an executive life insurance. Executive Committee members are also provided with certain executive perquisites such as a company car and other benefits in kind. All these elements are disclosed in the below section Compensation of the Chief Executive Officer and the Executive Committee. The remuneration policy for the members of the Executive Committee is extensively described in UCB's Charter of Corporate Governance (under 5.4.) available on the UCB website.

### TERMINATION ARRANGEMENTS

Given the international character of our Executive Committee as well as the dispersal of our various activities across different geographies our members have agreements governed by different legal jurisdictions.

In addition, some Executive Committee agreements (Emmanuel Caeymaex, Fabrice Enderlin, Ismail Kola, Iris Löw-Friedrich and Detlef Thielgen) have been signed before the entry into force of the Belgian Corporate Governance law of 6 April 2010 which limits the level of termination indemnities.

A Belgian service contract was established during 2014 for Jean-Christophe Tellier and maintains similar termination conditions to those that were in place under his previous U.S. employment agreement comprising a lump sum equal to 18 months base compensation plus the average of the actual bonuses paid for the three previous years in case the contract is terminated by the company or in case of a change of control of UCB.

Ismail Kola holds a Belgian employment contract and has a termination clause which would entitle him to a severance payment of 18 months base salary and bonus in case the contract is terminated by the company. In case of a change of control of UCB this payment would be equivalent to 24 months base salary and bonus.

Fabrice Enderlin, Detlef Thielgen and Emmanuel Caeymaex have no specific termination provisions in their Belgian contracts. In case of involuntary termination, local employment law and practices would apply.

Bharat Tewarie and Pascale Richetta hold a Belgian employment contract and each have a termination clause which would entitle them to a severance payment of 12 months base salary and bonus in case the contract is terminated by the company or in case of a change of control of UCB.

Iris Löw-Friedrich has a German employment agreement which provides a minimum of six months' notice and a termination indemnity equal to one year base salary and bonus.

Mark McDade decided to retire from UCB at the end of 2016. There was a clause in his agreement specifying a termination payment of 18 months base salary and bonus which would have been due in case of involuntary termination of the agreement by the company or in case of a change of control.

Anna Richo is covered by a U.S. employment agreement which contains a clause allowing for a severance payment equal to 18 months base salary and bonus should there be an involuntary termination of the employment agreement or in case of change of control in UCB.

Jeff Wren, who holds a U.S. employment agreement, has a termination clause which would entitle him to a severance payment of 12 months base salary in case the contract is terminated by the company.

### 1.4.4 | REMUNERATION POLICY AS OF 2017

The GNCC continues to monitor the Upper Management Compensation policy. While analysis will be carried out on the global competitiveness of variable pay, no amendments are currently planned in 2017.

#### 1.4.5 | COMPENSATION OF THE CHIEF EXECUTIVE OFFICER AND THE EXECUTIVE COMMITTEE

The remuneration of the CEO as described above is composed of base salary short-term and long-term incentives as well as perquisites and benefits. In addition he is entitled to a director fees as a Board member of UCB SA. The remuneration granted directly or indirectly to the CEO by UCB or any other of its affiliates in 2016 amounted to:

- > Base salary: € 987 000;
- > Short-term incentive (bonus) paid in 2017 and relating to the financial year 2016: € 1 226 409;
- > Long-term incentives (number of UCB shares and options): see section below;
- > Other components of the remuneration such as the cost of pension insurance coverage and monetary value of other fringe benefits: € 525 561 thereof € 330 768 being the retirement benefit (based on service cost).

The CEO's total compensation (base salary + bonus + LTI) for 2016 amounts to € 3 729 542 (excluding pension contributions and other benefits).

#### OTHER MEMBERS OF THE EXECUTIVE COMMITTEE

The amount of compensation stated below reflects the amount the Executive Committee members have earned in 2016 based on their effective period in service as Executive Committee members (see above section "Composition of the Executive Committee").

The remuneration and other benefits granted directly or indirectly on a global basis to all the other members of the Executive Committee by the company or any other affiliate belonging to the group in 2016 amount to:

- > Base salaries (earned in 2016): € 5 692 899;
- > Short-term incentive (bonus) paid in 2017 and relating to financial year 2016: € 3 966 668;
- > Long-term incentive (number of UCB shares and options): see section below;
- > Other components of the remuneration such as the cost of pension insurance coverage and monetary value of other fringe benefits: € 3 965 016 thereof € 3 011 705 being the amount of retirement benefit (based on service cost).

The aggregated Executive Committee compensation (base salary + bonus + LTI) for 2016 amounts to: € 17 714 097 (excluding pension contributions and other benefits).

#### LONG-TERM INCENTIVES (LTI) GRANTED IN 2016

	STOCK OPTIONS <sup>1</sup>	BINOMIAL VALUE STOCK OPTION <sup>2</sup>	STOCK AWARDS <sup>3</sup>	BINOMIAL VALUE STOCK AWARDS <sup>4</sup>	PERFORMANCE SHARES <sup>5</sup>	BINOMIAL VALUE PERFORMANCE SHARES <sup>6</sup>	TOTAL BINOMIAL VALUE LTI <sup>7</sup>
Jean-Christophe Tellier	38 792	458 134	9 488	529 146	19 660	528 854	1 516 133
Emmanuel Caeymaex	9 904	116 966	2 423	135 131	5 020	135 038	387 135
Fabrice Enderlin	13 259	156 589	3 243	180 862	6 720	180 768	518 219
Ismail Kola <sup>(8)</sup>	15 039	177 611	13 678	762 822	7 622	205 032	1 145 464
Iris Löw-Friedrich <sup>(9)</sup>	14 401	170 076	8 522	475 272	7 298	196 316	841 664
Mark McDade	16 507	194 948	4 038	225 199	8 366	225 045	645 192
Pascale Richetta <sup>(10)</sup>	10 219	120 686	32 499	1 812 469	5 179	139 315	2 072 471
Anna Richo <sup>(12)</sup>	16 656	196 707	4 074	227 207	8 442	227 090	651 004
Bharat Tewarie	9 511	112 325	2 326	129 721	4 820	129 658	371 704
Detlef Thielgen <sup>(11)</sup>	15 092	178 237	11 191	624 122	7 649	205 758	1 008 117
Jeff Wren <sup>(13)</sup>	10 581	124 962	2 588	144 333	5 363	144 265	413 559

<sup>1</sup> Number of rights to acquire one UCB share at a price of €67.24 between 1 January 2020 and 31 March 2026 (between 1 April 2019 and 31 March 2026 for Iris-Löw-Friedrich, Anna Richo and Jeff Wren).

<sup>2</sup> The value of the 2016 stock options has been calculated based on the binomial methodology at € 11.81 as defined by Willis Towers Watson.

<sup>3</sup> Number of UCB shares (or phantom shares) to be delivered for free after a vesting period of three years if still employed by UCB.

<sup>4</sup> The value of the 2016 stock awards has been calculated based on the binomial methodology at € 55.77 per share award as defined by Willis Towers Watson.

<sup>5</sup> Number of UCB shares (or phantom shares) to be delivered for free after a vesting period of three years if still employed by UCB and upon meeting performance conditions.

<sup>6</sup> The value of the 2016 performance shares has been calculated based on the binomial methodology at € 26.90 per performance share as defined by Willis Towers Watson.

<sup>7</sup> Binomial valuation: an objective technique for pricing long-term incentives which determines a fair value of the stock price over the life of a long-term incentive.

<sup>8</sup> Ismail Kola was awarded 10 000 UCB phantom shares on 1 April 2016 in addition to the normal grant of 1 April 2016.

<sup>9</sup> Iris Löw-Friedrich was awarded 5 000 UCB Special Recognition Awards on 1 April 2016 in addition to the normal grant of 1 April 2016.

<sup>10</sup> Pascale Richetta was awarded 30 000 Sign On Awards when joining UCB.

<sup>11</sup> Detlef Thielgen was awarded 7 500 UCB Special Recognition Awards on 1 April 2016 in addition to the normal grant of 1 April 2016.

<sup>12</sup> Under the U.S. Employee Stock Purchase plan (ESPP), Anna Richo acquired UCB shares in the course of 2016, of which 15% was funded by UCB, for a total amount of € 3 073.

<sup>13</sup> Under the U.S. ESPP, Jeff Wren acquired UCB shares in the course of 2016, of which 15% was funded by UCB, for a total amount of € 3 139.



## LONG-TERM INCENTIVES VESTING IN 2016

Below is a schedule showing the long-term incentives granted to the Executive Committee members in previous years (reported in previous annual reports) and which have vested during the calendar year 2016 (not to be accumulated with the information in the above table which details the long-term incentives granted in 2016).

	STOCK OPTIONS		STOCK AWARDS		PERFORMANCE SHARES		
	NUMBER VESTED (NOT EXERCISED) <sup>1-2</sup>	NUMBER EXERCISED <sup>3</sup>	NUMBER VESTED	TOTAL VALUE UPON VESTING <sup>4</sup>	TOTAL NUMBER OF SHARES VESTED	SHARES VESTED (% OF GRANTED SHARES) <sup>5</sup>	TOTAL VALUE UPON VESTING
Jean-Christophe Tellier	11 272		2 772	185 946	5 602	85%	319 415
Emmanuel Caeymaex	4 500	4 600	1 477	99 077	2 985	85%	170 199
Fabrice Enderlin	15 000		2 993	200 770	6 049	85%	344 902
Ismail Kola	15 000	3 000	14 564	976 953	9 224	85%	525 934
Iris Löw-Friedrich	13 397		3 295	221 029	6 658	85%	379 626
Mark McDade <sup>(6)</sup>	15 214	75 214	13 121	826 222	26 777	85%	1 609 630
Pascale Richetta						85%	
Anna Richo	19 476		4 790	321 313	9 680	85%	551 934
Bharat Tewarie <sup>(7)</sup>			4 000	277 880			
Detlef Thielgen	15 000	15 000	3 665	245 848	7 407	85%	422 332
Jeff Wren <sup>(8)</sup>	12 078		12 970	1 003 128	6 003	85%	342 279

<sup>1</sup> Pascale Richetta and Bharat Tewarie joined UCB after the 2012 LTI grant.

<sup>2</sup> The stock options granted to Iris Löw-Friedrich on 1 April 2013 vested on 1 April 2016 and have an exercise price of € 48.69. The stock appreciation rights granted to Anna Richo, Mark McDade, Jeff Wren and Jean-Christophe Tellier on 1 April 2013 vested on 1 April 2016 and have an exercise price of € 49.80. The stock options granted to Detlef Thielgen, Ismail Kola, Emmanuel Caeymaex and Fabrice Enderlin on 1 April 2012 vested on 1 January 2016 and have an exercise price of € 32.36.

<sup>3</sup> Emmanuel Caeymaex exercised stock options granted to him on 1 April 2011 (exercise price of € 26.72) and on April 1, 2012 (exercise price of € 32.36). Detlef Thielgen exercised stock options granted to him on 1 April 2007 with an exercise price of € 43.57. Ismail Kola exercised stock options granted to him on 1 April 2010 (with an exercise price of € 31.62). Mark McDade exercised stock options granted to him on 1 April 2008 (exercise price of € 22.01), 1 April 2009 (exercise price of € 22.19), 1 April 2010 (exercise price of € 31.62), 1 April 2011 (exercise price of € 26.80), 1 April 2012 (exercise price of € 32.36) and 1 April 2013 (exercise price of € 49.80).

<sup>4</sup> Upon vesting on 1 April 2016, the UCB share had a value of € 67.08, which represents the market value of the shares delivered on the vesting date determined as the average of the high and the low price of UCB shares on that date.

<sup>5</sup> The Performance Shares granted in 2013 were paid out at 85% based on the 2015 results achieved versus the performance conditions set at grant.

<sup>6</sup> Mark McDade left on retirement at the end of 2016. According to the Stock Awards plan rules and to the Performance Share plan rules, all awards awarded to him and which did not vest yet, vested on his last day with UCB. 28 596 awards were delivered to him at a value of € 61.33 which represents the market value of the shares delivered on the vesting date determined as the average of the high and the low UCB share price on that date.

<sup>7</sup> Bharat Tewarie was granted 4 000 Sign On Awards when joining UCB. This award vested on 16 March 2016 at a value of € 69.47, which represents the market value of the shares delivered on the vesting date determined as the average of the high and the low UCB share price on that date.

<sup>8</sup> Jeff Wren was granted 10 000 Special Recognition Awards on 1 February 2013. This award vested on 1 February 2016 at a value of € 80.39, which represents the market value of the shares delivered on the vesting date determined as the average of the high and the low price of UCB shares on that date.

## 2017 LONG-TERM INCENTIVE GRANT

UCB's policy is to grant a number of long-term incentives based on the Individual performance for the performance year as well as a consideration of individual impact on long-term value creation. The grant is made on 1 April following the close of the performance year. The grant size is based on a valuation and share price defined in the policy. The actual grant value is only known on 1 April based on the share price on that day. Below can be found the number of options and awards to be granted on 1 April 2017. The resulting grant value will be reported in the 2017 annual report.

	STOCK OPTION 2017	STOCK AWARD 2017	PERFORMANCE SHARE 2017
Jean-Christophe Tellier	39 273	10 804	22 355
Emmanuel Caeymaex	10 822	2 977	6 160
Fabrice Enderlin	0	0	0
Ismail Kola	14 203	13 907	8 085
Iris Löw-Friedrich	12 554	3 453	7 146
Pascale Richetta	12 180	3 351	6 933
Anna Richo	17 823	4 902	10 144
Bharat Tewarie	9 989	2 748	5 686
Detlef Thielgen	14 252	3 921	8 113
Charl van Zyl	10 270	2 825	5 846
Jeff Wren	11 469	3 155	6 528

## 1.5 | MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS OF UCB

### 1.5.1 | INTERNAL CONTROL

As the governing body of UCB, the Board provides entrepreneurial leadership to UCB and is responsible for approving the strategy, goals and objectives of the company. This includes overseeing the establishment, implementation and review of a prudent and effective system of internal controls, as described herein, as well as the risk management processes as further described in 1.5.2 below.

The Audit Committee assists the Board in its responsibility of monitoring the internal control and risk management processes established by the management of UCB and the UCB Group as a whole; the effectiveness of the overall internal control processes of UCB; the overall financial reporting process; the external auditor (including its appointment procedure); and the Global Internal Audit function and its effectiveness.

UCB management is responsible for establishing and maintaining adequate internal controls to provide reasonable assurance regarding the achievement of objectives of the reliable nature of financial information, compliance with relevant laws and regulations, and performance of the internal control processes (control environment, risk/control system and monitoring) within UCB in the most efficient manner. The internal controls process is monitored worldwide by the Internal Control function in an automated manner for system access and segregation of duties, process control-self assessment testing, and continuous controls monitoring. Information systems are developed to support UCB's long term objectives and are managed by a professionally staffed Information Management team.

As an important component of managements system of internal controls, UCB updates its business plan on an annual basis and prepares a detailed annual budget for each financial year that is considered and approved by the Board. A management reporting system is in place, providing management with financial and operational performance measurement indicators. Management accounts are prepared monthly to cover each major area of the business. Variances from plan and previous forecasts are analyzed, explained and acted on in a timely manner. In addition to regular Board discussions, meetings are held at least monthly by the Executive Committee to discuss performance, with specific projects being discussed as and when required.

The Global Internal Audit function provides independent, objective assurance services designed to evaluate, add value and improve the internal control environment and operations of UCB by bringing a systematic, disciplined approach to the evaluation of, and recommending enhancements to the governance, compliance, internal control, and risk management processes of UCB.

The Global Internal Audit group undertakes an Audit Plan of financial, compliance and operational audits and reviews, as reviewed and approved by the Audit Committee and covering relevant company activities. The program includes independent reviews of the systems of internal control and risk management. The findings and the status of corrective actions taken to address these are regularly reported in writing to the Executive Committee and the status of the completion of the Audit Plan as well as a summary of the findings and the status of corrective actions are reported in writing to the Audit Committee at least twice per year.

UCB has adopted formal procedures focused on internal controls over financial reporting, referred to as the Transparency Directive process. This process is intended to help minimize the risk of selective disclosure; to help ensure that all material information disclosures made by UCB to its investors, creditors and regulators are accurate, complete, timely and fairly present the condition of UCB; and to help ensure adequate disclosure of material financial and non-financial information and significant events, transactions and risks.

The process consists of a number of activities. Identified key contributors in the internal control process, which include all Executive Committee members, are required to certify in writing that they understand and have complied with the requirements of UCB related to the financial reporting process, including providing reasonable assurance of effective and efficient operations, reliable financial information and compliance with Laws and regulations. To promote their understanding of the broad range of potential issues, a detailed checklist is provided to them to complete and to assist them in their certification. In addition, a detailed worldwide desk review of Sales, Credits, Accounts Receivables, Trade Inventories, Accruals, Provisions, Reserves and Payments is performed, and the Finance Directors/representatives of all individual entities are required to acknowledge in writing that their financial reporting in these areas is based on reliable data and that their results are properly stated in accordance with requirements.

These procedures are coordinated by the Global Internal Audit function in advance of the issuance of the half-year and annual accounts. The results of the procedures are reviewed with the Chief Accounting Office, as well as Finance, the Legal Department and the External Auditors. Appropriate follow-up of any potential issues identified is performed and consideration of adjustments to reported financial information or disclosures is evaluated.

The results of these procedures are reviewed with the CEO and the CFO, and subsequently with the Audit Committee, prior to the publication of the accounts.

## 1.5.2 | RISK MANAGEMENT

A global Risk Management policy, applicable for the whole UCB Group and its affiliates worldwide, describes the commitment of UCB to provide an effective risk management system across the UCB Group in order to minimize exposure to threats that could impact UCB's ability to achieve corporate objectives.

The Board is responsible for approving the strategy, goals and objectives of the UCB Group and overseeing the establishment, implementation and review of the risk management system of the UCB Group.

The Board is assisted by the Audit Committee in its responsibility for the appreciation of risk management. The Audit Committee examines on a regular basis the areas where risks could significantly affect the financial situation or reputation of the UCB Group. The Audit Committee monitors the overall risk management process of UCB.

The Risk2Value Table, consisting of senior management representatives of all business functions and reporting

to the Executive Committee, provides strategic leadership that endorses the enterprise level risk assessment and prioritization process that drives the establishment of risk mitigation plans within all business functions and operations, supported by an enterprise risk management system to effectively assess, report and manage actual or potential risks or exposures. The top risks of the organization are owned by a member of the Executive Committee to ensure accountability and priority.

The Head of Enterprise Risk Management provides periodic status updates directly to the Executive Committee and, on a periodic basis, to the Audit Committee as well as to the Board. The Executive Committee is responsible for implementing the risk management strategy and objectives, and the Global Internal Audit function is responsible for independently and regularly reviewing as well as validating the risk management process in UCB and jointly agreeing with the business functions on actions to mitigate and control assessed risks.

## 1.6 | PRIVATE INVESTMENT TRANSACTIONS AND TRADING IN UCB SHARES

The Board has approved a Dealing Code to prevent insider trading offences and market abuse, particularly during the periods preceding the publication of results or information that would likely have an effect on the price of UCB securities or, as the case may be, the price of the securities issued by a third party company. During 2016, a new Dealing Code has been approved by the Board to reflect the rules of the new EU Regulation No 596/2014 on Market Abuse, Directive 2014/57/EU on criminal sanctions for market abuse and the Belgian Law of 2 August 2002 on the supervision of the financial sector and on financial services, as amended by the Law of 27 June 2016, which entered into force on 3 July 2016.

The Dealing Code includes rules for Directors, executive management and key employees which prohibit the dealing in UCB shares or other financial instruments related to the UCB share for a designated period preceding the announcement of its financial results (so-called "closed periods"). It further prohibits trading in UCB shares or other related securities for persons who are, or may soon be, in possession of inside information.

The Board has appointed Anna Richo, Executive Vice President and General Counsel, together with Xavier Michel, Vice President and Secretary General, acting separately, as Insider Trading Compliance Officers whose duties and responsibilities are defined in the Dealing Code.

In accordance with the Dealing Code, the Company has further established the list of Persons Discharging Managerial Responsibilities (Directors and members of the Executive Committee) and the list of key employees, who have to inform and obtain prior clearance from the Insider Trading Compliance Officer(s) for the transactions on UCB shares and related securities they intend to make for their own account. Dealings in the Company securities by the Persons Discharging Managerial Responsibilities as well as the Persons closely associated therewith also need to be reported to the Financial Services and Market Authority (FSMA), the Belgian market supervisory authority. The procedure for such reporting and the duties relating thereto are also reflected in UCB Dealing Code.

The Dealing Code is available on the UCB website: [www.ubc.com/investors/UCB-Governance](http://www.ubc.com/investors/UCB-Governance).

## 1.7 | EXTERNAL AUDIT

The General Meeting held on 30 April 2015 renewed the mandate of PwC Bedrijfsrevisoren BV CVBA/Reviseurs d'Entreprises SC SCRL as External Auditors for UCB for the legal term of three (3) years. The permanent representative designated by PwC for UCB in Belgium is SC SPRL Romain Seffer, represented by Mr. Romain Seffer.

PwC has been appointed as External Auditor in the affiliates of the UCB Group worldwide.

The 2016 fees paid by UCB to its External Auditors amounted to:

2016 – Actual	AUDIT (€)	OTHER ATTESTATION MISSIONS (€)	TAX SERVICES (€)	OTHER MISSIONS EXTERNAL TO THE AUDIT (€)	TOTAL (€)
PwC Belgium (Auditor)	665 842	106 200	0	307 734	1 079 776
PwC other related networks	1 473 984	135 066	65 859	255 525	1 930 434
<b>Total</b>	<b>2 139 826</b>	<b>241 266</b>	<b>65 859</b>	<b>563 259</b>	<b>3 010 210</b>

## 1.8 | INFORMATION REQUESTED UNDER ARTICLE 34 OF THE ROYAL DECREE OF 14 NOVEMBER 2007

The following elements may have an impact in the event of a takeover bid:

### 1.8.1 | UCB'S CAPITAL STRUCTURE, WITH AN INDICATION OF THE DIFFERENT CLASSES OF SHARES AND, FOR EACH CLASS OF SHARES, THE RIGHTS AND OBLIGATIONS ATTACHED TO IT AND THE PERCENTAGE OF TOTAL SHARE CAPITAL THAT IT REPRESENTS ON 31 DECEMBER 2016

As from 13 March 2014, the share capital of UCB amounts to € 583 516 974, represented by 194 505 658 shares of no par value, fully paid up. All UCB shares are entitled to the same rights. There are no different classes of UCB shares (see section 1.1.2).

### 1.8.2 | RESTRICTIONS, EITHER LEGAL OR PRESCRIBED BY THE ARTICLES OF ASSOCIATION, ON THE TRANSFER OF SECURITIES

Restrictions on the transfer of securities only apply to not fully paid up shares according to article 11 of UCB's Articles of Association (the "Articles of Association") as follows:

("...")

b) Any shareholder holding shares not fully paid who wishes to transfer all or part of his shareholding, should notify his intention by registered letter to the Board of Directors, indicating the name of the candidate to be approved, the number of shares offered for sale, the price and the proposed terms of sale.

*The Board of Directors may, by registered letter, oppose this sale within a month of such notification, by presenting another candidate as purchaser to the selling shareholder. The candidate proposed by the Board will have a right of pre-emption on the shares offered for sale, unless the proposed seller withdraws from the sale within 15 days.*

*The right of pre-emption will be exercisable at a unit price corresponding to the lower of the two following amounts:*

- > *the average closing price of a UCB ordinary share on the "continuous trading market" of Euronext Brussels in the 30 stock exchange working days preceding the notification under the preceding paragraph, reduced by the amount still to be paid up;*
- > *the unit price offered by the third party proposed for approval.*

*The above-mentioned notification by the Board of Directors shall be taken as notification of the exercise of the right of pre-emption in the name and for the account of the purchasing candidate presented by the Board. The price will be payable within the month of this notification without prejudice to any more favorable conditions offered by the third party presented for approval.*

c) *If the Board does not reply within the period of a month from notification set out in the first paragraph of subsection b) above, the sale may take place on conditions no less favorable than those set out in the above-mentioned notification for the benefit of the candidate presented for approval.*

("...")

To date, the capital of UCB is fully paid up.



### 1.8.3 | **HOLDERS OF ANY SECURITIES WITH SPECIAL CONTROL RIGHTS AND A DESCRIPTION OF THOSE RIGHTS**

There are no such securities.

### 1.8.4 | **SYSTEM OF CONTROL OF ANY EMPLOYEE SHARE SCHEME WHERE THE CONTROL RIGHTS ARE NOT EXERCISED DIRECTLY BY THE EMPLOYEES**

There is no such system.

### 1.8.5 | **RESTRICTIONS, EITHER LEGAL OR PRESCRIBED BY THE ARTICLES OF ASSOCIATION, ON THE EXERCISE OF VOTING RIGHTS**

The existing UCB shares entitle holders thereof to vote at the General Meeting.

According to article 38 of the Articles of Association, the following restrictions apply:

*"Each share gives the right to one vote.*

*Any person or entity who acquires or subscribes to beneficial ownership in shares, whether registered or not, in the capital of the company, conferring a right to vote, will be obliged to declare within the period required by Law, the number of shares purchased or subscribed for, together with the total number of shares held, when such number in total exceeds a proportion of 3% of the total voting rights exercisable, before any possible reduction, at a General Meeting. The same procedure will have to be followed each time that the person obliged to make the initial declaration mentioned above increases his voting strength up to 5%, 7.5%, 10% and subsequently for each additional 5% of the total voting rights acquired as defined above or when following the sale of shares, his voting rights fall below one of the limits specified above. The same notification requirements will apply to any instrument, option, future swap, interest term agreement and other derivative granting its holder the right to acquire existing securities carrying voting rights pursuant to a formal agreement (i.e. an agreement that is binding pursuant to the applicable Law) and only on the holders' own initiative. In order for the notification requirements to apply, the holder must either have an unconditional right to acquire existing securities carrying voting rights or be able to make free use of its right to acquire them. A right to acquire securities carrying voting rights is considered to be unconditional if it depends merely on an event that can be caused to happen or prevented from happening by the holder of the right. These notifications will occur according to the modalities described in the legislation applicable to the disclosure of large shareholdings in issuers whose securities are admitted to trading on a regulated market. Failure to respect this statutory requirement will be able to be penalized in the manner laid down by article 516 of the Belgian Companies Code. No-one may at a General Meeting cast a greater number of votes than those*

*relating to such shares as he has, in accordance with the above paragraph, declared himself to be holding, at least twenty days before the date of the Meeting."*

The voting rights attached to UCB shares held by UCB or by its direct or indirect subsidiaries are, as a matter of Law, suspended.

### 1.8.6 | **AGREEMENTS BETWEEN SHAREHOLDERS WHICH ARE KNOWN TO UCB AND MAY RESULT IN RESTRICTIONS ON THE TRANSFER OF SECURITIES AND/OR THE EXERCISE OF VOTING RIGHTS**

With the exception of the concert agreement between Tubize and Schwarz as reported above, UCB has no knowledge of agreements which may result in restrictions on the transfer of its securities and/or the exercise of voting rights.

### 1.8.7. A) | **RULES GOVERNING THE APPOINTMENT AND REPLACEMENT OF BOARD MEMBERS**

Under the Articles of Association:

*"The company shall be managed by a Board of Directors having at least three members, whether shareholders or not, appointed for four years by the General Meeting and at all times subject to dismissal by the General Meeting.*

*Outgoing Directors are eligible for re-election. The period of office of outgoing Directors, who are not re-appointed, ceases immediately on the closing of the Ordinary General Meeting.*

*The General Meeting shall determine the fixed or variable remuneration of the Directors and the value of their attendance vouchers, to be charged to operating expenses."*

The General Meeting decides by a simple majority of votes on these matters. The rules relating to the composition of the Board of Directors are detailed in section 3.2 of the Corporate Governance Charter as follows:

( "... )

### **COMPOSITION OF THE BOARD OF DIRECTORS**

#### **COMPOSITION**

*The Board is of the opinion that a number of between ten and fifteen members is appropriate for efficient decision-making on the one hand, and contribution of experience and knowledge from different fields on the other hand. Such a number also allows for changes to the Board's composition to be managed without undue disruption. This is way within the provisions of the Law and the Articles of Association of UCB from which the Board shall be composed of at least three members. The General Meeting of Shareholders decides on the number of directors, upon proposal of the Board.*

A large majority of the Board members are non-executive Directors.

The curricula vitae of the Directors and directorship candidates are available for consultation on the UCB website ([www.ucb.com](http://www.ucb.com)). These curricula vitae mention, for each Director, the directorships in other listed companies.

#### APPOINTMENT OF DIRECTORS

The Directors are appointed by the General Meeting of Shareholders, following a proposal by the Board, and upon recommendation of the GNCC.

In proposing candidates at the General Meeting of Shareholders, the Board takes particular account of the following criteria:

- > a large majority of the Directors are non-executive Board members;
- > at least three non-executive Directors are independent in accordance with the legal criteria, and those adopted by the Board;
- > no single Director or group of Directors may dominate decision-making;
- > the composition of the Board guarantees diversity and contribution of experience, knowledge and ability required for specialist international activities of UCB; and
- > candidates are fully available to carry out their functions and do not take more than five directorships in listed companies. The GNCC gathers information, allowing the Board to ensure that the criteria set out above have been met at the time of the appointments and renewals and during the term of office.

For each new directorship appointment, the GNCC performs an assessment of existing and required abilities, knowledge and experience on the Board. The profile of the ideal candidate is drawn up on the basis of this assessment and proposed to the Board for discussion and definition.

When the profile is established, the GNCC selects candidates that fit the profile in consultation with the Board members (including the Chair of the Executive Committee) and possibly using a recruitment firm.

Recommendation of final candidate is made by the GNCC to the Board. The Board decides on the proposals to be submitted to Shareholders' approval.

For appointment of a Reference Shareholder's representative to the Board, the Vice Chair will present the candidate, chosen by the Reference Shareholder, to the Board after consultation with the GNCC and dialogue with the other Board members.

#### DURATION OF MANDATES AND AGE LIMIT

Directors are appointed by the General Meeting of Shareholders for a four-year term, and their terms may be renewed. Moreover, an age limit of seventy has been stipulated. A Director shall give up his/her current term the day of the Annual General Meeting of Shareholders following his/her 70<sup>th</sup> birthday. The Board may propose exceptions to that rule.

#### PROCEDURE FOR APPOINTMENT, RENEWAL OF TERMS

The process of appointment and re-election of Directors is run by the Board, which strives to maintain an optimum level of abilities and experience within UCB and its Board.

The proposals for appointment, renewal, resignation or possible retirement of a Director are examined by the Board based on a recommendation from the GNCC. The GNCC assesses for each of the Directors who are candidate for re-election at the next General Meeting of Shareholders, their commitment and effectiveness and makes recommendations to the Board regarding their re-election.

Special attention is given to the evaluation of the Chair of the Board and the Chairmen of the Board committees.

The assessment is conducted by the Chair of the Board and the Chair of the GNCC, who have meetings with each of the Directors in their capacity as a Director and, as the case may be, as Chair or member of a Board Committee. For the Chair of the Board, the assessment is conducted by the Chair of the GNCC and a senior independent Director; for the Chair of the GNCC the assessment is conducted by the Chair of the Board and a senior independent Director. The sessions are based on a questionnaire and cover the Director's role in the governance of the Company and the effectiveness of the Board, and, amongst others, how they evaluate their commitment, contribution and constructive involvement in the discussions and decision-making.

Feedback is given to the GNCC who then reports to the Board, and makes recommendations as to the proposed re-election.

The Board submits to the General Meeting of Shareholders its proposals concerning the appointments, renewals, resignations or possible retirement of Directors. These proposals are communicated to the General Meeting of Shareholders as part of the agenda of the relevant shareholders meeting.

The General Meeting of Shareholders resolves on the proposals of the Board in this area by a majority of the votes.

In the event of a vacancy during a term, the Board is empowered to fill the post and to allow its decision to be ratified at the next General Meeting of Shareholders.

*Proposals for appointment state whether or not the candidate is proposed as an executive Director, define the term proposed for the mandate (i.e., not more than four years, in accordance with the Articles of Association), and indicate the place where all useful information in relation to the professional qualifications of the candidate, in addition to the main functions and directorships of the candidate, may be obtained or consulted.*

*The Board also indicates whether or not the candidate meets the independence criteria, in particular those stipulated in article 526ter Company Code, such as the fact that a Director, in order to qualify as "independent" may not hold a mandate for more than three consecutive terms (with a maximum of twelve years). In case the Director meets the independence criteria, a proposal will be submitted to the General Meeting of Shareholders to acknowledge such independent character. The proposals for appointment are available on the UCB website ([www.ucb.com](http://www.ucb.com)).*

(...)

The Charter additionally stipulates that a Director qualifies as independent if he or she has not had business or other relations with the UCB Group which could compromise his/her independent judgment. In the assessment of this criterion, significant status as customer, supplier or shareholder of the UCB Group is taken into consideration by the Board on an individual basis.

#### 1.8.7. B) | **RULES GOVERNING THE AMENDMENT OF UCB'S ARTICLES OF ASSOCIATION**

The rules governing the amendment of the Articles of Association are set by the Belgian Companies Code.

The decision to amend the Articles of Association has to be made by a General Meeting, provided that at least 50% of the share capital of UCB is present or represented at the meeting, in principle with a majority of 75% of the votes cast.

If the attendance quorum is not met at the first Extraordinary General Meeting, a second General Meeting can be convened and will decide without any attendance quorum having to be reached.

In exceptional circumstances (for example amendment of the object of the company, changing of rights of securities), additional attendance and voting quora requirements may be applicable.

#### 1.8.8 | **POWERS OF THE BOARD OF DIRECTORS, IN PARTICULAR TO ISSUE OR BUY BACK SHARES**

Powers of the Board are those defined by the Belgian Companies Code and by the Articles of Association.

The terms of Reference of the Board and the responsibilities that the Board has reserved to itself are further described in the Charter as follows:

(...)

*The Board is the governing body of UCB.*

*It has the power to make decisions on all matters which the Law does not expressly attribute to the General Meeting of Shareholders. The Board acts collegially.*

*The roles and responsibilities and the functioning of the Board are determined by the Articles of Association of UCB and by the terms of reference of the Board and the Board's committees that are described in this Charter.*

*Among the matters over which it may, by Law, make decisions, the Board has reserved key areas for itself, and has delegated wide powers of administration to an Executive Committee (see point 5).*

*It did not opt to create a Management Committee in the sense of the article 524bis of the Companies Code, since it preferred not to permanently delegate the powers granted to it by the law nor the general representation of UCB.*

*The Board's role is to provide entrepreneurial leadership of UCB within a framework of prudent and effective controls which enables risks to be assessed and managed. The Board sets the strategic aims of UCB, ensures that the necessary financial and human resources are in place for UCB to meet its objectives and reviews management performance. The Board sets the values and standards of UCB and ensures that its obligations to its shareholders and others are understood and met. It takes collegiate responsibility for sound exercise of its authority and powers.*

*The powers the Board has reserved for itself concern mainly the following, and to this end it also receives all the information required in relation to each of them:*

1. *Definition of the mission, values and strategy, risk tolerance and key policies of UCB;*
2. *Monitoring of:*
  - > *management's performance and implementation of the company's strategy,*
  - > *the effectiveness of the Board's committees,*
  - > *the performance of the external auditor;*
3. *Appointment or removal:*
  - > *from among its members, of the Chair of the Board, after a consultation of all Board members conducted by the Chair of the Governance, Nomination and Compensation Committee ("GNCC"),*
  - > *from among its members, of the Chair and members of the Audit Committee, of the GNCC and of the members of the Scientific Committee,*
  - > *of the Chair of the Executive Committee following a proposal by the GNCC,*
  - > *of members of the Executive Committee following a proposal by the GNCC, and recommendation by the Chair of the Executive Committee,*

- > of persons in major external bodies or of persons outside UCB requested to represent UCB at certain subsidiaries, on the recommendation of the Chair of the Executive Committee,
  - > reviews the succession planning for the Chair of the Executive Committee and the other Executive Committee members, as proposed by the GNCC;
4. For endorsement, appointment or removal of senior executives on the recommendation of the Chair of the Executive Committee;
  5. Ensure the integrity and timely disclosure of the financial statements of the UCB Group and UCB and of material financial and non-financial information to shareholders and financial markets;
  6. Approve the framework of internal control and risk management set up by the executive management and controlled by the internal audit with direct access to the Audit Committee;
  7. Preparation of the General Meeting of Shareholders and of the decisions proposed to be considered at the meeting;
  8. Executive management structure and general organization of UCB (and of the UCB Group);
  9. Approval of the annual budget (including the R&D program and the capital plan) and any increase in the overall annual budget (including the R&D program and the capital plan);
  10. The long-term or major finance operations;
  11. Creating, establishing, closing, settling or transferring subsidiaries, branches, production locations or major divisions exceeding a value of € 50 million;
  12. Allotment, merger, acquisition, division, purchase, sale or pledging of assets (other than assets referred to under sub-section 13 below), instruments and shares, equity and equity-like investments, in and out-licensing of intellectual property and product divestments, joint-ventures, of a value exceeding € 20 million and involving third parties;
  13. Purchase, sale or pledging of real estate property assets to a value exceeding € 50 million and real estate leases over a period exceeding 9 years for an aggregate amount of expenditures exceeding € 20 million;
  14. The terms and conditions of plans for the grant of stock and stock options to employees;
  15. To be informed, at the end of every semester, of the charitable donations in excess of € 10 000 YTD to each single beneficiary;
  16. At the request of the Chair of the Executive Committee, the Board may also be asked to pronounce in the event of diverging opinions among a majority of the members of the Executive Committee and its Chair.

(...)

As described under section 1.1.4 above, the Extraordinary General Meeting of 28 April 2016 decided to renew the authorization to the Board (and to amend the Articles of Association accordingly), for another period of 2 years, to increase the share capital, amongst other by way of the issuance of shares, convertible bonds or warrants, in one or more transactions, within the limits set by the Belgian Company Code,

- i with up to 5% of the share capital calculated at the time of the decision of the Board to make use of this authorization, in the event of a capital increase with cancellation or limitation of the preferential subscription rights of the shareholders (whether or not for the benefit of one or more specific persons who are not employees of the company or of its subsidiaries);
- ii. with up to 10% of the share capital calculated at the time of the decision of the Board to make use of this authorization, in the event of a capital increase without cancellation or limitation of the preferential subscription rights of the existing shareholders. In any event, the total amount by which the Board may increase the share capital by a combination of the authorizations set forth in (i) and (ii) above, is limited to 10% of the share capital at the time of the decision of the Board to make use of this authorization.

The Board is moreover expressly authorized to make use of this mandate, within the limits as set out under (i) and (ii) above, for the following operations:

1. a capital increase or the issuance of convertible bonds or warrants with cancellation or limitation of the preferential subscription rights of the existing shareholders;
2. a capital increase or the issuance of convertible bonds with cancellation or limitation of the preferential subscription rights of the existing shareholders for the benefit of one or more specific persons who are not employees of the company or of its subsidiaries;
3. a capital increase by incorporation of reserves.

Any such capital increase may take any and all form, including, but not limited to, contributions in cash or in kind, with or without share premium, the incorporation of reserves and/or share premiums and/or profits carried forward, to the maximum extent permitted by the Law.

Any decision of the Board to use this authorization requires a 75% majority within the Board.

The Board is empowered, with full power of substitution, to amend the Articles of Association to reflect the capital increases resulting from the exercise of its authorization.



**1.8.9 | SIGNIFICANT AGREEMENTS TO WHICH UCB IS A PARTY AND WHICH TAKE EFFECT, ALTER OR TERMINATE UPON A CHANGE OF CONTROL OF UCB FOLLOWING A TAKEOVER BID, AND THE EFFECTS THEREOF, EXCEPT WHERE THEIR NATURE IS SUCH THAT THEIR DISCLOSURE WOULD BE SERIOUSLY PREJUDICIAL TO UCB; THIS EXCEPTION SHALL NOT APPLY WHERE UCB IS SPECIFICALLY OBLIGED TO DISCLOSE SUCH INFORMATION ON THE BASIS OF OTHER LEGAL REQUIREMENTS**

- > Facility agreement in the amount of € 1 billion between, amongst others, UCB SA/NV, BNP Paribas Fortis SA/NV (formerly Fortis Bank SA/NV), Commerzbank AG, ING Bank NV and Mizuho Bank Ltd., as coordinating bookrunners, Bank of America Merrill Lynch International Limited, The Bank of Tokyo-Mitsubishi UFJ Ltd., Barclays Bank PLC, BNP Paribas Fortis SA/NV (formerly Fortis Bank SA/NV), Commerzbank AG, Credit Agricole Corporate and Investment Bank (Belgian branch), ING Bank NV, Intesa Sanpaolo S.P.A., KBC Bank NV, Mizuho Bank Ltd., The Royal Bank of Scotland PLC. (Belgian branch) (formerly ABN AMRO Bank NV, Belgian branch) and Sumitomo Mitsui Banking Corporation, as mandated lead arrangers, and Banco Santander SA (London branch), Deutsche Bank Luxembourg SA, DNB Bank ASA and Société Générale as lead, dated 14 November 2009 (as amended and restated on 30 November 2010, on 7 October 2011 and on 9 January 2014), which change of control clause was approved by the General Meeting of 24 April 2014, according to which any and all of the lenders can, in certain circumstances, cancel their commitments and require repayment of their participations in the loans, together with accrued interests and all other amounts accrued and outstanding thereunder, following a change of control of UCB SA/NV.
- > Euro Medium Term Note Program dated 6 March 2013, with last update of the base prospectus per 10 March 2015, for an amount of up to € 3 billion (the "EMTN Program"), providing for a change of control clause (condition 5 (e) (ii)) under which, for any Notes issued thereunder where a change of control put clause is included in the relevant final terms, any holder of such Note and following a change of control of UCB SA/NV, has a right to redeem that Note by exercising such put right, and as such change of control clause has been approved by the General Meetings of 25 April 2013, 24 April 2014, 30 April 2015 and 28 April 2016. The following notes have been issued under the EMTN Program by UCB NV/ SA and are subject to the above described change of control clause:
  - retail bond 3.75% due 27 March 2020 in the amount of € 250 million issued on 27 March 2013;
  - institutional bond 4.125% due 4 January 2021 in the amount of € 350 million issued on 4 October 2013;

- institutional private placement bond 3.292% due 28 November 2019 in the amount of € 55 million issued on 28 November 2013;
- institutional private placement bond 3.284% due 17 December 2019 in the amount of € 20 million issued on 10 December 2013;
- institutional bond 1.875% due 2 April 2022 in the amount of € 350 million issued on 2 April 2015.

Pursuant to article 556 of the Belgian Companies Code, the above described change of control clause provided for in the EMTN Program of 6 March 2013 has been approved by the General Meetings of 25 April 2013, 24 April 2014, 30 April 2015 and 28 April 2016 in respect of any series of Notes to be issued under the EMTN Program within the 12 months following such General Meetings of 25 April 2013, 24 April 2014, 30 April 2015 and 28 April 2016 respectively and to which such change of control has been made applicable.

A similar approval will be submitted to the General Meeting of 27 April 2017 in respect of any series of Notes to be issued under the EMTN Program from 27 April 2017 until 27 April 2018, if any, and to which, as the case may be, such change of control would be made applicable.

- > Senior Unsecured Retail Bonds of UCB SA/NV issued on 2 October 2013 and maturing 2 October 2023 in the amount of € 175 717 000 bearing a 5.125% Fixed Rate, and which states that in case of change of control (as defined in the Terms and Conditions of the offering) the bondholders have the right to require the issuer to redeem such bonds. This change of control clause was approved at the General Meeting of 24 April 2014.
- > Facility agreement in the amount of € 150 million between UCB Lux S.A. as borrower, UCB SA/NV as promoter and guarantor, and the European Investment Bank ("EIB") dated 9 May 2012, as amended, restated and assigned to UCB SA/NV as Borrower on 20 October 2016 with effect as of 21 November 2016, which change of control clause was approved by the General Meeting of 26 April 2012.
- > Facility agreement in the amount of € 100 million between UCB Lux S.A. as borrower, UCB SA/NV as promoter and guarantor, and the EIB dated 15 April 2013, as amended, restated and assigned to UCB SA/NV as Borrower on 20 October 2016 with effect as of 24 October 2016, of which the change of control clause was approved by the General Meeting of 25 April 2013.
- > Facility agreement in the amount of € 75 million/ USD 100 million between UCB SA/NV as borrower and the EIB, dated 16 June 2014, as amended and restated on 20 October 2016 with effect as of 21 October 2016, of which the change of control clause was approved by the General Meeting of 24 April 2014, and whereby the loan, together with accrued interests and all other

amount accrued and outstanding thereunder, could in certain circumstances become immediately due and payable – at the discretion of the EIB – following a change of control of UCB SA/NV.

- > EIB co-development agreement in the amount of € 75 million entered with the EIB and of which the change of control clause has been approved by the General Meeting of 24 April 2014 and whereby such agreement can be terminated by the EIB in the event of a change of control of UCB SA/NV and UCB SA/NV may be bound to pay a termination payment corresponding, depending on the circumstances, to all, part of or an increased amount (capped at up to 110%) of the funding received from the EIB.
- > Facility agreement in the amount of € 150 million between, UCB SA/NV as borrower and the EIB, dated 15 December 2015, of which the change of control clause has been approved by the General Meeting of 28 April 2016 and whereby, the loan, together with accrued interests and all other amount accrued and outstanding thereunder, could in certain circumstances become immediately due and payable

– at the discretion of the EIB – following a change of control of UCB SA/NV. The final availability date of this facility was 15 December 2016 and UCB SA/NV did not draw under this facility.

- > The UCB stock awards and performance share plans by which UCB shares are granted annually by UCB to certain employees according to grade and performance criteria, vest according to the rules of both plans after three years, upon condition that its beneficiary remains in continuous employment with the UCB group. They also vest upon change of control or merger.

On 31 December 2016, the following number of stock awards and performance shares are outstanding:

- 1 419 402 stock awards, of which 110 176 will vest in 2017;
- 505 264 performance shares, of which 161 069 will vest in 2017.

The change of control clauses in the Executive Committee members' contract, as further described in the remuneration report (section 1.4.3).

#### 1.8.10 | AGREEMENTS BETWEEN UCB AND ITS BOARD MEMBERS OR EMPLOYEES PROVIDING FOR COMPENSATION IF THE BOARD MEMBERS RESIGN OR ARE MADE REDUNDANT WITHOUT VALID REASON OR IF THE EMPLOYMENT OF THE EMPLOYEES CEASES BECAUSE OF A TAKEOVER BID

- > For more details, see section 1.4.3 on the main contractual terms on hiring and termination arrangements for the CEO and members of the Executive Committee. No other agreements provide for a specific compensation of Board members in case of termination because of a takeover bid.
- > In addition to the Executive Committee members identified in section 1.4.3, three employees in the U.S. and one outside U.S. benefit from a change of control clause that guarantees their termination compensation if the employment of the employee ceases because of a public takeover bid.

### 1.9 | APPLICATION OF ARTICLE 523 OF THE COMPANIES CODE

#### EXCERPT FROM THE MINUTES OF THE MEETING OF THE BOARD HELD ON 25 FEBRUARY 2016

Article 523 of the Belgian Companies Code was applied by the Board of 25 February 2016 in the context of the decisions relating to the CEO remuneration, the performance bonus and LTI grants (relevant excerpt from the minutes of the meeting):

("...)

*Prior to any deliberation or decision by the Board of Directors concerning the approval of the CEO bonus based on 2015 performance, the CEO 2016 base salary and the CEO 2016 LTI grant including (stock options, stock awards and performance shares), as well as the approval of the 2015 bonus payout and LTI vesting and of the 2016 LTI plans, metrics and grants, J.-C. Tellier stated that he had a direct or indirect financial interest in the implementation of said decisions. In accordance with Art. 523 of the Company Code, he withdrew from the meeting of the Board of Directors in order not*

*to participate in the deliberation and the vote relating to these issues. The Board of Directors established that Art. 523 of the Company Code was applicable to these operations.*

(...)

#### CORPORATE RESULTS 2015 BONUS PAYOUT/LTI AWARD VESTING AND 2016 TARGETS

**Decision:** *After review, the Board overall approved the recommendations of the Governance, Nomination and Compensation Committee ("GNCC") relating to (i) the 2015 bonus payout based on the year end 2015 results (REBITDA), (ii) the REBITDA target for 2016 bonus payout and (iii) the metrics used for the Performance Share Plan 2016-2018 (payout 2019). It further endorsed the vesting (and total payout) in 2016 relating to the 2013-2015 Performance Share Plan as well as the stock award vesting for the 2013-2016 plan.*

## UCB LONG TERM INCENTIVES GRANTS IN 2016

**Decision:** Upon recommendation of the GNCC, the Board unanimously approved the following Long Term Incentive Plans and the main terms and conditions thereof:

- > UCB stock option plan 2016: issue of 840 000 stock options (target + 15% to take into account performance differentiation) in 2016 (in principle on 1 April 2016) for approximately 350 employees (not taking into consideration employees hired or promoted to eligible levels between 1 January 2016 and 1 April 2016).

The exercise price of these options will be the lowest of (i) the average of the closing price over the 30 calendar days preceding the offer (from 2-31 March 2016) or (ii) the closing price of the day preceding the offer (31 March 2016).

UCB will determine a different exercise price for those eligible employees subject to legislation which require a different exercise price in order to benefit from a reduced taxation.

Stock option will have a vesting period of 3 years as of the date of grant, except for countries where this is not allowed or less favorable.

- > Stock awards and PSP grants 2015–2018: allocation of an initial amount of 1 004 000 shares of which:
  - an estimated number of 846 000 shares to eligible employees, namely to about 1 500 colleagues (excluding new hires and promoted employees up to and including 1 April 2015), according to the applicable allocation criteria (target +15% to take into account performance differentiation). These free shares will be allocated if and when the eligible employees are still employed with the UCB Groups 3 years after the grant of award,
  - an estimated number of 158 000 shares to Upper Management employees for the Performance Share Plan, namely to about 56 individuals, according to the applicable allocation criteria. These free shares will be delivered after a 3 year vesting period and the number of shares actually allocated will vary from 0% to 150% of the number of shares initially granted depending on the level of achievement of the performance conditions set by the Board of UCB SA/NV at the moment of the grant;
- > It was acknowledged that the financial impact of the granting of options for the Company is linked to the difference between the purchase price of own shares by the company and the price of resale of these same shares to the beneficiary upon exercise of the options. For the stock awards and the PSP, the financial impact corresponds to the value of the UCB shares at the time of vesting;
- > The various LTI plans rules were approved, including a change to the vesting rules for awards and performance shares in case of retirement, ill health or disability.

- > The Board further decided to delegate all powers to the members of the Executive Committee, acting jointly two by two and with faculty of sub-delegation, to do whatever is necessary, required or useful to execute and implement the above decisions, including the finalization of all required documentation, terms and conditions and modalities of the plans and incentives.

## CEO COMPENSATION AND LTI

**Decision:** Upon recommendation of the GNCC, the Board unanimously approved the following:

- > CEO base salary as of 1 March 2016: € 996 400 (against € 940 000 in 2015), representing an increase of 6%;
- > CEO bonus pay-out 2016 (performance 2015): € 1 210 626;
- > CEO LTI 2016:
  - stock options: 38 792 (3 years and 8 months vesting);
  - stock awards: 9 488 (3 years vesting);
  - performance shares: 19 660 (3 years vesting).

(...)

Article 523 of the Belgian Company Code was also applied by the Board of 27 July 2016 in the context of the review of the compensation of the CEO (relevant excerpt from the minutes of the meeting):

(“...)

The report of the GNCC included a recommendation to the Board relating to an increase of the LTI target level for the CEO. Prior to any discussion or decision by the Board on this item of the agenda, Jean-Christophe Tellier stated that he had a direct financial interest in the implementation of this decision. In accordance with article 523 of the Belgian Companies Code, he withdrew from the meeting in order not to attend the discussion by the Board relating to this issue, nor to participate in the deliberation and the decision. The Board of Directors established that said Article 523 was applicable to this item of the agenda.

The Benchmark provided showed (...). The GNCC therefore recommended to increase the LTI target to 140% of the base pay. The financial consequences for the company of such increase is therefore a potential increase of the relevant related LTI costs, by 20%.

**Decision:** The Board unanimously approved the proposal of the GNCC to increase the LTI target for the CEO from 120% of the base pay to 140%.

(...)

Article 523 of the Belgian Company Code was applied at the occasion of the decision of the Board

of 14 December 2016 relating to the appointment of the new Chair and Vice Chair of the Board as well as the replacement in the GNCC, a specific compensation being attached to these functions (relevant excerpt from the minutes of the meeting):

(...)

Prior to any deliberation or decision by the Board concerning the recommendation of the GNCC to appoint Evelyn du Monceau as Chair of the Board and Pierre Gurdjian as Vice Chair of the Board, they respectively stated that they had a conflict of interest in the implementation of the decisions which related respectively to each of them and, therefore, they withdrew from the meeting in order not to participate to the deliberation and vote on their respective appointment. The Board of Directors acknowledged that article 523 of the Belgian Companies Code was applicable to this item of the agenda.

**Decision:** Having acknowledged the termination of Gerhard Mayr's as Director and as Chairman of the Board of Directors of UCB SA/NV, with effect immediately after the AGM of April 27, 2017, which the Board accepts, the Board unanimously resolved, upon recommendation of the GNCC:

- > to appoint Evelyn du Monceau, presently Vice Chair of the Board of UCB, as Chair of the Board of Directors of UCB SA/NV, with effect immediately after

the AGM of 27 April 2017; Evelyn du Monceau will also remain Chair of the GNCC; and

- > to appoint Pierre Gurdjian, independent Director as Vice Chair of the Board of Directors of UCB SA/NV, also with effect immediately after the AGM of 27 April 2017.

(...)

Prior to any deliberation or decision by the Board concerning the recommendation of the GNCC to appoint Kay Davies as member of the GNCC, she stated that she had a conflict of interest in the implementation of the decision and, therefore, withdrew from the meeting in order not to participate to the deliberation and vote on their respective appointment. The Board of Directors acknowledged that article 523 of the Belgian Companies Code was applicable to this item of the agenda.

**Decision:** the Board unanimously resolved to approve the appointment of Kay Davis as independent member of the GNCC, effective as of the AGM of 27 April 2017;

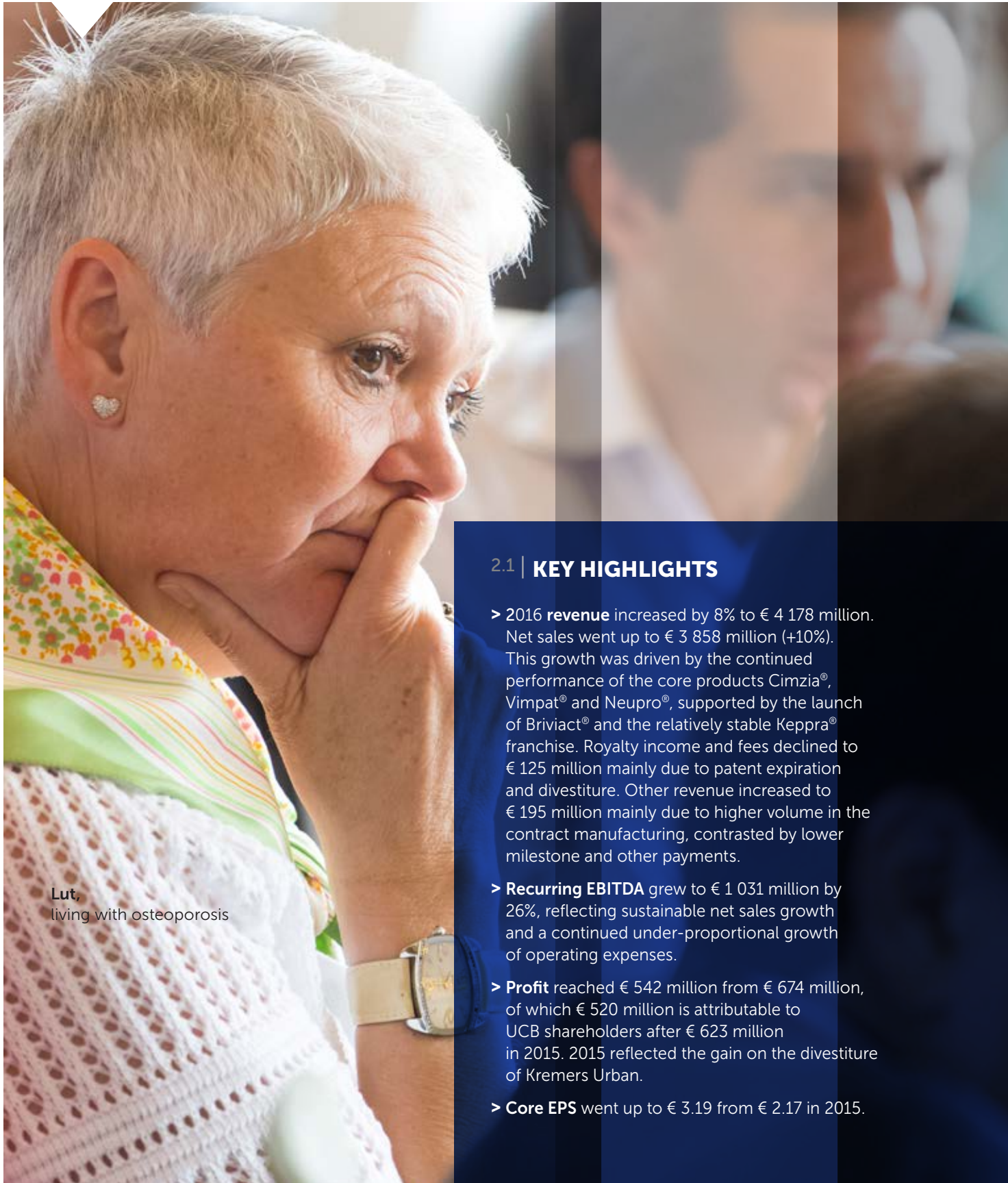
(...)

## 1.10 | APPLICATION OF ARTICLE 96, §2, SECTION 2 OF THE BELGIAN COMPANIES CODE (DEVIATION FROM THE CODE)

**Provision 2.9 (guideline):** the Secretary of the Board reports to the General Counsel, instead of to the Chairman of the Board, since the Corporate Secretariat, led by the Secretary of the Board, forms part of the legal department within UCB. In accordance with the Charter of Corporate Governance, the members of the Board have however individual access to the Secretary's assistance for all Board or company's matters.



## 2. BUSINESS PERFORMANCE REVIEW



Lut,  
living with osteoporosis

### 2.1 | KEY HIGHLIGHTS

- > **2016 revenue** increased by 8% to € 4 178 million. Net sales went up to € 3 858 million (+10%). This growth was driven by the continued performance of the core products Cimzia®, Vimpat® and Neupro®, supported by the launch of Briviact® and the relatively stable Keppra® franchise. Royalty income and fees declined to € 125 million mainly due to patent expiration and divestiture. Other revenue increased to € 195 million mainly due to higher volume in the contract manufacturing, contrasted by lower milestone and other payments.
- > **Recurring EBITDA** grew to € 1 031 million by 26%, reflecting sustainable net sales growth and a continued under-proportional growth of operating expenses.
- > **Profit** reached € 542 million from € 674 million, of which € 520 million is attributable to UCB shareholders after € 623 million in 2015. 2015 reflected the gain on the divestiture of Kremers Urban.
- > **Core EPS** went up to € 3.19 from € 2.17 in 2015.

€ million	ACTUAL <sup>1</sup>		VARIANCE	
	2016	2015	ACTUAL RATES	CER <sup>2</sup>
<b>Revenue</b>	<b>4 178</b>	<b>3 876</b>	<b>8%</b>	<b>7%</b>
Net sales	3 858	3 512	10%	9%
Royalty income and fees	125	176	-29%	-24%
Other revenue	195	188	4%	5%
<b>Gross profit</b>	<b>2 976</b>	<b>2 719</b>	<b>9%</b>	<b>8%</b>
Marketing and selling expenses	-940	-904	4%	5%
Research and Development expenses	-1 020	-1 037	-2%	0%
General and administrative expenses	-184	-192	-5%	-3%
Other operating income/expenses (-)	-36	-9	> 100%	> 100%
<b>Recurring EBIT (REBIT)</b>	<b>796</b>	<b>577</b>	<b>38%</b>	<b>27%</b>
Non recurring income/expenses (-)	80	-55	> 100%	> 100%
<b>EBIT (operating profit)</b>	<b>876</b>	<b>522</b>	<b>68%</b>	<b>55%</b>
Net financial expenses	-112	-96	16%	17%
<b>Profit before income taxes</b>	<b>764</b>	<b>426</b>	<b>79%</b>	<b>63%</b>
Income tax expenses	-199	-111	79%	63%
<b>Profit from continuing operations</b>	<b>565</b>	<b>315</b>	<b>79%</b>	<b>63%</b>
Profit/loss (-) from discontinued operations	-23	359	> -100%	> -100%
<b>Profit</b>	<b>542</b>	<b>674</b>	<b>-20%</b>	<b>-27%</b>
Attributable to UCB shareholders	520	623	-17%	-25%
Attributable to non-controlling interests	22	51	-56%	-56%
<b>Recurring EBITDA</b>	<b>1 031</b>	<b>821</b>	<b>26%</b>	<b>18%</b>
Capital expenditure (including intangible assets)	138	146	-5%	
Net financial debt	838	921	-9%	
Operating cash flow from continuing operations	726	204	>100%	
<b>Weighted average number of shares – non diluted (million)</b>	<b>188</b>	<b>192</b>	<b>-2%</b>	
<b>EPS (€ per weighted average number of shares – non diluted)</b>	<b>2.76</b>	<b>3.25</b>	<b>-15%</b>	<b>-23%</b>
<b>Core EPS (€ per weighted average number of shares – non diluted)</b>	<b>3.19</b>	<b>2.17</b>	<b>47%</b>	<b>36%</b>

This Business Performance Review is based on the consolidated financial statements for the UCB Group of companies prepared in accordance with IFRS. The separate statutory financial statements of UCB SA prepared in accordance with Belgian Generally Accepted Accounting Principles, together with the report of the Board of Directors to the General Assembly of Shareholders, as well as the auditors' report, will be filed at the National Bank of Belgium within the statutory periods, and be available on request or on our website.

**Scope change:** As a result of the divestment of the activities Films (September 2004), Surface Specialties (February 2005), and the divestiture of Kremers Urban Pharmaceuticals Inc. (November 2015), UCB reports the results from those activities as a part of profit from discontinued operations.

**Recurring and non-recurring:** Transactions and decisions of a one-time nature that affect UCB's results are shown separately ("non-recurring" items). Besides EBIT (earnings before interest and taxes or operating profit), a line for "recurring EBIT" (REBIT or recurring operating profit), reflecting the on-going profitability of the company's biopharmaceutical activities, is included. The recurring EBIT is equal to the line "operating profit before impairment, restructuring and other income and expenses" reported in the consolidated financial statements.

**Core EPS** is the core profit, or the profit attributable to the UCB shareholders, adjusted for the after-tax impact of non-recurring items, the financial one-offs, the after-tax contribution from discontinued operations and the after-tax amortization of intangibles linked to sales, per non-dilutive weighted average number of shares.

<sup>1</sup> Due to rounding, some financial data may not add up in the tables included in this management report.

<sup>2</sup> CER: constant exchange rates

## 2.2 | 2016 KEY EVENTS<sup>1</sup>

There have been a number of key events that have affected or will affect UCB financially:

### IMPORTANT AGREEMENTS/INITIATIVES

- > **UCB divested its nitrate business** to selected parties: In January 2016, UCB divested three cardiovascular products from its established brand portfolio to Merus Labs International Inc. (Canada). The transaction relates to nitrate products sold in Europe and selected markets and amounted to € 92 million. In May 2016, UCB handed over its nitrate franchise in China to Chinese company Jilin Yinglian Biopharmaceutical and its financial partner PAG Asia. The transaction amounted to € 60 million. In July 2016, UCB divested the remaining nitrates business in Russia and Ukraine.
- > UCB entered into an agreement with Avara Pharmaceuticals Services to divest UCB's **Shannon manufacturing site** in Ireland in February 2016.
- > **UCB reduces its indebtedness:** In March 2016, UCB exercised its option to redeem the € 300 million perpetual subordinated bonds. The perpetual subordinated bonds were issued in 2011 at 99.499% and offered investors a coupon of 7.75% per annum during the first five years. In December 2016, the € 500 million institutional bond matured and was repaid. The senior unsecured bonds were issued in December 2009 at 99.635%, carrying a coupon of 5.75% p.a.
- > In July 2016, UCB out-licensed **UCB6352** to Syndax Pharmaceuticals to develop the antibody which is expected to be tested in clinical trials in oncology.
- > The Delaware District Court confirmed the **validity of U.S. patent RE38,551** related to Vimpat® (*lacosamide*), UCB's anti-epileptic drug, in August 2016. The District Court decision is currently under appeal before the Court of Appeals for the Federal Circuit (CAFC).
- > In November 2016, UCB divested **venlafaxine ER**, for the treatment of depressive and anxiety disorders and marketed in the U.S., to Osmotica Pharmaceuticals Corp. (Marietta, GA) amounting to € 102 million.

### REGULATORY UPDATE AND PIPELINE PROGRESS

#### NEUROLOGY

- > **Briviact®** (*brivaracetam*) as adjunctive therapy for partial-onset seizures in patients from 16 years of age was approved in EU in January and in the U.S. in February 2016 and received Drug Enforcement Administration (DEA) scheduling in May 2016. Briviact® is now available to patients with epilepsy in the EU and in North America. In January, 2017, UCB filed a supplemental New Drug Application to the U.S. authorities for Briviact® as monotherapy in the treatment of partial-onset seizures in patients 16 years of age and older with epilepsy.
- > In July 2016, the Japanese regulatory authorities approved **Vimpat®** (*lacosamide*) as adjunctive therapy in the treatment of partial-onset seizures in adult patients with epilepsy. In August, Vimpat® was filed in Japan for the treatment of partial onset seizures as monotherapy. In August, Vimpat® was filed in the EU for partial onset seizures (POS) add-on and monotherapy in children (older than four years). In December, the European Commission approved a license extension for Vimpat® for use as monotherapy in the treatment of partial-onset seizures in adolescent (16-18 years) and adult patients with epilepsy, following the filing in January 2016.
- > In February 2016, the Japanese regulatory authorities approved **E Keppra®** (*levetiracetam*) as adjunctive therapy in the treatment of primary generalized tonic-clonic seizures (PGTCS).
- > The Phase 2a study with **UCB0942** – aimed at highly drug resistant epilepsy patients, who failed four anti-epileptic drugs and have at least four seizures/week – showed positive top line results and will progress into further development.

All other clinical development programs are continuing as planned.

#### IMMUNOLOGY

- > In March 2016, UCB announced top-line results from EXCELERATE, the first head-to-head superiority study of two treatments in the anti-TNF class, comparing **Cimzia®** (*certolizumab pegol*) plus methotrexate (MTX) to Humira® (*adalimumab*) plus MTX in adult patients with moderate to severe rheumatoid arthritis who are inadequate responders to MTX. The primary endpoints for superiority were not met, as results between Cimzia® and Humira® were numerically comparable. This study was designed as a treatment strategy trial in line with core principles of the treat-to-target guidelines, which advocate evaluating response early and ensuring a change in therapy for patients not responding at three months. In August, the U.S. Food and Drug Administration (FDA) has accepted UCB's filing for a proposed new indication for Cimzia® to treat juvenile idiopathic arthritis (JIA). Also in August, UCB reported positive topline results for RAPID-C, a Phase 3 study evaluating Cimzia® in rheumatoid arthritis in China. In September, the AutoClicks® prefilled pen was approved for the European Union as a new administration option for patients treated with Cimzia®.

<sup>1</sup> From 1 January 2016 up to the publication date of this report.



In October and December 2016, UCB and its partner Dermira announced positive topline results from CIMPASI-2 and CIMPASI-1, two Phase 3, multi-center, placebo-controlled clinical trials evaluating the efficacy and safety of Cimzia® in adult patients with moderate-to-severe chronic plaque psoriasis. These studies were completed in January 2017, with the announcement of positive topline results from CIMPACT, a Phase 3, multi-center, placebo-controlled and active-controlled clinical trial evaluating the efficacy and safety of Cimzia®. The submissions of marketing authorization applications based on these three Phase 3 studies to regulatory authorities are expected in the third quarter of 2017. UCB continues to advance the science and expand the availability of data bringing valuable information to women with autoimmune diseases who are planning to build a family. This includes two Phase 4 studies, CRADLE and CRIB, which recently completed and provided positive results. During the fourth quarter of 2016, UCB presented at various scientific congresses the positive results from a multicenter study evaluating the concentration of Cimzia® in mature breast milk of lactating mothers (CRADLE). In January 2017, the second study, a multicenter study evaluating the transfer of Cimzia® from the mother to the infant *via* the placenta (CRIB), provided positive topline results. These results are planned for presentation at an upcoming scientific meeting. These results strengthen previous data on women treated with Cimzia® during pregnancy and the effect on their newborn infants, and will be submitted to regulatory authorities in Q2 2017.

- > In March 2016, **UCB7665** started a Phase 2, proof-of-concept (POC) study, in idiopathic thrombocytopenic purpura (ITP); topline results are expected in Q3 2017.
- > In May 2016, **seletalisib** started a Phase 1b study in activated PI3 kinase delta syndrome (APDS), a rare cause of immunodeficiency. The Phase 2a study in patients with primary Sjogren’s syndrome (pSS) is ongoing with first results expected at the end of 2017.
- > In June 2016, a Phase 1 study successfully completed with **UCB4144/VR942**, an immunomodulatory inhaled biologic for patients with uncontrolled asthma in development partnership with Vectura. The generated data package supports the continued development of UCB4144/VR942 and progression to Phase 2 which is expected in 2017.
- > In June 2016, the Phase 2b program started for **dapirolizumab pegol**, an anti-CD40L pegylated Fab being developed in systemic lupus erythematosus jointly with Biogen. The dose-ranging study aims to enroll around 160 patients for 12 months. First results are expected in H2 2018.

> In June, positive results from a Phase 1b study in patients with psoriatic arthritis (PsA) were presented at EULAR (Annual European Congress of Rheumatology) for **bimekizumab**, an investigational humanized IgG1 monoclonal antibody rationally designed to potently and selectively neutralize the biological function of both IL-17A and IL-17F, two closely related proinflammatory cytokines. Both IL-17A and IL-17F are key drivers of chronic inflammation in many severe skin and joint diseases.

UCB started the Phase 2b program for **bimekizumab** in various indications: in psoriasis (August 2016 – with first results expected in Q3 2017), in psoriatic arthritis and in ankylosing spondylitis (October 2016 – both with first results expected in Q3 2018).

- > In July, **UCB7858** for potential treatment of auto-inflammatory diseases entered Phase 1.

All other clinical development programs are continuing as planned.

#### BONE

> In February, UCB and Amgen announced positive topline results from a Phase 3 study evaluating **Evenity™ (romosozumab)** for the treatment of osteoporosis in postmenopausal women at increased risk of fracture (FRAME), which met the co-primary endpoints of reducing the incidence of new vertebral fracture through months 12 and 24.

> UCB and Amgen announced in March positive topline results from a Phase 3 study evaluating Evenity™ in men with osteoporosis (BRIDGE), which met the primary endpoint of increasing bone mineral density at the lumbar spine at 12 months.

> In July, UCB and Amgen submitted the biologics license application (BLA) for Evenity™ to the U.S. authorities, which was accepted for review in September. The New Drug Submission (NDS) for Evenity™ was also submitted to Health Canada during the second half of 2016.

> In December, UCB and Amgen submitted an application seeking marketing approval of Evenity™ for the treatment of osteoporosis for patients at high risk of fracture for review to the Pharmaceuticals and Medical Devices Agency (PMDA) in Japan. Evenity™ is developed in collaboration with Amgen globally, as well as with Astellas in Japan.



## 2.3 | NET SALES BY PRODUCT

Total net sales in 2016 increased to € 3 858 million, 10% higher than last year or +9% at constant exchange rates (CER).

€ million	ACTUAL		VARIANCE	
	2016	2015	ACTUAL RATES	CER
Immunology/Cimzia®	1 307	1 083	21%	21%
<b>Neurology</b>				
Vimpat®	814	679	20%	20%
Keppra®	724	737	-2%	-2%
Briviact®	18		N/A	N/A
Neupro®	302	258	17%	18%
<b>Established brands</b>				
Zyrtec®	140	147	-4%	-4%
Xyzal®	107	117	-8%	-5%
venlafaxine ER	90	90	-1%	-1%
Nootropil®	46	52	-10%	-4%
Other products	329	432	-24%	-22%
Net sales before hedging	3 877	3 594	8%	9%
Designated hedges reclassified to net sales	-19	-82	-77%	
<b>Total net sales</b>	<b>3 858</b>	<b>3 512</b>	<b>10%</b>	<b>9%</b>

### CORE PRODUCTS

**Cimzia®** (*certolizumab pegol*) net sales increased to € 1.3 billion (+21%) driven by sustainable growth in all markets where Cimzia® is available to patients living with inflammatory TNF mediated diseases.

**Vimpat®** (*lacosamide*) net sales went up to € 814 million (+20%) showing sustainable growth in all markets where Vimpat® is available to people living with epilepsy, including Japanese patients (since September 2016).

**Keppra®** (*levetiracetam*), also for epilepsy, had net sales of € 724 million (-2%). The continued post-exclusivity expiry erosion in the U.S. and Europe was almost compensated for by the growth in Japan and international markets.

UCB's epilepsy franchise is strengthened by the first launches of **Briviact®** (*brivaracetam*) in the EU since January 2016 and in North America since June 2016, reporting net sales of € 18 million.

**Neupro®** (*rotigotine*), the patch for Parkinson's disease and restless legs syndrome, reached net sales of € 302 million (+17%), mainly due to the sustainable growth in Europe and the strong growth in Japan and international markets.

### ESTABLISHED BRANDS

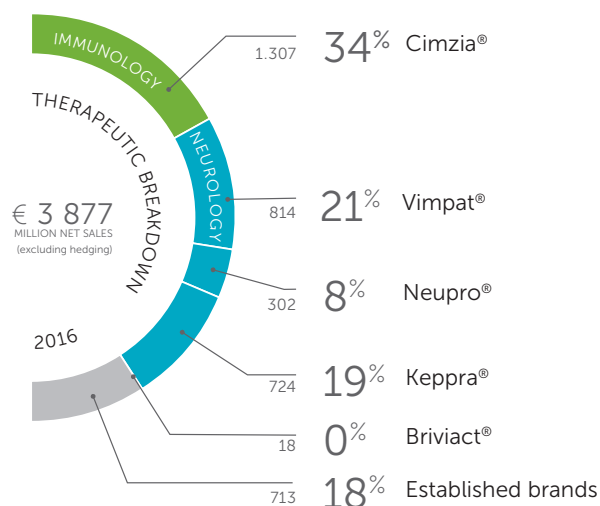
**Zyrtec®** (*cetirizine*, including Zyrtec®-D/Cirrus®) and **Xyzal®** (*levocetirizine*), both for allergy, net sales declined to € 140 million (-4%) and € 107 million (-8%) respectively, due to generic competition.

**Venlafaxine ER** (*venlafaxine hydrochloride* extended release) for the treatment of depressive and anxiety disorders reached net sales of € 90 million (-1%). This product was divested in November 2016.

**Nootropil®** (*piracetam*) for cognitive disorders, had net sales of € 46 million, declining by 10% due to price pressure and divestitures.

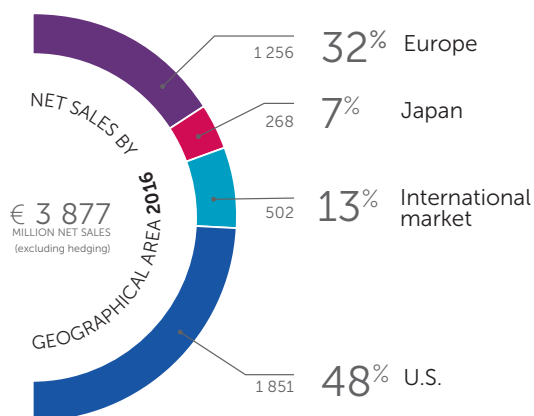
**Other products:** Net sales for other established brands decreased by 24% to € 329 million due to mandatory price reductions, generic competition and divestitures.

**Designated hedges reclassified to net sales** were negative with € 19 million reflecting UCB's realized transactional hedging activities which have to be recognized in the "net sales" line according to IFRS. These are mainly related to the U.S. Dollar, the Japanese Yen, the British Pound and the Swiss Franc.



## 2.4 | NET SALES BY GEOGRAPHICAL AREA

€ million	ACTUAL		VARIANCE ACTUAL RATES		VARIANCE CER	
	2016	2015	€ MILLION	%	€ MILLION	%
<b>Net sales U.S.</b>	<b>1 851</b>	<b>1 694</b>	<b>157</b>	<b>9%</b>	<b>152</b>	<b>9%</b>
Cimzia®	838	713	124	17%	122	17%
Vimpat®	617	513	104	20%	103	20%
Keppra®	215	254	-38	-15%	-39	-15%
Neupro®	83	79	4	5%	4	5%
Briviact®	11		11	N/A	11	N/A
<b>Established brands</b>						
venlafaxine ER	89	90	-1	-1%	-1	-1%
Other	-2	46	-48	> -100%	-48	> -100%
<b>Net sales Europe</b>	<b>1 256</b>	<b>1 203</b>	<b>53</b>	<b>4%</b>	<b>73</b>	<b>6%</b>
Cimzia®	351	296	55	19%	63	21%
Keppra®	242	250	-9	-3%	-6	-2%
Neupro®	167	150	17	11%	19	13%
Vimpat®	155	134	21	15%	22	17%
Briviact®	7		7	N/A	7	N/A
<b>Established brands</b>						
Zyrtec®	64	67	-4	-5%	-2	-3%
Xyzal®	34	36	-2	-5%	-2	-4%
Nootropil®	22	24	-2	-9%	-2	-8%
Other	215	246	-30	-12%	-26	-11%
<b>Net sales Japan</b>	<b>268</b>	<b>207</b>	<b>60</b>	<b>29%</b>	<b>42</b>	<b>20%</b>
E Keppra®	104	79	25	31%	14	17%
Neupro®	39	19	20	> 100%	20	> 100%
Cimzia®	34	10	24	> 100%	20	> 100%
Vimpat®	5		5	N/A	4	N/A
<b>Established brands</b>						
Xyzal®	48	53	-5	-9%	-4	-7%
Zyrtec®	37	46	-9	-19%	-12	-27%
Other	1	1	0	-16%	0	-25%
<b>Net sales international markets</b>	<b>502</b>	<b>490</b>	<b>12</b>	<b>3%</b>	<b>40</b>	<b>8%</b>
Keppra®	162	154	9	6%	19	12%
Cimzia®	84	64	20	31%	23	36%
Vimpat®	37	32	5	15%	6	20%
Neupro®	13	10	3	24%	3	29%
Briviact®	0		0	N/A	0	N/A
<b>Established brands</b>						
Zyrtec® (including Cirrus®)	39	31	9	28%	11	35%
Nootropil®	24	27	-3	-11%	0	-1%
Xyzal®	22	23	0	-2%	2	7%
Other	120	149	-29	-19%	-23	-16%
<b>Net sales before hedging</b>	<b>3 877</b>	<b>3 594</b>	<b>282</b>	<b>8%</b>	<b>307</b>	<b>9%</b>
<b>Designated hedges reclassified to net sales</b>	<b>-19</b>	<b>-82</b>	<b>63</b>	<b>-77%</b>		
<b>Total net sales</b>	<b>3 858</b>	<b>3 512</b>	<b>346</b>	<b>10%</b>	<b>307</b>	<b>9%</b>



For further details, please refer to Note 5.

**U.S. net sales** reported by UCB were € 1 851 million (+9%); this was driven by the core products, compensating the decrease of established brands. Cimzia® net sales increased by 17% reaching € 838 million. Vimpat® went up by 20% to € 617 million and Neupro® net sales were € 83 million (+5%). Briviact® was launched mid-year 2016 and reached € 11 million net sales. The Keppra® franchise went down to € 215 million (-15%) as stocking effects in 2015 did not re-occur in 2016 – as expected. Venlafaxine ER had net sales of € 89 million until its divestiture in November 2016. Net sales of the other products were € -2 million after € 46 million, due to price pressure and reserves for rebates and returned products.

**Europe net sales** were € 1 256 million (+4%), driven by the continued sustainable growth of Cimzia® (€ 351 million; +19%) Vimpat® (€ 155 million; +15%) and Neupro® (€ 167 million; +11%) and the launch of Briviact® (€ 7 million). Keppra® net sales reached € 242 million (-3%) due to mandatory price reductions and generic competition. The established brands declined, mainly due to mandatory price reductions and generic competition.

**Japan net sales** reached € 268 million, up by 29% driven by sustainable in-market demand. Cimzia® net sales were € 34 million (after € 10 million, partner: Astellas). Vimpat® was launched in September 2016 and reached net sales of € 5 million (partner: Daiichi Sankyo). Neupro® net sales were € 39 million (after € 19 million) while E Keppra® reached € 104 million (+31%); UCB's partner in Japan for both is Otsuka. The allergy franchise (Zyrtec® and Xyzal®) continued to decrease due to loss of exclusivity and generic competition.

**International markets net sales** amounted to € 502 million (+3%) driven by the sustainable growth of Cimzia®, Vimpat® and Neupro® as well as Keppra®; Briviact® was launched in Canada.

**Designated hedges reclassified for sales** were negative with € 19 million reflecting UCB's realized transactional hedging activities which have to be recognized in the "net sales" line according to IFRS.

## 2.5 | ROYALTY INCOME AND FEES

€ million	ACTUAL		VARIANCE	
	2016	2015	ACTUAL RATES	CER
Biotechnology IP	75	96	-22%	-13%
Zyrtec® U.S.	27	27	-2%	-2%
Toviaz®	18	23	-22%	-22%
Other	5	30	-83%	-83%
<b>Royalty income and fees</b>	<b>125</b>	<b>176</b>	<b>-29%</b>	<b>-24%</b>

During 2016, **royalty income and fees** decreased to € 125 million (-29%).

Corresponding to the biotechnology IP expenses, also the biotechnology IP income went down due to patent expirations.

**Royalties** collected for Zyrtec® in the U.S. were more or less stable.

The franchise royalties paid by Pfizer for the overactive bladder treatment Toviaz® (*fesoterodine*) went down and reflect the in-market performance of the franchise.

Other royalty income and fees are down due to the divestment of out-licensed products in 2015.

## 2.6 | OTHER REVENUE

€ million	ACTUAL		VARIANCE	
	2016	2015	ACTUAL RATES	CER
Contract manufacturing sales	119	44	> 100%	> 100%
Product profit sharing	19	23	-18%	-18%
Partnerships in Japan	12	63	-81%	-81%
Partnerships in China	9	20	-53%	-52%
Other	36	38	-5%	-5%
<b>Other revenue</b>	<b>195</b>	<b>188</b>	<b>4%</b>	<b>5%</b>

**Other revenue** reached € 195 million (+4%) due to higher volume in the contract manufacturing, offset by lower milestone and other payments from partnerships due to lack of events.

**Contract manufacturing sales** increased to € 119 million from € 44 million as it included contract manufacturing of the nitrates for 2016 following the product divestiture (see "2016 Key Events" of this report).

The **product profit sharing agreements** for Provas® and Xyzal® reached a revenue of € 19 million (-18%), mainly driven by the life cycle of these products.

Partnering activities in Japan encompass the collaboration with Otsuka focusing on E Keppra® and Neupro®, with Astellas for Cimzia® and with Daiichi

Sankyo for Vimpat®. Revenue reached € 12 million after € 63 million. 2015 was positively impacted by the milestone payment for the Vimpat® filing in Japan.

Our partnerships in China encompass the market rights to UCB's allergy franchise and revenue reached € 9 million (-53%), mainly due to payments linked to the transfer of the marketing rights in 2015.

"**Other**" revenue reached € 36 million (-5%) and includes milestones and other payments from our R&D partners.

## 2.7 | GROSS PROFIT

€ million	ACTUAL		VARIANCE	
	2016	2015	ACTUAL RATES	CER
<b>Revenue</b>	<b>4 178</b>	<b>3 876</b>	<b>8%</b>	<b>7%</b>
Net sales	3 858	3 512	10%	9%
Royalty income and fees	125	176	-29%	-24%
Other revenue	195	188	4%	5%
<b>Cost of sales</b>	<b>-1 202</b>	<b>-1 158</b>	<b>4%</b>	<b>5%</b>
Cost of sales products and services	-852	-776	10%	10%
Royalty expenses	-224	-244	-8%	-6%
Amortization of intangible assets linked to sales	-126	-137	-8%	-7%
<b>Gross profit</b>	<b>2 976</b>	<b>2 719</b>	<b>9%</b>	<b>8%</b>

In 2016, **gross profit** reached € 2 976 million (+9%), driven by the net sales growth and improved product mix – the core products Cimzia®, Vimpat®, Neupro® now representing 62% of UCB's total net sales, compared to 56% for 2015. The gross margin improved to 71% (2015: 70%).

Cost of sales has three components: the cost of sales for products and services, royalty expenses, and the amortization of intangible assets linked to sales.

- > **Cost of sales for products and services** increased by 10% to € 852 million.
- > **Royalty expenses** decreased to € 224 million from € 244 million due to biotechnology IP royalty expenses impacted by patent expiries per end December 2015. Royalty expenses for marketed products, mainly Cimzia® and Vimpat®, continued to increase due to product growth.



€ million	ACTUAL		VARIANCE	
	2016	2015	ACTUAL RATES	CER
Biotechnology IP	1	-28	> -100%	> -100%
Other	-225	-216	4%	7%
<b>Royalty expenses</b>	<b>-224</b>	<b>-244</b>	<b>-8%</b>	<b>-6%</b>

**Amortization of intangible assets linked to sales:**  
Under IFRS 3 (*Business Combinations*), UCB has reflected on its balance sheet a significant amount of intangible assets relating to the Celltech and Schwarz Pharma acquisitions (in-process research

and development, manufacturing know-how, royalty streams, trade names, etc.). The amortization expenses of the intangible assets for which products have already been launched decreased to € 126 million after € 137 million in 2015, and is mainly driven by divestments from the established brands portfolio.

## 2.8 | RECURRING EBIT AND RECURRING EBITDA

€ million	ACTUAL		VARIANCE	
	2016	2015	ACTUAL RATES	CER
<b>Revenue</b>	<b>4 178</b>	<b>3 876</b>	<b>8%</b>	<b>7%</b>
Net sales	3 858	3 512	10%	9%
Royalty income and fees	125	176	-29%	-24%
Other revenue	195	188	4%	5%
<b>Gross profit</b>	<b>2 976</b>	<b>2 719</b>	<b>9%</b>	<b>8%</b>
Marketing and selling expenses	-940	-904	4%	5%
Research and development expenses	-1 020	-1 037	-2%	0%
General and administrative expenses	-184	-192	-5%	-3%
Other operating income/expenses (-)	-36	-9	> 100%	> 100%
<b>Total operating expenses</b>	<b>-2 180</b>	<b>-2 142</b>	<b>2%</b>	<b>3%</b>
<b>Recurring EBIT (rEBIT)</b>	<b>796</b>	<b>577</b>	<b>38%</b>	<b>27%</b>
Add: Amortization of intangible assets	169	170	0%	1%
Add: Depreciation charges	66	74	-11%	-9%
<b>Recurring EBITDA (rEBITDA)</b>	<b>1 031</b>	<b>821</b>	<b>26%</b>	<b>18%</b>

Operating expenses, encompassing marketing and selling expenses, research and development expenses, general and administrative expenses and other operating income/expenses, reached € 2 180 million (+2%) and reflected:

- > 4% higher marketing and selling expenses of € 940 million. While the continued growth of Cimzia®, Vimpat® and Neupro® enables synergies and efficiencies, UCB has been launching Briviact® in Europe and North America since January and June 2016, respectively;
- > 2% lower research and development expenses of € 1 020 million. The advances in the late-stage clinical development pipeline – namely the Phase 3 program for Evenity™ (*romosozumab*) – and the start of Phase 2b clinical development programs for bimekizumab (October 2016) led to slightly lower R&D expenses in 2016 compared to 2015. The R&D ratio (as a % of revenue) for 2016 was 24% after 27% in 2015;
- > 5% lower general and administrative expenses of € 184 million, thanks to tight cost control and continued improvements;

- > Other operating expenses of € 36 million after € 9 million, related to the decrease in grants received, the disposal of software and provisions related to toll manufacturing.

Recurring EBIT increased to € 796 million, a plus of 38% compared to 2015:

- > Total amortization of intangible assets (product related and other) were unchanged at € 169 million;
- > Depreciation charges decreased to € 66 million (-11%). The charges include € 10 million related to the pre-financing capital expenditure agreement between UCB and Lonza for the manufacturing by Lonza of PEGylated antibody fragment-based bulk active compounds, recognized in the cost of sales and are added back for recurring EBITDA calculation purposes.

Recurring EBITDA increased to € 1 031 million after € 821 million (+26%), driven by the higher gross profit and the only slight increase of operating expenses in 2016. The recurring EBITDA ratio (in % of revenue) reached 25%, from 21% in 2015.

## 2.9 | PROFIT

€ million	ACTUAL		VARIANCE	
	2016	2015	ACTUAL RATES	CER
<b>Recurring EBIT</b>	<b>796</b>	<b>577</b>	<b>38%</b>	<b>27%</b>
Impairment charges	-12	-88	-86%	-85%
Restructuring expenses	-33	-27	25%	25%
Gain on disposals	171	139	23%	23%
Other non recurring income/expenses (-)	-46	-79	-66%	-65%
<b>Total non recurring income/expenses (-)</b>	<b>80</b>	<b>-55</b>	<b>&gt; 100%</b>	<b>&gt; 100%</b>
<b>EBIT (operating profit)</b>	<b>876</b>	<b>522</b>	<b>68%</b>	<b>55%</b>
Net financial expenses (-)	-112	-96	16%	17%
Result from associates	-0	-0	> 100%	> 100%
<b>Profit before income taxes</b>	<b>764</b>	<b>426</b>	<b>79%</b>	<b>63%</b>
Income tax expenses	-199	-111	79%	63%
<b>Profit from continuing operations</b>	<b>564</b>	<b>315</b>	<b>79%</b>	<b>63%</b>
Profit/loss (-) from discontinued operations	-23	359	> -100%	> -100%
<b>Profit</b>	<b>542</b>	<b>674</b>	<b>-20%</b>	<b>-27%</b>
Attributable to UCB shareholders	520	623	-17%	-25%
Attributable to non-controlling interests	22	51	-56%	-56%
<b>Profit attributable to UCB shareholders</b>	<b>520</b>	<b>623</b>	<b>-17%</b>	<b>-25%</b>
<b>Core profit attributable to UCB shareholders</b>	<b>600</b>	<b>417</b>	<b>44%</b>	<b>34%</b>
Weighted average number of shares (million)	188	192	-2%	
<b>Core EPS attributable to UCB shareholders (€)</b>	<b>3.19</b>	<b>2.17</b>	<b>47%</b>	<b>36%</b>

Total non-recurring income/expenses (-) reached € 80 million pre-tax income, compared to € 55 million pre-tax expenses in 2015. The main driver of this income is the gain (€ 171 million) from divestitures of UCB's established brands nitrates as well as the divestiture of *venlafaxine ER* in the U.S. (see "2016 Key Events" section). The 2015 non-recurring items included a gain from the divestiture of UCB's established brands in India; impairments of intangible assets related to a Phase 3 project (*epratuzumab*) and other intangible assets, a write-off of a tangible asset sold, restructuring expenses and other expenses related to litigations.

Net financial expenses increased to € 112 million from € 96 million, mainly due to the € 28 million impairment of the Lannett warrants received pursuant to the sale of Kremers Urban in 2015.

Income tax expenses were € 199 million compared to € 111 million in 2015. The average effective tax rate on recurring activities was 26% compared to 24% in 2015. The effective tax rate 2016 has increased from the previous year following an internal reorganisation which resulted in the derecognition of tax losses.

Profit/loss from discontinued operations, reflecting the divestiture and activities respectively of Kremers Urban, reached a loss of € 23 million after a profit of € 359 million in 2015. In November 2015, the divestiture of UCB's U.S. specialty generics business, Kremers Urban, to Lannett was successfully closed.

The profit of the Group amounted to € 542 million (after € 674 million), of which € 520 million is attributable to UCB shareholders and € 22 million to non-controlling interests. For 2015, profit was positively impacted by the divestiture of Kremers Urban and reached € 674 million, of which € 623 million were attributable to UCB shareholders and € 51 million to non-controlling interests.

## 2.10 | CORE EPS

€ million	ACTUAL		VARIANCE	
	2016	2015	ACTUAL RATES	CER
<b>Profit</b>	<b>542</b>	<b>674</b>	<b>-20%</b>	<b>-27%</b>
Attributable to UCB shareholders	520	623	-17%	-25%
Attributable to non-controlling interests	22	51	-56%	-56%
<b>Profit attributable to UCB shareholders</b>	<b>520</b>	<b>623</b>	<b>-17%</b>	<b>-25%</b>
Total non-recurring income (-)/expenses	-80	55	> 100%	> 100%
Income tax on non-recurring expenses (-)/ credit	15	-4	> 100%	> 100%
Financial one-off income (-)/expenses	23	2	> 100%	> 100%
Income tax on financial one-off income/expenses (-)	-1	0	N/A	N/A
Profit (-)/loss from discontinued operations	23	-359	>100%	>100%
Amortization of intangibles linked to sales	126	137	-8%	-7%
Income tax on amortization of intangibles linked to sales	-26	-37	29%	29%
<b>Core profit attributable to UCB shareholders</b>	<b>600</b>	<b>417</b>	<b>44%</b>	<b>34%</b>
Weighted average number of shares (million)	188	192	-2%	
<b>Core EPS attributable to UCB shareholders (€)</b>	<b>3.19</b>	<b>2.17</b>	<b>47%</b>	<b>36%</b>

The profit attributable to UCB shareholders, adjusted for the after-tax impact of non-recurring items, the financial one-offs, the after-tax contribution from discontinued operations and the net amortization of intangibles linked to sales, reached € 600 million (+44%), leading to a core earnings per share (EPS) of € 3.19, compared to € 2.17 in 2015, per non-dilutive weighted average number of shares of 188 million and 192 million, respectively.

## 2.11 | CAPITAL EXPENDITURE

In 2016, the tangible capital expenditure resulting from UCB biopharmaceutical activities amounted to € 108 million (2015: € 71 million). The 2016 capital expenditures related mainly to IT hardware and other plant & equipment.

Acquisition of intangible assets reached € 30 million in 2016 (2015: € 75 million) for software development costs and in-licencing deals.

In addition, as foreseen in the agreement between UCB and Lonza for the manufacturing by Lonza of PEGylated antibody fragment-based bulk active compounds, UCB has participated in the pre-financing of the related capital expenditure. Depreciation charges on this investment are recognized in the cost of goods sold and is added back for recurring EBITDA calculation purposes.

## 2.12 | BALANCE SHEET

The intangible assets decreased by € 180 million from € 1 055 million at 31 December 2015 to € 875 million at 31 December 2016. This includes the ongoing amortization of the intangible assets (€ 159 million), the disposal of intangibles of the nitrates business, partially offset by additions through in-licensing, software and capitalized eligible software development costs.

Goodwill went slightly up from € 5 164 million at 31 December 2015 to € 5 178 million stemming from a stronger U.S. dollar, offset by a weakened British pound compared to December 2015.

Other non-current assets decreased by € 71 million, mainly driven by an increase in deferred tax assets, increasing property, plant and equipment, more than offset with the repayment of the US\$ 200 million Lannett note.

The current assets decrease from € 2 838 million as of 31 December 2015 to € 2 331 million as of 31 December 2016 relates to slightly higher working capital and cash movements, including the bond repayments, the payment of taxes related to the sale of Kremers Urban in 2015 and the cash-in related to the sale of non-core assets.

UCB's shareholders' equity, at € 5 477 million, showed a decrease of € 69 million between 31 December 2015 and 31 December 2016. The important changes stem from the net profit after non-controlling interests (€ 520 million), impacted by the US\$ and £ currency translation (€ 50 million), offset by dividend payments (€ 212 million), employee benefits (€ 89 million) and the repayment of hybrid capital (€ 300 million).

The non-current liabilities amounted to € 2 317 million, a decrease of € 32 million.

The **current liabilities** amounted to € 2 418 million, down € 643 million, due to decrease of income tax payables related to the sale of Kremers Urban in 2015, and the repayment of short term borrowings and bonds.

The **net debt** decreased by € 83 million from € 921 million as of end December 2015 to € 838 million as per end December 2016, and mainly relates to the underlying net profitability, the sale of non-core assets and the repayment of the Lannett note offset by the dividend payment on the 2015 results, the repayment of the bonds, payment of taxes related to the sale of Kremers Urban in 2015. The net debt to recurring EBITDA ratio for 2016 reached 0.8 after 1.12 for 2015 and thus surpassed UCB mid-term target of 1:1 two years ahead of time.

## 2.13 | CASH FLOW STATEMENT

The evolution of cash flow generated by bio-pharmaceuticals activities is affected by the following:

- > **Cash flow from operating activities** amounted to € 427 million, of which € 726 million from continuing operations, compared to € 204 million in 2015. The underlying net profitability and the improvement of working capital is offset by the taxes paid related to the sale of Kremers Urban.
- > **Cash flow from investing activities** showed an inflow of € 317 million in 2016, of which € 133 million from continuing operations, compared to € 19 million in 2015. The divestment of non-core assets from the established brand portfolio (mainly nitrates and *venlafaxine ER*) generated € 273 million and Lannett reimbursed the US\$ 200 million outstanding senior unsecured loan notes, offset by the investment in tangible and intangible assets.
- > **Cash flow from financing activities** has an outflow of € 1 267 million, which includes the dividend paid to UCB shareholders and the shareholders of the perpetual subordinated bond (€ 231 million), the reimbursement of the perpetual subordinated bond (€ 300 million) and the senior unsecured bond (€ 500 million), the acquisition of treasury shares (€ 49 million) and the repayment of short term borrowings (€ 107 million).

## 2.14 | OUTLOOK 2017

For 2017, UCB expects the continued growth of its core products driving company growth. UCB will also advance its development pipeline to offer potential new solutions for patients.

2017 **revenue** reporting is impacted by the product divestitures in 2016 as well as IFRS 15, and is expected to reach approximately € 4.25–4.35 billion. **Recurring EBITDA** should increase to approximately € 1.15–1.2 billion. **Core earnings per share** are therefore expected in the range of € 3.70–4.00 based on an average of 188 million shares outstanding.

The figures for the outlook 2017 as mentioned above are calculated on the same basis as the actual figures for 2016 as mentioned earlier in this management report as well as in the consolidated financial statements as at 31 December 2016 and 2015 with the exception of the following:

- > The assumptions taken for the outlook 2017 conservatively take into account the expected restrained effect on revenue from the implementation of IFRS 15;
- > Lower net sales of established brands due to divestitures during 2016 (nitrates, *venlafaxine ER*).



# 03.

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**Sheila**, living with Parkinson's disease

# CONSOLIDATED FINANCIAL STATEMENTS

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2. CONSOLIDATED STATEMENT  
OF COMPREHENSIVE INCOME
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OF FINANCIAL POSITION
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OF CHANGES IN EQUITY

# 1 | CONSOLIDATED INCOME STATEMENT

For the year ended 31 December	NOTE	2016	2015
€ million			
<b>CONTINUING OPERATIONS</b>			
Net sales	5	3 858	3 512
Royalty income and fees		125	176
Other revenue	7	195	188
<b>Revenue</b>		<b>4 178</b>	<b>3 876</b>
Cost of sales		-1 202	-1 157
<b>Gross profit</b>		<b>2 976</b>	<b>2 719</b>
Marketing and selling expenses		-940	-904
Research and development expenses		-1 020	-1 037
General and administrative expenses		-184	-192
Other operating income/expenses (-)	10	-36	-9
<b>Operating profit before impairment, restructuring and other income and expenses</b>		<b>796</b>	<b>577</b>
Impairment of non-financial assets	11	-12	-88
Restructuring expenses	12	-33	-27
Other income/expenses (-)	13	125	60
<b>Operating profit</b>		<b>876</b>	<b>522</b>
Financial income	14	62	34
Financial expenses	14	-174	-130
Share of loss of associates		-0	-0
<b>Profit before income taxes</b>		<b>764</b>	<b>426</b>
Income tax expense	15	-199	-111
<b>Profit from continuing operations</b>		<b>565</b>	<b>315</b>
<b>DISCONTINUED OPERATIONS</b>			
<b>Profit/loss (-) from discontinued operations</b>	6	-23	359
<b>PROFIT</b>		<b>542</b>	<b>674</b>
<b>Attributable to:</b>			
Equity holders of UCB SA		520	623
Non-controlling interests		22	51
<b>BASIC EARNINGS PER SHARE (€)</b>			
from continuing operations	37	2.88	1.38
from discontinued operations	37	-0.12	1.87
<b>Total basic earnings per share</b>		<b>2.76</b>	<b>3.25</b>
<b>DILUTED EARNINGS PER SHARE (€)</b>			
from continuing operations	37	2.88	1.38
from discontinued operations	37	-0.12	1.87
<b>Total diluted earnings per share</b>		<b>2.76</b>	<b>3.25</b>

## 2 | CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	NOTE	2016	2015
€ million			
<b>PROFIT FOR THE PERIOD</b>		<b>542</b>	<b>674</b>
<b>Other comprehensive income</b>			
Items to be reclassified to profit or loss in subsequent periods:			
- Net gain/loss (-) on available for sale financial assets		-1	30
- Exchange differences on translation of foreign operations		-53	303
- Effective portion of gains/losses (-) on cash flow hedges		-17	12
- Income tax relating to the components of other comprehensive income to be reclassified to profit or loss in subsequent periods		13	0
Items not to be reclassified to profit or loss in subsequent periods:			
- Remeasurement of defined benefit obligation	30	-107	13
- Income tax relating to the components of other comprehensive income not to be reclassified to profit or loss in subsequent periods		18	17
<b>Other comprehensive income/loss (-) for the period, net of tax</b>		<b>-147</b>	<b>375</b>
<b>Total comprehensive income for the period, net of tax</b>		<b>395</b>	<b>1 049</b>
Attributable to:			
Equity holders of UCB SA		376	1 015
Non-controlling interests		19	34
<b>Total comprehensive income for the period, net of tax</b>		<b>395</b>	<b>1 049</b>



### 3 | CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	2016	2015
€ million			
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	17	875	1 055
Goodwill	18	5 178	5 164
Property, plant and equipment	19	678	651
Deferred income tax assets	29	953	843
Financial and other assets (including derivative financial instruments)	20	197	405
<b>Total non-current assets</b>		<b>7 881</b>	<b>8 118</b>
<b>Current assets</b>			
Inventories	21	578	566
Trade and other receivables	22	884	836
Income tax receivables		5	19
Financial and other assets (including derivative financial instruments)	20	86	54
Cash and cash equivalents	23	761	1 285
Assets of disposal group classified as held for sale	6.2	17	78
<b>Total current assets</b>		<b>2 331</b>	<b>2 838</b>
<b>Total assets</b>		<b>10 212</b>	<b>10 956</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Capital and reserves attributable to UCB shareholders	24	5 584	5 672
Non-controlling interests	20.6	-107	-126
<b>Total equity</b>		<b>5 477</b>	<b>5 546</b>
<b>Non-current liabilities</b>			
Borrowings	26	331	349
Bonds	27	1 243	1 236
Other financial liabilities (including derivative financial instruments)	28	94	117
Deferred income tax liabilities	29	10	48
Employee benefits	30	479	417
Provisions	31	105	76
Trade and other liabilities	32	55	106
<b>Total non-current liabilities</b>		<b>2 317</b>	<b>2 349</b>
<b>Current liabilities</b>			
Borrowings	26	27	117
Bonds	27	0	506
Other financial liabilities (including derivative financial instruments)	28	142	131
Provisions	31	61	66
Trade and other liabilities	32	1 860	1 688
Income tax payables	33	328	553
Liabilities of disposal group classified as held for sale	6.2	0	0
<b>Total current liabilities</b>		<b>2 418</b>	<b>3 061</b>
<b>Total liabilities</b>		<b>4 735</b>	<b>5 410</b>
<b>Total equity and liabilities</b>		<b>10 212</b>	<b>10 956</b>

## 4 | CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December	NOTE	2016	2015
€ million			
<b>Profit for the year attributable to UCB shareholders</b>		<b>520</b>	<b>623</b>
Non-controlling interests		22	50
Adjustment for profit (-)/loss from discontinued operations	6	23	-359
Adjustment for non-cash transactions	34	216	313
Adjustment for items to disclose separately under operating cash flow	34	199	111
Adjustment for items to disclose under investing and financing cash flows	34	-129	-59
Change in working capital	34	46	83
Share swaps	34	0	-190
Interest received	14	17	5
<b>Cash flow generated from operations</b>		<b>914</b>	<b>577</b>
Tax paid during the period		-487	-331
<b>Net cash flow used in (-)/generated by operating activities:</b>			
From continuing operations		726	204
From discontinued operations		-299	42
<b>NET CASH FLOW GENERATED BY OPERATING ACTIVITIES</b>		<b>427</b>	<b>246</b>
Acquisition of property, plant and equipment	19	-108	-71
Acquisition of intangible assets	17	-30	-75
Acquisition of subsidiaries, net of cash acquired		0	-2
Acquisition of other investments		-2	-1
<b>Sub-total acquisitions</b>		<b>-140</b>	<b>-150</b>
Proceeds from sale of intangible assets		2	41
Proceeds from sale of property, plant and equipment		2	4
Proceeds from sale of subsidiaries, net of cash disposed	6	191	880
Proceeds from sale of other activities, net of cash disposed		260	106
Proceeds from sale of other investments		2	8
Dividends received		0	0
<b>Sub-total disposals</b>		<b>457</b>	<b>1 039</b>
<b>Net cash flow used in (-)/generated by investing activities:</b>			
From continuing operations		133	19
From discontinued operations		184	870
<b>NET CASH FLOW USED IN (-)/GENERATED BY INVESTING ACTIVITIES</b>		<b>317</b>	<b>889</b>
Redemption of perpetual subordinated bond	24.2	-300	0
Proceeds from issuance of bonds	27.3	0	346
Repayment of bonds (-)	27.3	-500	0
Proceeds from borrowings	26	0	153
Repayments of borrowings (-)	26	-107	-424
Payment of finance lease liabilities		-1	-3
Acquisition (-)/disposal of treasury shares	24	-49	-122
Dividend paid to UCB shareholders, net of dividend paid on own shares	24.2, 38	-231	-225
Interest paid	14	-79	-91
<b>Net cash flow used in (-)/generated by financing activities:</b>			
From continuing operations		-1 267	-366
From discontinued operations		0	0
<b>NET CASH FLOW USED IN FINANCING ACTIVITIES</b>		<b>-1 267</b>	<b>-366</b>
<b>NET INCREASE/DECREASE (-) IN CASH AND CASH EQUIVALENTS</b>		<b>-523</b>	<b>769</b>
From continuing operations		-408	-143
From discontinued operations		-115	912
<b>NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		<b>1 277</b>	<b>507</b>
Effect of exchange rate fluctuations		2	1
<b>NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>756</b>	<b>1 277</b>

## 5 | CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2016 – € MILLION	ATTRIBUTED TO EQUITY HOLDERS OF UCB SA										
	Share capital and share premium	Hybrid capital	Treasury shares	Retained earnings	Other reserves	Cumulative translation adjustments	Available for sale financial assets	Cash flow hedges	Total	Non-controlling interests	Total stockholders' equity
<b>Balance at 1 January 2016</b>	<b>2 614</b>	<b>295</b>	<b>-295</b>	<b>2 915</b>	<b>-66</b>	<b>182</b>	<b>43</b>	<b>-16</b>	<b>5 672</b>	<b>-126</b>	<b>5 546</b>
Profit for the period				520					520	22	542
Other comprehensive income/loss (-)					-89	-50	-1	-4	-144	-3	-147
<b>Total comprehensive income</b>				<b>520</b>	<b>-89</b>	<b>-50</b>	<b>-1</b>	<b>-4</b>	<b>376</b>	<b>19</b>	<b>395</b>
Dividends (Note 38)				-207					-207		-207
Share-based payments (Note 25)				52					52		52
Transfer between reserves		5	16	-12	-9				0		0
Treasury shares (Note 24)			-4						-4		-4
Repayment of capital		-300							-300		-300
Dividend to shareholders of perpetual subordinated bonds (Note 24)				-5					-5		-5
<b>Balance at 31 December 2016</b>	<b>2 614</b>	<b>0</b>	<b>-283</b>	<b>3 263</b>	<b>-164</b>	<b>132</b>	<b>42</b>	<b>-20</b>	<b>5 584</b>	<b>-107</b>	<b>5 477</b>
2015 – € MILLION	ATTRIBUTED TO EQUITY HOLDERS OF UCB SA										
	Share capital and share premium	Hybrid capital	Treasury shares	Retained earnings	Other reserves	Cumulative translation adjustments	Available for sale financial assets	Cash flow hedges	Total	Non-controlling interests	Total stockholders' equity
<b>Balance at 1 January 2015</b>	<b>2 614</b>	<b>295</b>	<b>-173</b>	<b>2 515</b>	<b>-96</b>	<b>-138</b>	<b>13</b>	<b>-28</b>	<b>5 002</b>	<b>-160</b>	<b>4 842</b>
Profit for the period				623					623	51	674
Other comprehensive income/loss (-)					30	320	30	12	392	-17	375
<b>Total comprehensive income</b>				<b>623</b>	<b>30</b>	<b>320</b>	<b>30</b>	<b>12</b>	<b>1 015</b>	<b>34</b>	<b>1 049</b>
Dividends (Note 38)				-202					-202		-202
Share-based payments (Note 25)				39					39		39
Transfer between reserves			37	-37					0		0
Treasury shares (Note 24)			-159						-159		-159
Dividend to shareholders of perpetual subordinated bonds (Note 24)				-23					-23		-23
<b>Balance at 31 December 2015</b>	<b>2 614</b>	<b>295</b>	<b>-295</b>	<b>2 915</b>	<b>-66</b>	<b>182</b>	<b>43</b>	<b>-16</b>	<b>5 672</b>	<b>-126</b>	<b>5 546</b>





# 04.

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**Mariana,**  
living with epilepsy



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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# 1. GENERAL INFORMATION

UCB SA/NV (UCB or the Company) and its subsidiaries (together the Group) is a global biopharmaceutical company focused on severe diseases in three therapeutic areas namely Neurology, Immunology and Bone.

The consolidated financial statements of the Company as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries. Within the Group, UCB Pharma SA and UCB S.R.O, both wholly owned subsidiaries, have branches in the U.K. and Slovakia, respectively, that are integrated into their accounts.

UCB SA/NV, the parent company, is a limited liability company incorporated and domiciled in Belgium.

The registered office is at 60, Allée de la Recherche, B-1070 Brussels, Belgium. UCB SA is listed on the Euronext Brussels Stock Exchange.

The Board of Directors approved these consolidated financial statements and the statutory financial statements of UCB SA for issue on 22 February 2017. The shareholders will be requested to approve the statutory financial statements of UCB SA at their annual meeting on 27 April 2017.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

## 2.1 | BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as endorsed by the European Union as of 31 December 2016.

The consolidated financial statements have been prepared using the historical cost convention, except that certain items including available for sale financial assets, derivative financial instruments and liabilities for cash-settled share based payment arrangements are measured at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

## 2.2 | CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

A number of amendments and annual improvements to standards are mandatory for the first time for the financial year beginning 1 January 2016. However, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amendments and improvements to the standards.

## 2.3 | NEW STANDARDS AND AMENDMENTS TO STANDARDS NOT YET ADOPTED

Certain new standards and amendments to existing standards have been issued by the IASB but are not effective for the financial year beginning on 1 January 2016 and have not been early adopted by the Group.

- > **IFRS 9 *Financial Instruments*** (effective from 1 January 2018) addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The complete version of IFRS 9 was issued in July 2014 and replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. It introduces a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. The Group is yet to assess IFRS 9's full impact.
- > **IFRS 15 *Revenue from Contracts with Customers*** (effective from 1 January 2018) provides that an entity should recognize revenue to represent the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity is expected to be entitled in exchange for those goods and services. Specifically, the standard introduces a 5-step approach to revenue recognition:



1. Identify the contract(s) with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract;
5. Recognize revenue when (or as) the entity satisfies a performance obligation *i.e.* when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

In order to assess the impact of the implementation of the new revenue standard on the Group's consolidated financial statements, following actions have been taken in 2016:

- IFRS 15 learning sessions were organized for all finance teams and a checklist including 20 questions relating to the applicability of specific situations for each of the 5 steps of the revenue recognition process under IFRS 15 was developed;
- All finance teams have filled out the checklist after consultation with local contract and pricing managers, commercial and wholesale managers, supply chain managers, compliance managers, finance and planning analysts and other employees involved in the revenue cycle if applicable.
- The responses provided in the checklists, further follow-up, discussion and analysis lead to an initial assessment of the impact of IFRS 15.

A more detailed assessment including a quantitative impact analysis of the new revenue standard will be completed during the first months of 2017.

As far as revenues resulting from out-licensing agreements are concerned, IFRS 15 learning sessions were organized for all IP owning subsidiaries. Detailed analysis for each material out-licensing agreement is being done in order to assess the impact.

Based on the initial assessment of the impact of IFRS 15, following areas will likely be affected:

- Classification of commission expenses: certain commission expenses which are currently taken up under "Marketing and selling expenses" would need to be classified to "Net sales" under IFRS 15 as they would need to be considered as part of the variable transaction price.
- Classification of payments to governmental agencies: the Group is currently still assessing the current classification
- Accounting for revenues resulting from out-licensing agreements recognized as "Other revenue": the application of the specific guidance in IFRS 15 relating to licenses will have an impact on the timing and amounts recognized as revenue for out-licensing agreements. A further analysis of all major out-licensing agreements still needs to be performed in order to assess the full impact.

Although at this stage, the Group is not able yet to assess the detailed quantified impact of the new revenue guidance on its consolidated financial statements, revenues are expected to decrease. A more detailed assessment will be made during the next months. The Group anticipates an early adoption of the new revenue standard in 2017 and will still decide upon the fact whether a full or modified retrospective approach will be followed based upon the outcome of the detailed assessment.

- > **IFRS 16 Leases** (effective from 1 January 2019) specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained in this case. The Group is yet to assess the full impact of this new standard.

There are no other standards or amendments to standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

## 2.4 | CONSOLIDATION

### 2.4.1 | SUBSIDIARIES

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration agreement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent



consideration that is deemed to be an asset or liability is recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### 2.4.2 | **CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL**

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

#### 2.4.3 | **DISPOSAL OF SUBSIDIARIES**

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

#### 2.4.4 | **ASSOCIATES**

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20%-50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

When the Group ceases to equity account for an investment because of a loss of significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. The fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as a financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are classified to profit or loss where appropriate.

The Group share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

The carrying amount of investments in associates is tested for impairment in accordance with the policy described in note 2.10. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognized in the income statement.

#### 2.4.5 | **INTERESTS IN JOINT OPERATIONS**

A joint operation is a joint arrangement whereby the parties, or joint operators that have joint control of the arrangement, have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

When conducting activities under joint operations, the Group recognizes in relation to its interest in a joint operation:

- > its assets, including its share of any assets held jointly;
- > its liabilities, including its share of any liability incurred jointly;
- > its revenue from the sale of its share of the output arising from the joint operations;
- > its share of the revenue from the sale of the output by the joint operation;
- > its expenses, including its share of any expenses incurred jointly.

When a Group entity transacts with a joint operation in which a Group entity is a joint operator, the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Group's consolidated financial statements only to the extent of the other parties' interests in the joint operation.

## 2.5 | SEGMENT REPORTING

The Group's activities are in one segment, Biopharmaceuticals. There are no other significant classes of business, either singularly or in aggregate. The Chief Operating Decision Makers, being the Executive Committee, review the operating results and operating plans, and make resource allocation decisions on a company-wide basis; therefore UCB operates as one segment.

## 2.6 | FOREIGN CURRENCY TRANSLATION

The following important exchange rates were used in preparing the consolidated financial statements:

	CLOSING RATE		AVERAGE RATE	
	2016	2015	2016	2015
<b>USD</b>	1.055	1.087	1.106	1.109
<b>JPY</b>	123.040	130.610	120.054	134.228
<b>GBP</b>	0.854	0.737	0.817	0.726
<b>CHF</b>	1.073	1.086	1.090	1.067

The closing rates represent spot rates as at 31 December 2016 and 31 December 2015.

### 2.6.1 | FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the individual financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in euro (€), which is the functional currency of the Company, and the presentation currency of the Group.

## 2.6.2 | TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement under Financial income or Financial expenses, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges or when attributable to part of the net investment in a foreign operation.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized in other comprehensive income.

### 2.6.3 | GROUP COMPANIES

The results and financial position of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- > assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- > income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- > all resulting exchange differences are recognized in other comprehensive income (referred to as "cumulative translation adjustments").

On consolidation, exchange difference arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken

to other comprehensive income. When a foreign operation is partially or wholly disposed of or sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## 2.7 | REVENUE

Revenue is recognized when it is probable that future economic benefits associated with the transaction will flow to the entity and that these benefits can be measured reliably. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved.

Revenue represents the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group activities. Revenue is shown net of value added tax, returns, rebates, trade discounts, and cash discounts related to Medicaid and Medicare in the U.S. and similar programs in other countries.

### 2.7.1 | NET SALES

Revenue from the sale of goods is recognized when:

- > the significant risks and rewards of the ownership of goods are transferred to the buyer;
- > the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- > the amount of revenue can be measured reliably;
- > it is probable that the economic benefits associated with the transaction will flow to the entity; and
- > the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Estimates of expected sales returns, charge-backs granted to government agencies, wholesalers, managed care and other customers are deducted from revenue at the time the related revenue is recorded or when the incentives are offered.

Such estimates are calculated on the basis of historical experience and the specific terms in the individual agreements.

### 2.7.2 | ROYALTY INCOME

Royalties are recognized on an accrual basis in accordance with the substance of the relevant agreement.

### 2.7.3 | OTHER REVENUE

Other revenue comprises revenue generated through out-licensing and profit-sharing agreements as well as contract manufacturing agreements. Other revenue is recognized as it is earned or as the related service is performed.

The Group receives from third parties upfront, milestone and other similar payments related to the sale or out-licensing of products. Revenue associated with performance milestones is recognized based upon the achievement of the milestone event if the event is substantive, objectively determinable and represents an important point in the development life cycle of the pharmaceutical product. Upfront payments and license fees for which there are subsequent deliverables are initially reported as deferred income and are recognized as revenue when earned over the period of the development collaboration or the manufacturing obligation.

### 2.7.4 | INTEREST INCOME

Interest is recognized on a time proportion basis that takes into account the effective yield on the asset.

### 2.7.5 | DIVIDEND INCOME

Dividends are recognized when the shareholder's right to receive the payment is established.

## 2.8 | COST OF SALES

Cost of sales includes primarily the direct production costs, related production overheads and the amortization of the related intangible assets as well as services rendered. Start-up costs are expensed as incurred. Royalty expenses directly linked to goods sold are included in "cost of goods sold".

## 2.9 | RESEARCH AND DEVELOPMENT

### 2.9.1 | INTERNALLY-GENERATED INTANGIBLE ASSETS, RESEARCH AND DEVELOPMENT EXPENDITURE

All internal research costs are expensed as incurred. Internal development expenditure is capitalized only if it meets the recognition criteria of IAS 38 *Intangible Assets*. Due to long development periods and significant uncertainties related to the development of new products (such as the risks related to the outcome of clinical trials as well as the likelihood of regulatory approval), internal development costs generally do not qualify for capitalization as intangible assets. At 31 December 2016, no internal development expenditures have met the recognition criteria except for development expenses relating to devices.

## 2.9.2 | ACQUIRED INTANGIBLE ASSETS

Payments for acquired in-process research and development projects obtained through in-licensing arrangements, business combinations or separate asset purchases are capitalized as intangible assets provided that they are separately identifiable, controlled by the Group and expected to provide future economic benefits. As the probability criterion in IAS 38 is always considered to be satisfied for separately acquired research and development assets and the amount of the payments is determinable, upfront and milestone payments to third parties for pharmaceutical products or compounds for which regulatory marketing approval has not yet been obtained are recognized as intangible assets, and amortized on a straight line basis over their useful lives from the date on which regulatory approval is obtained.

## 2.10 | IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the Group reviews the carrying amounts of its intangible assets, goodwill, property, plant and equipment and investments in associates to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Irrespective of whether there is an indication of impairment, an impairment assessment of the intangibles not yet available for use and goodwill is carried out annually. These assets are not amortized. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. To determine the value in use, the Group uses estimates of future cash flows generated by the asset or the CGU, using the same methods as those used in the initial measurement of the asset or the CGU on the basis of the medium-term plans of each business activity. Estimated cash flows are discounted using an appropriate rate that reflects current market assessments of the time value of money and the risks specific to the asset or the CGU.

An impairment loss is recognized directly in the income statement under the "impairment of non-financial assets" caption. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. The reversal of the impairment is recognized in the income statement. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no

impairment loss had been recognized. Impairment losses on goodwill are never reversed.

Intangible assets are assessed for impairment either on a compound by compound basis or by indication where applicable.

## 2.11 | RESTRUCTURING EXPENSES, OTHER INCOME AND EXPENSES

The expenses made by the Group in order to be better positioned to face the economic environment in which it operates are presented in the income statement as "restructuring expenses".

The gains and losses arising upon the sale of intangible assets other than development stage assets or property, plant and equipment as well as increases or reversals of provisions for litigations, other than tax litigations or litigations related to discontinued operations, are presented in the income statement as "other income and expenses".

## 2.12 | INCOME TAXES

The tax expense for the period comprises current and deferred income taxes. Tax expense is recognized in the income statement except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In the case of items recognized in other comprehensive income or in equity, the tax is also recognized in other comprehensive income or directly in equity, respectively.

For the accounting policies related to R&D tax credits we refer to 2.13.2 under Government grants.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income.

Current tax assets and tax liabilities are offset if there is a legally enforceable right to offset and intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred income tax liabilities are generally recognized for all taxable temporary differences and deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences, carried forward tax credits or carried forward losses can be utilized. Deferred income tax is not accounted for if it arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in



a transaction (other than in a business combination) that at the time of the transaction affects neither accounting nor taxable profit.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. The Group only considers substantively enacted tax laws when estimating the amount of deferred taxes to be recognized. Deferred tax assets and liabilities are not discounted.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are only offset if there is a legally enforceable right to offset current tax liabilities and assets and the deferred income taxes relate to the same taxable entity and the same taxation authority.

## 2.13 | GOVERNMENT GRANTS

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

### 2.13.1 | RECOVERABLE CASH PAYMENTS RECEIVED FROM THE GOVERNMENT

The Group receives cash payments from the government to partially finance certain research and development projects. The cash payments received from the government are repayable in cash only if the Group decides to exploit and commercialize the results of the research phase of the related project. If the Group decides not to proceed with the results from the research phase, the cash payments are not repayable. In this case the rights to the research need to be transferred to the government. When the Group receives these cash payments, these are accounted for as other non-current liabilities. Only at the moment when there is reasonable assurance that the Group will not have to reimburse the cash payments, these cash payments are accounted for as government grants and taken up in "other operating income". More specifically, this is at the moment the government confirms the receipt of the research results and its agreement with the Group's decision not to proceed with the research.

## 2.13.2 | R&D TAX CREDIT

The R&D tax credit is considered as a government grant related to assets if no additional relevant requirements are to be met that are not directly related to the asset. The tax credit is taken in profit and loss in line with the costs it is intended to compensate. If the tax credit is received to compensate research and development expenses that are not capitalized, the R&D tax credit is recognized in P&L at the same moment as the research and development expenses as a credit to the line "Research and development expenses". If the tax credit is received to compensate amortizations on intangible assets eg. licences, the R&D tax credit is recognized in profit and loss over the (remaining) useful life of the asset and reported as "Other operating income".

The part of the R&D tax credit that can not be deducted from the taxable income is accounted for as a deferred tax asset. The part of the R&D tax credit that can be deducted from taxable income is debited to the current income tax liability. If the R&D tax credit is not refundable by the tax authorities, the recoverability of the deferred tax asset is assessed on a regular basis as for the other deferred tax assets.

## 2.14 | INTANGIBLE ASSETS

### 2.14.1 | PATENTS, LICENSES, TRADEMARKS AND OTHER INTANGIBLE ASSETS

Patents, licenses, trademarks and other intangible assets (collectively referred to as "intangible assets") are shown at historical cost. Intangible assets acquired in a business combination are recognized at fair value at the acquisition date.

Intangible assets (except for goodwill) are amortized over their useful lives on a straight-line basis as from the moment they are available for use (*i.e.* when regulatory approval has been obtained). Estimated useful life is based on the lower of the contract life or the economic useful life (generally between 5 to 20 years). Intangible assets (except for goodwill) are considered to have a finite economic useful life; therefore no intangible assets with an indefinite life have been identified.

### 2.14.2 | COMPUTER SOFTWARE

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (3 to 5 years) on a straight-line basis.

## 2.15 | GOODWILL

Goodwill arises on the acquisition of subsidiaries and associates and represents the excess of the consideration transferred over the Group's interest in the net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair

value of the non-controlling interest in the acquiree. Goodwill is initially recognized as an asset at cost and is subsequently carried at cost less accumulated impairment losses. Goodwill related to the acquisition of subsidiaries is presented separately on the face of the balance sheet, whereas goodwill arising upon acquisition of associated companies is included in the investment in associated companies.

UCB operates as one segment and has one cash generating unit for the purpose of impairment testing.

As goodwill is considered to have an indefinite life, it is tested for impairment annually, and whenever there is an indication that it may be impaired, by comparing its carrying amount with its recoverable amount. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Impairment losses on goodwill are not reversed.

On disposal of a subsidiary or an associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the entity.

In the event that the fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess remaining after reassessment is recognized directly in profit or loss.

## 2.16 | **PROPERTY, PLANT AND EQUIPMENT**

All property, plant and equipment are carried at cost less accumulated depreciation and impairment losses except for property, plant and equipment under construction, which is carried at cost less accumulated impairment losses.

Cost includes all directly attributable costs of bringing the asset to its working condition for its intended use.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed as they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of assets, other than land and properties under construction, to their residual values over their estimated useful lives. Depreciation

commences when the asset is ready to be used. Land is not depreciated.

The residual value and the useful life of an asset are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) is(are) accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The following useful lives are applicable to the main property, plant and equipment categories:

> Buildings	20-33 years
> Machinery	7-15 years
> Laboratory equipment	7 years
> Prototype equipment	3 years
> Furniture and fixtures	7 years
> Vehicles	5-7 years
> Computer equipment	3 years
> Asset held under finance lease	shorter of asset's useful life and leasing term

Gains and losses on disposals are determined by comparing the proceeds from disposal with the carrying amount and are recognized under "other income and expenses" in the income statement.

Investment property is indicative of land and buildings held to earn rentals. Such assets are initially carried at cost and depreciated on a straight-line basis over their estimated useful lives. The underlying useful lives correspond to those of self-used tangible assets. Given the insignificant amount of investment property, it is not separately presented in the balance sheet.

## 2.17 | **LEASES**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### 2.17.1 | **FINANCE LEASES**

Assets held under finance leases are recognized as assets of the Group at the lower of their fair value and the present value of the minimum lease payments less cumulative depreciation and impairment losses. The corresponding liability to the lessor is included in the balance sheet as obligations under finance leases.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the income statement.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Group adopts for depreciable assets that are owned.

If there is reasonable certainty that the Group will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise the asset is depreciated over the shorter of the lease term and its useful life.

#### 2.17.2 | OPERATING LEASES

Lease payments under an operating lease are recognized in the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

### 2.18 | FINANCIAL ASSETS

#### 2.18.1 | CLASSIFICATION

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired.

Management determines the classification of its financial assets at initial recognition.

#### 2.18.2 | FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group financial market risk management policy. Derivative financial instruments are also categorized as held for trading unless they are designated as hedges.

#### 2.18.3 | LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

#### 2.18.4 | AVAILABLE FOR SALE FINANCIAL ASSETS

Available for sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

#### 2.18.5 | RECOGNITION AND MEASUREMENT

Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognized at fair value and the transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method, less any impairment losses.

The fair value of listed investments is based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are recognized in the income statement in the period in which they arise while gains or losses arising from changes in the fair value of available for sale financial assets are recognized directly in other comprehensive income except for translation differences related to changes in the amortised cost of monetary securities which are recognized in profit or loss. On disposal/impairment of available-for-sale financial assets, any cumulative gains or losses that have been deferred in equity are recycled to the income statement.

### 2.19 | IMPAIRMENT OF FINANCIAL ASSETS

#### 2.19.1 | ASSETS CARRIED AT AMORTIZED COST

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- > significant financial difficulty of the issuer or obligor;
- > a breach of contract, such as default or delinquency in interest or principal payments;
- > the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the

borrower a concession that the lender would not otherwise consider;

- > it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- > the disappearance of an active market for that financial asset because of financial difficulties; or
- > observable data indicating that there is a measurable decrease in the estimated future cash flows.

The Group first assesses whether objective evidence of impairment exists. For loans and receivables category, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

#### 2.19.2 | ASSETS CLASSIFIED AS AVAILABLE FOR SALE

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to above. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated income statement.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss. Impairment losses recognized in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

## 2.20 | DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. The Group does not engage in speculative transactions.

Derivative financial instruments are initially recorded at fair value and attributable transaction costs are recognized in the income statement when incurred. Derivative financial instruments are subsequently re-measured at their fair value.

The Group includes the credit and the non-performance risks into its valuation techniques leading to non-material impact on derivative valuation resulting from credit or debit margin adjustments made on counterparts with whom financial market transactions are contracted.

The method of recognising the resulting gains or losses depends on whether the derivative financial instrument is designated as a hedging instrument and if so, the nature of the item being hedged. The Group designates derivative financial instruments as either cash flow hedges, fair value hedges or net investment hedges.

The Group documents at inception of the transaction the relationship between the hedging instrument and the hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, as to whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative financial instrument is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Embedded derivative financial instruments are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative financial instrument are not closely related, a separate instrument with the same terms as the embedded derivative financial instrument would meet the definition of a derivative financial instrument, and the combined instrument is not measured at fair value through profit or loss.



### 2.20.1 | CASH FLOW HEDGES

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within "Financial income/Financial expenses".

Amounts accumulated in other comprehensive income are reclassified to profit or loss in the periods when the hedged item affects profit or loss on the same line of the income statement where the designated hedged item affects profit or loss. However if the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of a non-financial asset or a non-financial liability, then, at the time the asset or liability is recognized, the associated gains or losses on the derivative financial instrument that had previously been recognized in equity are included in the initial measurement of the asset or liability. If the cash flow hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized directly in equity are reclassified to the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

A cash flow hedge relationship is discontinued prospectively if the hedge fails the effectiveness test, the hedging instrument is sold, terminated or exercised, management revokes the designation or the forecasted transactions is no longer highly probable. Where a forecasted transaction is no longer highly probable but still expected to occur, hedging gains and losses previously deferred in equity remain in equity until the transaction affects profit or loss.

Once the forecasted transaction is no longer expected to occur, any gain or loss is released immediately to the income statement.

### 2.20.2 | FAIR VALUE HEDGES

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recorded in the income statement under "Financial income/Financial expenses", together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

### 2.20.3 | NET INVESTMENT HEDGES

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income; the gain or loss relating to the ineffective portion is recognized immediately in the income statement within "Financial income/Financial expenses". Gains and losses accumulated in equity are recycled to the income statement when the foreign operation is partially disposed of or sold.

### 2.20.4 | DERIVATIVE FINANCIAL INSTRUMENTS THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

Certain derivative financial instruments do not qualify for hedge accounting. Changes in the fair value of any derivative financial instruments that do not qualify for hedge accounting are recognized immediately in the income statement within "Financial income/Financial expenses".

### 2.21 | INVENTORIES

Raw materials, consumables, goods purchased for resale, work in progress and finished goods are valued at the lower of cost and net realisable value.

Cost is determined using the weighted average cost method. The cost of work in progress and finished goods comprises all the costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The conversion costs include the cost of production and the related fixed and variable production overhead costs (including depreciation charges).

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

### 2.22 | TRADE RECEIVABLES

Trade receivables are recognized initially at fair value, and are subsequently measured at amortized cost using the effective interest rate method, less provision for impairment.

### 2.23 | CASH AND CASH EQUIVALENTS

For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

### 2.24 | NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE AND DISCONTINUED OPERATIONS

A discontinued operation is a component of the company that either has been disposed of, or that is classified as held for sale. It must either: represent a major separate line of business or geographical area of operations; be part of a single coordinated disposal

plan; or be a subsidiary acquired exclusively with a view to resale.

Intercompany transactions between continuing and discontinued operations are eliminated against continuing operations.

Non-current assets or a disposal group are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. Non-current assets and disposal groups are measured at the lower of the carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Impairment losses upon initial classification as held for sale are recognized in the income statement. Non-current assets classified as held for sale are neither depreciated nor amortized.

## 2.25 | **SHARE CAPITAL**

### 2.25.1 | **ORDINARY SHARES**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. The Company did not issue any preference or mandatory redeemable preference shares.

### 2.25.2 | **TREASURY SHARES**

When any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including attributable direct costs (net of income taxes) is deducted from the equity attributable to the Company's equity holders until the shares are cancelled or sold. Where such shares are subsequently sold, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

### 2.25.3 | **HYBRID CAPITAL**

The perpetual subordinated bonds issued by the Company in 2011 meet the conditions of an equity instrument as defined under IAS 32 *Financial Instruments*: Presentation and therefore, these instruments are accounted for as "Hybrid capital" which is part of the equity of the Group.

The interests on these bonds are reflected as a "dividend" to shareholders in the statement of changes in equity.

## 2.26 | **BONDS AND BORROWINGS**

Bonds, borrowings and overdrafts are initially measured at fair value, net of transaction costs incurred, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings in accordance with the Group accounting policy.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

## 2.27 | **COMPOUND FINANCIAL INSTRUMENTS**

Compound financial instruments issued by the Group comprise convertible bonds that can be converted into ordinary shares at the option of the Issuer. The number of shares to be issued does not vary with changes in their fair value. In the past, due to the existence of the option by the Issuer to redeem in cash, such convertible bonds were separated into a debt and a derivative component.

Upon initial recognition of the bond, the fair value of the debt component was determined based on the present value of the contractually determined stream of cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option.

Subsequent to initial recognition, the debt component is measured based on its amortized cost, using the effective interest method.

The remainder of the proceeds was allocated to the conversion option and recognized within "other derivatives". Subsequent to initial recognition, the derivative component was measured at fair value, with all gains and losses upon re-measurement being recognized in the income statement.

As a result of the Board's decision in 2010 to revoke UCB's rights related to the cash settlement option, the derivative component was reclassified to equity based on its fair value at the date of revocation. The equity component was reclassified to share premium upon the conversion of the remaining convertible bonds in 2014.

Transaction costs that are directly attributable to the bond offering and incremental, are included in the calculation of the amortized cost, using the effective interest method, and are amortized through the income statement over the life of the instrument.

## 2.28 | **TRADE PAYABLES**

Trade payables are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method.

## 2.29 | **EMPLOYEE BENEFITS**

### 2.29.1 | **PENSION OBLIGATIONS**

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligations to pay further contributions in the event that the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the consolidated income statement when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation less the fair value of plan assets. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

The defined benefit obligation is calculated by independent actuaries using the Projected Unit Credit Method. A full actuarial valuation based on updated personnel information is performed at least every three years. Additionally, if the net fluctuation recognized on the balance sheet is more than 10% from one year to the next due to plan circumstances (significant membership changes, modification to plan, etc.), a full actuarial valuation is also required. For years where a full actuarial valuation is not required, projections (known as "roll-forwards") from the previous year with updated assumptions (discount rate, salary increase, turnover) is used. For these "roll-forward" valuations, the individual employee data from the last full valuation date are used taking into account assumptions for salary increases and possibly turnover. All valuations measure liabilities at the applicable balance sheet date and the market value of retirement plan assets are also reported at this date regardless of whether a full or a "roll-forward" valuation is performed.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using yields on high quality corporate bonds that have maturity dates approximating the terms of the related Group obligations and that are denominated in the same currency in which the benefits are expected to be paid.

Remeasurement comprising of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognized immediately in the statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Remeasurement recorded in other comprehensive income is not recycled. However, the entity may transfer those amounts recognized in other comprehensive income within equity. Past service cost is recognized in profit or loss in the period of plan amendment. Net-interest is calculated by applying the discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- > service cost, past-service cost, gains and losses on curtailments and settlements;
- > net-interest expense or income;
- > remeasurement.

The Group presents the first two components of defined benefit costs in the line item "employee benefits expense" in its consolidated income statement (by nature of expenses aggregation). Net-interest expense or income is presented as part of the Operating profit. Curtailments gains and losses are accounted for as past-service cost. Remeasurements are recorded in other comprehensive income.

### 2.29.2 | **OTHER POST-RETIREMENT EMPLOYEE BENEFITS**

Some Group companies provide post-retirement healthcare benefits to their retirees. The Group's net obligation is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The expected costs of these benefits are accrued over the period of employment using the same methodology used for defined benefit plans.

### 2.29.3 | **TERMINATION BENEFITS**

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

#### 2.29.4 | OTHER LONG-TERM EMPLOYEE BENEFITS

The liabilities for jubilee premiums and long service awards are measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using yields on high quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognized in profit or loss.

#### 2.29.5 | PROFIT-SHARING AND BONUS PLANS

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation and a reliable estimate of the obligation can be made.

#### 2.29.6 | SHARE-BASED PAYMENTS

The Group operates several equity-settled and cash-settled share-based compensation plans.

The fair value of the employee services received in exchange for the grant of stock options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the stock options granted, excluding the impact of any service and non-market performance vesting conditions (for example profitability, remaining an employee of the entity over a specified time period).

Service and non-market vesting conditions are included in the assumptions about the number of options that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied.

The fair value of the stock option plan is measured at the grant date using the Black-Scholes valuation model which takes into account the expected life and cancellation rate of the options. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. The fair value of the amount payable to employees in respect of share appreciation rights, phantom share option, share award and performance

share plans, which are settled in cash, is recognized as an expense, with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is re-measured at each balance sheet date and at settlement date.

Any changes in the fair value of the liability are recognized as personnel expenses in the income statement.

#### 2.30 | PROVISIONS

Provisions are recognized in the balance sheet when:

- > there is a present obligation (legal or constructive) as a result of a past event;
- > it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- > a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

A restructuring provision is recognized when the Group has a detailed formal plan and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.



## 3. CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES

Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 3.1 | CRITICAL JUDGEMENTS IN APPLYING THE GROUP ACCOUNTING POLICIES

#### REVENUE RECOGNITION

The nature of the Group business is such that many sales transactions do not have a simple structure.

Sales agreements may consist of multiple arrangements occurring at the same or at different times. The Group is also party to out-licensing agreements, which can involve upfront and milestone payments that may occur over several years and involve certain future obligations. Revenue is only recognized when the significant risks and rewards of ownership have been transferred and when the Group does not retain continuing managerial involvement or effective control over the goods sold or when the obligations are fulfilled. This might result in cash receipts being initially recognized as deferred income and then released to income in subsequent accounting periods based on the different conditions specified in the agreement.

#### DISCONTINUED OPERATIONS

Operations that are classified as held for sale or have been disposed of, are presented as discontinued operations in the consolidated income statement when the operations represent a major separate line of business or geographical area of operations, are part of a single coordinated disposal plan or represent a subsidiary acquired exclusively with a view to resale. The assessment on what is a major separate line of business is done on a case by case basis and depends on the size of the operations in terms of revenues, gross profit or total value of assets and liabilities compared to the total operations of the Group.

### 3.2 | CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in conformity with IFRS as adopted for use by the European Union requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

Management bases its estimates on historical experience and various other assumptions that are reasonable under the circumstances, the results of which form the basis for making the reported amounts of revenue and expenses that may not be readily apparent from other sources. Actual results will by definition not equal those estimates. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary.

#### 3.2.1 | SALES ALLOWANCES

The Group has accruals for expected sales returns, chargebacks and other rebates, including the U.S. Medicaid Drug Rebate program and the U.S. Federal Medicare program, and similar rebates in other countries. Such estimates are based on analyses of existing contractual obligations or legislation, historical trends and the Group experience. After assessment of the Management, the total accruals for these items are adequate, based upon currently available information and interpretation of relevant regulations. As these deductions are based on management estimates, the actual deductions might differ from these estimates. Such differences could impact the accruals recognized in the balance sheet in future periods and consequently the level of sales recognized in the income statement in future period, as there is often a time lag of several months between the recording of the estimate and the final accounting of the sales allowances. In general, the discounts, rebates and other deductions shown on the invoice are accounted for as an immediate deduction from gross sales in the income statement. The sales returns, chargebacks, rebates and discounts that are not mentioned on the invoice are estimated, deducted from sales and presented on the balance sheet in the appropriate accrual account and deducted from sales.

#### 3.2.2 | INTANGIBLE ASSETS AND GOODWILL

The Group has intangible assets with a carrying amount of € 875 million (Note 17) and goodwill with a carrying amount of € 5 178 million (Note 18). Intangible assets are amortized over their useful lives on a straight-line basis as from the moment they are available for use (*i.e.* when regulatory approval has been obtained).

Management estimates that the useful life for acquired in-progress R&D compounds equates to the period these compounds benefit from patent protection or data exclusivity. For the intangible assets acquired through a business combination and which comprises compounds that are marketed but for which no patent protection or data exclusivity exists, management estimates that the useful life equates to the period in which these compounds will realize substantially all the cash contributions.

These intangible assets and goodwill are regularly reviewed for impairment and whenever there is an indication that an impairment might exist. The intangible assets that are not yet available for use and goodwill are subject to at least annual impairment testing.

To assess if there is any impairment, estimates are made of the future cash flows expected to result from the use of these assets and their eventual disposal. These estimated cash flows are then adjusted to the present value using an appropriate discount rate that reflects the risks and uncertainties associated with the forecasted cash flows.

Actual outcomes could vary significantly from such estimates of discounted future cash flows. Factors such as the entrance or absence of competition, technical obsolescence or lower than expected rights could result in shortened useful lives and impairments.

The Group applied the following key assumptions for the "value in use" calculations required for the impairment testing of intangible assets and goodwill at year-end:

> growth rate for terminal value	3.0%
> discount rate in respect of goodwill and Intangibles related to marketed products	7.0%
> discount rate in respect of Intangibles related to pipeline products	13.0%

Since the cash flows also take into account tax expenses, a post-tax discount rate is used in the impairment testing.

Management estimates that the use of the post-tax discount rate approximates the results of using a pre-tax rate applied to pre-tax cash flows.

### 3.2.3 | ENVIRONMENTAL PROVISIONS

The Group has provisions for environmental remediation costs, which are disclosed in Note 31. The most significant elements of the environmental provisions consist of costs to fully clean and refurbish contaminated sites and to treat contamination at certain other sites, mainly related to the discontinued chemical and films activities of the Group.

Future remediation expenses are affected by a number of uncertainties that include, amongst others, the detection of previously unknown contaminated sites, the method and extent of remediation, the percentage of waste attributable to the Group, and the financial capabilities of the other potentially responsible parties. Given the inherent difficulties in estimating the liabilities in this area, it cannot be guaranteed that additional costs will not be incurred beyond the amounts currently accrued. The effect of resolution of environmental matters on results of operations cannot be predicted due to uncertainty concerning both the amount and timing of future expenditures and the results of future operations. Such changes that arise could impact the provisions recognized in the balance sheet in the future.

### 3.2.4 | EMPLOYEE BENEFITS

The Group currently has many defined benefit plans, which are disclosed in Note 30. The calculation of the assets or liabilities related to these plans is based upon statistical and actuarial assumptions. This is in particular the case for the present value of the defined benefit obligation which is impacted by assumptions on discount rates used to arrive at the present value of future pension liabilities, and assumptions on future increases in salaries and benefits.

Furthermore, the Group uses statistically-based assumptions covering areas such as future withdrawals of participants from the plans and estimates of life expectancy. The actuarial assumptions used might differ materially from actual results due to changes in market and economic conditions, higher or lower employee turnover, longer or shorter life spans of participants, and other changes in the factors being assessed.

These differences could impact the assets or liabilities recognized in the balance sheet in future periods.

### 3.2.5 | TAX POSITIONS

The Group operates in multiple jurisdictions with often complex legal and tax regulatory environments. The income tax positions taken are considered by the Group to be supportable and are intended to withstand challenge from tax authorities. However, it is accepted that some of the positions are uncertain and include interpretations of complex tax laws as well as transfer pricing considerations which could be disputed by tax authorities. The Group assesses these positions individually with no offset or aggregation between positions and this on a regular basis using all the information available (legislation, case law, regulations and established practice). A liability is recorded for each item that is not probable of being sustained on examination by the tax authorities based on all relevant information. The liability is calculated by the Group as the single best estimate of the current tax it expects to pay using the Group's best judgement of the most likely outcome of such examinations. These estimates are based on facts and circumstances existing at the end of the reporting period. The tax liability and income tax expense include penalties and late payment interests arising from tax disputes.

The Group has recognised net deferred tax assets of € 943 million (Note 29). The recognition of deferred tax assets is based upon whether it is probable that sufficient taxable profits will be available in the future against which the reversal of temporary differences can be used. Where the temporary differences relate to losses, the availability of the losses to offset against forecast taxable profits is also considered.

Significant items on which management has exercised judgement include recognition on the balance sheet of deferred tax assets relating to losses in jurisdictions where losses have been made in prior periods but where profits now arise and are forecast to do so for

the foreseeable future. Management has used its best estimate of the correct value of asset to recognize in such cases, which includes a judgement on the length of the future time period to use in such assessments. These judgments are made on a case by case basis but this time period generally does not exceed five years.

Differences in forecasted taxable profits and actual profitability or a downgrade in future forecasted taxable profits could impact the deferred tax assets recognized in future periods.

No material deferred tax assets are recognized for entities that are currently still lossmaking.

Significant items on which the Group has exercised accounting estimation and judgement include also tax liabilities related to audits arising in Spain, U.S., Germany and Italy. The Group engages constructively with the tax authorities and relevant government representatives. Where appropriate, we engage advisors and legal counsel to obtain opinions on tax legislation and principles.

## ▶ 4. FINANCIAL RISK MANAGEMENT

The Group is exposed to various financial risks arising from its underlying operations and corporate finance activities.

These financial risks are market risk (including currency risk, interest risk and price risk), credit risk and liquidity risk.

This note presents information about the Group exposure to the above-mentioned risks, the Group policies and processes for managing these risks and Group management of capital. Risk management is carried out by the Group Treasury department under policies approved by the Financial Risk Management Committee (FRMC).

The FRMC has been established and includes the Chief Financial Officer, Chief Accounting Officer and the heads of the Financial Control department, Internal Audit department, Tax department and Treasury and Risk department. The FRMC is responsible for:

- > reviewing the results of UCB risk assessment;
- > approval of the recommended risk management strategies;
- > monitoring compliance with the financial market risk management policy;
- > approval of policy changes; and
- > reporting to the Audit Committee.

The Group financial risk management policies established by the FRMC need to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies are reviewed by the FRMC on a semi-annual basis to reflect changes in market conditions and the Group's activities.

### 4.1 | MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group income statement or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures. The Group enters into derivative financial instruments and also incurs financial liabilities in order to manage market risk. Where possible, the Group seeks to apply hedge accounting in order to manage volatility in the income statement. It is the Group policy and practice not to enter into derivative transactions for speculative purposes.

#### 4.1.1 | FOREIGN EXCHANGE RISK

The Group operates across the world and is exposed to movements in foreign currencies affecting its net income and financial position, as expressed in euro. The Group actively monitors its currency exposures, and when appropriate, enters into transactions with the aim of preserving the value of assets and anticipated transactions. The Group uses forward contracts, foreign exchange options and cross-currency swaps to hedge certain committed and anticipated foreign exchange flows and financing transactions.

The instruments purchased to hedge transaction exposure are primarily denominated in U.S. dollar, GB pound, Japanese yen and Swiss franc, the currencies where the Group has its most important exposures. The Group's financial risk management policy is to hedge for a period of minimum 6 and maximum 26 months of anticipated cash flows primarily derived from sales, royalties or out-licensing revenues provided that no natural hedges exist.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

The effect of translation exposure arising from the consolidation of the foreign currency denominated financial statements of the Group foreign subsidiaries as well as from assimilated net foreign investment positions is shown as a cumulative translation adjustment in the Group consolidated statement of changes in equity.

#### 4.1.2 | EFFECT OF CURRENCY FLUCTUATIONS

At 31 December 2016, if the euro had strengthened or weakened by 10% against the following currencies with all other variables being held constant, the impact on equity and post-tax profit for the year, based on the outstanding currency balances and hedge instruments at that date, would have been as follows:

€ million	CHANGE IN RATE. STRENGTHENING/ WEAKENING (-) EUR	IMPACT ON EQUITY: LOSS (-)/GAIN	IMPACT ON INCOME STATEMENT: LOSS (-)/GAIN
<b>At 31 December 2016</b>			
<b>USD</b>	<b>+10%</b>	<b>-118</b>	<b>1</b>
	-10%	144	-1
<b>GBP</b>	<b>+10%</b>	<b>-45</b>	<b>2</b>
	-10%	55	-2
<b>CHF</b>	<b>+10%</b>	<b>-55</b>	<b>-4</b>
	-10%	67	4
<b>JPY</b>	<b>+10%</b>	<b>15</b>	<b>2</b>
	-10%	-18	-3

€ million	CHANGE IN RATE. STRENGTHENING/ WEAKENING (-) EUR	IMPACT ON EQUITY: LOSS (-)/GAIN	IMPACT ON INCOME STATEMENT: LOSS (-)/GAIN
<b>At 31 December 2015</b>			
<b>USD</b>	<b>+10%</b>	<b>-146</b>	<b>-11</b>
	-10%	180	12
<b>GBP</b>	<b>+10%</b>	<b>-56</b>	<b>3</b>
	-10%	68	-4
<b>CHF</b>	<b>+10%</b>	<b>-55</b>	<b>-1</b>
	-10%	68	2

It is Group policy and practice not to enter into derivative transactions for speculative purposes.

#### 4.1.3 | INTEREST RATE RISK

Changes in interest rates may cause variations in interest income and expenses resulting from interest-bearing assets and liabilities. In addition, they can affect the market value of certain financial assets, liabilities and instruments as described in the following section on market risk of financial assets. The interest rates on the Group's major debt instruments are both fixed and floating, as described in Notes 26 and 27. The Group uses interest rate derivatives to manage its interest rate risk, as described in Note 36.

The Group designates derivative financial instruments (interest rate swaps) as hedging instruments, under fair value hedges, to fixed rate financial assets and liabilities. Both the derivative financial instrument and the hedged item are accounted for at fair value through profit or loss.

In 2016, changes in fair value resulting from interest rate derivatives designated to the floating rate liabilities of the Group have been accounted for through equity under IAS 39.



#### 4.1.4 | **EFFECT OF INTEREST RATE FLUCTUATIONS**

A 100 basis points increase in interest rates at balance sheet date would have increased equity by € 3 million (2015: € 5 million); a 100 basis points decrease in interest rates would have decreased equity by € 3 million (2015: € 5 million).

A 100 basis points increase in interest rates at balance sheet date would have increased profit and loss by € 0 million (2015: € 0 million); a 100 basis points decrease in interest rates would have decreased profit and loss by € 0 million (2015: € 0 million).

#### 4.1.5 | **OTHER MARKET PRICE RISK**

Changes in the market value of certain financial assets and derivative financial instruments can affect the income or the financial position of the Group. Financial long-term assets, if any, are held for contractual purposes and marketable securities are held for mainly regulatory purposes. The risk of loss in value is managed by reviews prior to investing and continuous monitoring of the performance of investments and changes in their risk profile.

Investments in equities, bonds, debentures and other fixed income instruments are entered into on the basis of guidelines with regard to liquidity and credit rating.

Amounts subject to market price risk are rather immaterial and therefore the impact on equity or the income statement of a reasonable change of this market price risk is assumed to be negligible.

Similar to 2015, during 2016 the Group traded on treasury shares, which were accounted for through equity.

#### 4.2 | **CREDIT RISK**

Credit risk arises from the possibility that the counterparty to a transaction may be unable or unwilling to meet its obligations causing a financial loss to the Group. Trade receivables are subject to a policy of active risk management, which focuses on the assessment of country risk, credit availability, on-going credit evaluation and account monitoring procedures. There are certain concentrations within trade receivables of counterparty credit risk, particularly in the U.S., due to the sales *via* wholesalers (Note 22). For some credit exposures in critical countries, such as certain Southern European countries, the Group has obtained credit insurance.

In the U.S. and China (since 2014), the Group entered into a trade receivable financing agreement that qualifies for derecognition. According to the terms and conditions of the agreement UCB does not retain any non-payment or further late payment risk relating to the transferred trade receivables.

The exposure of other financial assets to credit risk is controlled by setting a policy for limiting credit exposure to high quality counterparties, regular reviews of credit ratings, and setting defined limits for each individual counterparty. The criteria set by Group Treasury for their investment policy are based on generally considered high quality long term credit ratings and 5 years Credit Default Swap rate.

Where appropriate to reduce exposure, netting agreements under an ISDA (International Swaps and Derivatives Association) master agreement are signed with the respective counterparties. The maximum exposure to credit risk resulting from financial activities, without considering netting agreements, is equal to the carrying amount of financial assets plus the positive fair value of derivative instruments.

#### 4.3 | **LIQUIDITY RISK**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal circumstances without incurring unacceptable losses or risking damage to the Group reputation.

The Group maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements at all times. In addition, the Group has certain unutilized revolving committed facilities at its disposal.

At the balance sheet date, the Group had the following sources of liquidity available:

- > cash and cash equivalents (Note 23): € 761 million (2015: € 1 285 million)
- > marketable non-equity securities (Note 20): € 3 million (2015: € 3 million)
- > unutilized credit facilities and undrawn available amount under finance contract (Note 26): € 85 million (2015: € 235 million)
- > unutilized revolving credit facilities (Note 26): € 1 billion (2015: € 1 billion); the existing € 1 billion syndicated committed revolving credit facility of the Group, maturing in 2021 was undrawn per end 2016.

The table below analyses the contractual maturities of the Group financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date, excluding the impact of netting. The amounts mentioned below with respect to the financial derivatives are indicative of the contractual undiscounted cash flows.

€ million	NOTE	TOTAL	CONTRACTUAL CASH FLOW	LESS THAN 1 YEAR	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS
<b>At 31 December 2016</b>							
Bank Borrowings and other long term loans	26	338	338	12	0	326	0
Debentures and other short term loans	26	8	8	8	0	0	0
Finance lease liabilities	26	7	7	2	2	3	0
Retail bond maturing in 2023	27	192	239	9	9	27	194
Institutional Eurobond maturing in 2022	27	350	389	7	7	20	355
Institutional Eurobond maturing in 2021	27	370	422	14	14	394	0
Retail bond maturing in 2020	27	256	288	9	9	210	0
EMTN notes maturing in 2019	27	75	82	2	2	78	0
Trade and other liabilities	32	1 915	1 915	1 860	30	23	2
Bank overdrafts	26	5	5	5	0	0	0
Interest rate swaps		74	74	12	14	38	10
Forward exchange contracts used for hedging purposes							
Outflow		3 559	3 559	3 559	0	0	0
Inflow		3 518	3 518	3 518	0	0	0
Forward exchange contracts and other derivative financial instruments at fair value through profit or loss							
Outflow		1 255	1 255	1 127	128	0	0
Inflow		1 235	1 235	1 109	126	0	0

€ million	NOTE	TOTAL	CONTRACTUAL CASH FLOW	LESS THAN 1 YEAR	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS
<b>At 31 December 2015</b>							
Bank Borrowings and other long term loans	26	437	437	95	0	250	92
Debentures and other short term loans	26	12	12	12	0	0	0
Finance lease liabilities	26	9	9	2	1	5	1
Retail bond maturing in 2023	27	189	248	9	9	27	203
Institutional Eurobond maturing in 2022	27	346	396	7	7	20	362
Institutional Eurobond maturing in 2021	27	369	436	14	14	43	365
Retail bond maturing in 2020	27	257	297	9	9	279	0
EMTN notes maturing in 2019	27	75	85	3	3	79	0
Institutional Eurobond maturing in 2016	27	506	529	529	0	0	0
Trade and other liabilities	32	1 794	1 794	1 688	40	61	5
Bank overdrafts	26	8	8	8	0	0	0
Interest rate swaps		47	47	3	6	25	12
Forward exchange contracts used for hedging purposes							
Outflow		2 688	2 688	2 654	34	0	0
Inflow		2 632	2 632	2 599	33	0	0
Forward exchange contracts and other derivative financial instruments at fair value through profit or loss							
Outflow		2 512	2 512	2 512	0	0	0
Inflow		2 505	2 505	2 505	0	0	0

## 4.4 | CAPITAL RISK MANAGEMENT

The Group policy with respect to managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and

benefits to patients and to reduce the Group external debt further, in order to obtain a capital structure that is consistent with others in the industry.

€ million	2016	2015
Total borrowings (Note 26)	358	466
Bonds (Note 27)	1 243	1 742
Less: cash and cash equivalents (Note 23), available for sale debt securities (Note 20) and cash collateral related to the financial lease obligation	-764	-1 288
Net debt	838	921
Total equity	5 477	5 546
Total financial capital	6 315	6 467
<b>Gearing ratio</b>	<b>13%</b>	<b>14%</b>

## 4.5 | FAIR VALUE ESTIMATION

The fair value of financial instruments traded in active markets (such as available for sale financial assets) is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market is determined by using established valuation techniques such as option pricing models and estimated discounted values of cash flows. The Group uses a variety of methods and makes assumptions that are based on market conditions and the credit and the non-performance risks existing at each balance sheet date.

Quoted market prices are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of the interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of the forward exchange contract is determined using discounted value of the exchanged amounts in currencies, converted at the prevailing spot rate at the balance sheet date.

The carrying amount less impairment provision of trade receivables and trade payables is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rates that is available to the Group for similar financial instruments.

### 4.5.1 | FAIR VALUE HIERARCHY

IFRS 7 requires disclosure of fair value measurements by level of the following hierarchy:

- > Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- > Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- > Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All fair value measurements disclosed are recurring.

### 4.5.2 | FINANCIAL ASSETS MEASURED AT FAIR VALUE

€ million	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>31 December 2016</b>				
<b>Financial assets</b>				
Available for sale assets (Note 20)				
Quoted equity securities	64	0	0	64
Quoted debt securities	3	0	0	3
Derivative financial assets (Note 36)				
Forward foreign exchange contracts – cash flow hedges	0	10	0	10
Forward exchange contracts – fair value through profit and loss	0	37	0	37
Interest rate derivatives – cash flow hedges	0	0	0	0
Interest rate derivatives – fair value through profit and loss	0	61	0	61
Other financial assets excluding derivatives (Note 20)				
Warrants	0	0	0	0

€ million	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>31 December 2015</b>				
<b>Financial assets</b>				
Available for sale assets (Note 20)				
Quoted equity securities	64	0	0	64
Quoted debt securities	3	0	0	3
Derivative financial assets (Note 36)				
Forward foreign exchange contracts – cash flow hedges	0	10	0	10
Forward exchange contracts – fair value through profit and loss	0	19	0	19
Interest rate derivatives – cash flow hedges	0	0	0	0
Interest rate derivatives – fair value through profit and loss	0	55	0	55
Other financial assets excluding derivatives (Note 20)				
Warrants	0	29	0	29

#### 4.5.3 | FINANCIAL LIABILITIES MEASURED AT FAIR VALUE

€ million	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>31 December 2016</b>				
<b>Financial liabilities</b>				
Derivative financial liabilities (Note 36)				
Forward foreign exchange contracts – cash flow hedges	0	51	0	51
Forward exchange contracts – fair value through profit and loss	0	50	0	50
Interest rate derivatives – cash flow hedges	0	2	0	2
Interest rate derivatives – fair value through profit and loss	0	6	0	6
Other financial liabilities excluding derivatives (Note 28)				
Warrants	0	0	127	127

€ million	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>31 December 2015</b>				
<b>Financial liabilities</b>				
Derivative financial liabilities (Note 36)				
Forward foreign exchange contracts – cash flow hedges	0	25	0	25
Forward exchange contracts – fair value through profit and loss	0	51	0	51
Interest rate derivatives – cash flow hedges	0	3	0	3
Interest rate derivatives – fair value through profit and loss	0	7	0	7
Other financial liabilities excluding derivatives (Note 28)				
Warrants	0	0	162	162

During the reporting period ending 31 December 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Fair value measurements categorized within Level 2 of the fair value hierarchy are calculated using either the "Discounted cash flow" or the "Black-Scholes" method (for FX options only) and market data publicly available.

The fair value of the warrants received pursuant to the sale of Kremers Urban Pharmaceuticals Inc. ("KU") in 2015 (Note 6) was determined using a "Black-Scholes" Model. The warrants were valued at € 29 million as per 31 December 2015. Due to the declining share price of Lannett Company Inc., an impairment was accounted for in 2016 on these warrants in order to reduce the net carrying amount of these warrants down to € 0 (Note 14).

The fair value of the warrants issued by a subsidiary is determined using a discounted net present value model of the probabilized cash outflows. There has not been any change in valuation technique compared to last year. The valuation is prepared by the Finance Team on a monthly basis and reviewed by the Executive Committee. The value of the warrants is based on the profitability of the subsidiary and the key assumptions used in the valuation model include unobservable inputs for forecasted net sales, milestone events and discount rate. The discount rate used amounts to 8.2%. An increase/decrease in net sales of 10% would lead to an increase/decrease of the fair value of the warrants with 0% (2015: 1%). A decrease/increase in the discount rate with 1% would lead to an increase/decrease of the fair value of the warrants with 2% (2015: 2%). The change in fair value, recognized in profit and loss, amounts to € 8 million (2015 € 19 million) and is accounted for in other financial expenses (Note 14).



The following table presents the changes in Level 3 instruments:

€ million	WARRANTS	TOTAL
<b>1 January 2015</b>	<b>183</b>	<b>183</b>
Cash purchase of additional warrants	0	0
Cash settlement of warrants	-60	-60
Effect of changes in fair value recognized in profit and loss	19	19
Effect of movements in exchange rates	20	20
<b>31 December 2015</b>	<b>162</b>	<b>162</b>
Cash purchase of additional warrants	0	0
Cash settlement of warrants	-46	-46
Effect of changes in fair value recognized in profit and loss	8	8
Effect of movements in exchange rates	3	3
<b>31 December 2016</b>	<b>127</b>	<b>127</b>

#### 4.6 | OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

While the Group has amounts subject to an enforceable master netting arrangement or similar agreements, financial assets and financial liabilities are reported gross on the statement of financial position as the requirements are not met to report them net. The reconciliations below depict the amounts subject to an enforceable master netting arrangement or similar agreement that have not been netted on the statement of financial position.

The table below shows financial assets subject to enforceable master netting arrangements:

€ million	GROSS FINANCIAL ASSETS IN THE STATEMENT OF FINANCIAL POSITION	RELATED AMOUNTS NOT SET OFF IN THE STATEMENT OF FINANCIAL POSITION		NET AMOUNTS
		FINANCIAL INSTRUMENTS	CASH COLLATERAL RECEIVED	
<b>31 December 2016</b>				
Derivatives	108	55	0	53
Other	0	0	0	0
<b>Total</b>	<b>108</b>	<b>55</b>	<b>0</b>	<b>53</b>

The table below shows financial liabilities subject to enforceable master netting arrangements:

€ million	GROSS FINANCIAL LIABILITIES IN THE STATEMENT OF FINANCIAL POSITION	RELATED AMOUNTS NOT SET OFF IN THE STATEMENT OF FINANCIAL POSITION		NET AMOUNTS
		FINANCIAL INSTRUMENTS	CASH COLLATERAL RECEIVED	
<b>31 December 2016</b>				
Derivatives	109	55	0	54
Other	0	0	0	0
<b>Total</b>	<b>109</b>	<b>55</b>	<b>0</b>	<b>54</b>

ISDA master agreements (International Swaps and Derivatives Association) have been signed with the respective counterparties allowing offsetting of financial assets and liabilities. This is applicable to the fair value settlement in case of default, but it is not applicable at the closing date 31 December 2016.

The table below shows financial assets subject to enforceable master netting arrangements:

€ million	GROSS FINANCIAL ASSETS IN THE STATEMENT OF FINANCIAL POSITION	RELATED AMOUNTS NOT SET OFF IN THE STATEMENT OF FINANCIAL POSITION		NET AMOUNTS
		FINANCIAL INSTRUMENTS	CASH COLLATERAL RECEIVED	
<b>31 December 2015</b>				
Derivatives	84	49	0	35
Other	0	0	0	0
<b>Total</b>	<b>84</b>	<b>49</b>	<b>0</b>	<b>35</b>

The table below shows financial liabilities subject to enforceable master netting arrangements:

€ million	GROSS FINANCIAL LIABILITIES IN THE STATEMENT OF FINANCIAL POSITION	RELATED AMOUNTS NOT SET OFF IN THE STATEMENT OF FINANCIAL POSITION		NET AMOUNTS
		FINANCIAL INSTRUMENTS	CASH COLLATERAL RECEIVED	
<b>31 December 2015</b>				
Derivatives	86	49	0	37
Other	0	0	0	0
<b>Total</b>	<b>86</b>	<b>49</b>	<b>0</b>	<b>37</b>

## 5. SEGMENT REPORTING

The Group's activities are in one segment, Biopharmaceuticals.

There are no other significant classes of business, either singularly or in aggregate. The Chief Operating Decision Makers, that being the Executive Committee, review the operating results and operating plans, and make

resource allocation decisions on a company-wide basis, therefore UCB operates as one segment.

Enterprise-wide disclosures about product sales, geographic areas and revenues from major customers are presented below.

### 5.1 | PRODUCT SALES INFORMATION

Net sales consist of the following:

€ million	2016	2015
Cimzia®	1 307	1 083
Vimpat®	814	679
Keppra® (including Keppra® XR)	724	737
Neupro®	302	258
Zyrtec® (including Zyrtec-D®/Cirrus®)	140	147
Xyzal®	107	117
Venlafaxine XR	90	90
Nootropil®	46	52
Briivact®	18	52
Other products	329	431
Designated hedges reclassified to net sales	-19	-82
<b>Total net sales</b>	<b>3 858</b>	<b>3 512</b>

## 5.2 | GEOGRAPHIC INFORMATION

The table below shows sales in each geographic market in which customers are located:

€ million	2016	2015
U.S.	1 851	1 694
Europe – other (excluding Belgium)	328	324
Germany	290	247
Japan	268	207
Spain	162	152
France (including French territories)	161	155
Italy	154	154
China	150	143
U.K. and Ireland	129	135
Belgium	33	35
Brazil <sup>1</sup>	32	26
Other countries <sup>1</sup>	319	322
Designated hedges reclassified to net sales	-19	-82
<b>Total net sales</b>	<b>3 858</b>	<b>3 512</b>

<sup>1</sup> The term of emerging markets is no longer used with reference to geographies. Comparative amount for 2015 has been reclassified.

The table below illustrates the property, plant and equipment in each geographic market in which the assets are located:

€ million	2016	2015
Switzerland	300	302
Belgium	269	223
U.K. and Ireland	45	50
U.S.	29	28
China	13	15
Japan	13	10
Germany	3	19
Brazil <sup>1</sup>	2	1
Other countries <sup>1</sup>	4	3
<b>Total</b>	<b>678</b>	<b>651</b>

<sup>1</sup> The term of emerging markets is no longer used with reference to geographies. Comparative amount for 2015 has been reclassified.

## 5.3 | INFORMATION ABOUT MAJOR CUSTOMERS

UCB has 1 customer which individually accounts for more than 16% of the total net sales at the end of 2016.

In the U.S., sales to 3 wholesalers accounted for approximately 83% of U.S. sales (2015: 81%).

## 6. DISCONTINUED OPERATIONS AND ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

### 6.1 | DISCONTINUED OPERATIONS

On 2 September 2015, UCB concluded an agreement with Lannett Company, Inc. ("Lannett") for the sale of its U.S. specialty generics subsidiary, Kremers Urban Pharmaceuticals Inc. ("KU"). The sale was closed on 25 November 2015.

The loss from discontinued operations for 2016 includes a € 16 million loss for adjustments of proceeds and deal costs from the sale of KU and an additional € 8 million tax expense on the gain resulting from the sale of KU. Discontinued operations also includes the partial reversal of provisions related to the legacy films and chemical activities for € 1 million. The profit from

discontinued operations for 2015 includes the activities of KU for the period till 25 November 2015 as well as the gain on the sale of KU.

The cash flows from discontinued operations have been separately disclosed on the cash flow statement. Total cash flow generated from the sale of KU amounts to € 880 million (received in 2015, net of cash disposed of) and € 184 (repayment by Lannett of senior unsecured loan in June 2016 (Note 20.3)) offset by € 261 million taxes paid on the gain on the sale and € 29 million adjustments of proceeds and deal costs. In 2016, also taxes for an amount of € 9 million on 2015 operations of KU were paid.

Profit for current and previous year from discontinued operations related to KU:

€ million	2016	2015
Net sales	-	249
Royalty income and fees	-	1
Other revenue	-	20
<b>Revenue</b>	<b>-</b>	<b>270</b>
Cost of sales	-	-162
<b>Gross profit</b>	<b>-</b>	<b>108</b>
Marketing and selling expenses	-	-10
Research and development expenses	-	-26
General and administrative expenses	-	-5
Other operating income/expenses (-)	-	-2
<b>Operating profit before impairment, restructuring and other income and expenses</b>	<b>-</b>	<b>65</b>
Impairment of non-financial assets	-	0
Restructuring expenses	-	-9
Other income/expenses (-)	-	0
<b>Operating profit</b>	<b>-</b>	<b>56</b>
Financial income	-	0
Financial expenses	-	0
Profit/loss (-) before income taxes	-	56
Income tax expense (-)/credit	-	-19
<b>Profit/loss (-) after income tax of discontinued operations</b>	<b>-</b>	<b>37</b>
<b>Gain on sale of KU after income tax</b>	<b>- 24</b>	<b>322</b>
<b>Profit from discontinued operations (attributable to UCB shareholders)</b>	<b>-24</b>	<b>359</b>

### 6.2 | ASSETS AND LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

The assets of disposal group classified as held for sale as per 31 December 2016 relate to the Monheim site in Germany. In 2016 UCB decided to dispose of the site and enter into a leaseback agreement for that part of the site that is currently used by UCB. As per year-end, negotiations were ongoing with a buyer. No impairment loss has been accounted for on these assets.

The assets of the disposal group classified as held for sale as per 31 December 2015 include the manufacturing plant, spare parts inventory and product stock at Shannon (€ 7 million) as well as the intangible assets and inventory related to the nitrates business for Europe, Turkey, South Korea and Mexico (€ 71 million). An impairment loss totalling € 36 million was recognised on the Shannon plant and spare parts inventory.



Detail of assets and liabilities of disposal group classified as held for sale as per 31 December 2016 and 2015:

€ million	2016	2015
Intangible assets	-	67
Goodwill	-	-
Property, plant and equipment	16	0
Other	-	-
Inventories	1	11
Trade and other receivables	-	-
Cash	-	-
<b>Assets classified as held for sale</b>		<b>78</b>
Provisions	-	-
Other	-	-
Trade and other liabilities	-	-
<b>Liabilities associated with assets classified as held for sale</b>		<b>-</b>
<b>Net assets classified as held for sale</b>	<b>17</b>	<b>78</b>

## 7. OTHER REVENUES

€ million	2016	2015
Revenue generated by means of profit-sharing agreements	19	23
Upfront payments, milestone payments and reimbursements	57	123
Contract manufacturing revenues	119	42
<b>Total other revenue</b>	<b>195</b>	<b>188</b>

The revenue generated through profit-sharing agreements relates mainly to:

- > revenue from the co-promotion of Provas™, Jalra® and Icandra® in Germany with Novartis. Jalra/Icandra have been withdrawn from the market. However, UCB still had a revenue stream during 2016 for the products that were still in the distribution channel;

During 2016, UCB received milestone payments and reimbursements from different parties, mainly:

- > Sanofi for collaboration and development of innovative anti-inflammatory small molecules;
- > Otsuka for co-development of E Keppra® in Japan;
- > Daiichi Sankyo for Vimpat® in Japan;

- > Biogen for multiple sclerosis and hemophilia therapies in Asia;

- > Partnerships in China encompass the market rights to UCB's allergy franchise

The revenue from contract manufacturing activities is mainly linked to the toll manufacturing agreements entered into after the divestiture of the nitrates in 2016, and with GSK in 2009.

## 8. OPERATING EXPENSES BY NATURE

The table below illustrates certain items of expense recognized in the income statement using a classification based on their nature within the Group:

€ million	NOTE	2016	2015
Employee benefit expenses	9	1 092	1 129
Depreciation of property, plant and equipment	19	73	76
Amortization of intangible assets	17	159	176
Impairment of non-financial assets (net)	11	12	88
<b>Total</b>		<b>1 336</b>	<b>1 469</b>

## 9. EMPLOYEE BENEFIT EXPENSE

€ million	NOTE	2016	2015
Wages and salaries		696	680
Social security costs		96	119
Post-employment benefits – defined benefit plans	30	60	53
Post-employment benefits – defined contribution plans		99	25
Share-based payments to employees and directors	25	26	83
Insurance		40	43
Other employee benefits		75	126
<b>Total employee benefit expense</b>		<b>1 092</b>	<b>1 129</b>

The total employee benefit expense has been allocated along functional lines within the income statement. Other employee benefits consist mainly of termination

benefits, severance payments, and other long-term/short-term disability benefits.

Headcount at 31 December	2016	2015
Hourly Paid	8	417
Monthly Paid	3 354	3 170
Management	4 201	4 201
<b>Total</b>	<b>7 563</b>	<b>7 788</b>

Further information regarding post-employment benefits and share-based payments can be found in Notes 25 and 30.

## 10. OTHER OPERATING INCOME/EXPENSES

Total other operating income/expenses (-) amounted to € -36 million (2015: € -9 million) and consists mainly of the amortization of non-production related intangible assets of € 0 million (2015: € -1 million); the changes of provisions of € -13 million (2015: € -3 million) mainly related to toll manufacturing agreements; the impairment in respect of trade

receivables of € -2 million (2015: € -1 million); the reimbursement by third parties for development expenses incurred by the Group of € 3 million (2015: € 2 million); grants received of € 15 million (2015: € 20 million) and other expenses related to Branded Prescription Drug fee in the U.S. of € -29 million (2015: € -26 million).

## 11. IMPAIRMENT OF NON-FINANCIAL ASSETS

A review of the recoverable amounts of the Group's assets resulted in the recognition of impairment charges amounting to € 12 million (2015: € 88 million).

An impairment charge of € 12 million related to the intangible asset pre-clinical oncology molecules was recognized (2015: € 53 million, mainly related to the intangible asset *epراطuzumab*).

The impairment charge for Group property, plant and equipment is € 0 million in 2016 (2015: write down of € 35 million mainly for the Irish manufacturing facility).

No reasonably possible change in a key assumption on which management has based its determination of the assets recoverable amounts would cause the assets carrying amount to exceed its recoverable amount.

## 12. RESTRUCTURING EXPENSES

The restructuring expenses for the year ended 31 December 2016 amount to € 33 million (2015: € 27 million) and are related to new organization models. In 2015, the restructuring expenses were mainly related to reorganization and optimization.

## ▶ 13. OTHER INCOME/EXPENSES

Total other income/expense amounted to an income of € 125 million (2015: income of € 60 million) and is comprised of the following items:

> other income for € 171 million in 2016 compared to € 139 million in 2015 and mainly relates to:

- disposal of the nitrates business (cardiovascular products) to Merus Labs International Inc. for a total transaction price of € 92 million, the Chinese franchise was sold to Jilin Yinglian Biopharmaceuticals and its financial partner PAG Asia for a total transaction price of € 60 million, and the divestment of the nitrates in Russia and Ukraine;

- disposal of venlafaxine ER, for the treatment of depressive and anxiety disorders marketed in the U.S, to Osmotica Pharmaceuticals Corp for a total transaction price of € 102 million.

> other expenses amounted to € 46 million (2015: € 79 million) in 2016 and mainly relate to:

- a provision of € 17 million regarding Distilbène in France (Note 31);
- legal fees related to intellectual property.

## ▶ 14. FINANCIAL INCOME AND FINANCIAL EXPENSES

The net financial expenses for the year amounted to € 112 million (2015: € 96 million).

The breakdown of the financial expenses and financial income is as follows:

### FINANCING EXPENSES

€ million	2016	2015
Interest expenses on:		
Retail bonds	-25	-18
Institutional Eurobonds	-44	-51
Other borrowings	-18	-16
Interest rate derivatives	0	0
Financial charges on finance leases	0	-1
Impairment of equity securities and other financial assets	-21	0
Impairment of long term loans	0	0
Net loss on interest rate derivatives	-7	6
Net fair value losses on foreign exchange derivatives	0	-19
Net foreign exchange losses	-44	0
Net other financial income/expenses (-)	-15	-25
<b>Total financial expenses</b>	<b>-174</b>	<b>-130</b>

### FINANCIAL INCOME

€ million	2016	2015
Interest income on:		
Bank deposits	18	0
Interest rate derivatives	15	6
Net gain on interest rate derivatives	0	6
Net fair value gain on foreign exchange derivatives	29	0
Net foreign exchange gains	0	22
<b>Total financial income</b>	<b>62</b>	<b>34</b>

The net other financial income/expenses include € 8 million expenses related to the changes in fair value of the warrants linked to the structured entity Edev Sàrl (€ -19 million in 2015) (Note 4.5.3.).

The impairment of equity securities and other financial assets in 2016 is mainly related to fair value and impairment losses on the warrant received pursuant to the sale of KU for an amount of € 29 million (Note 20.3) compensated by a gain on the sale of shares for an amount of € 7 million.

## ▶ 15. INCOME TAX EXPENSE (-)/CREDIT

€ million	2016	2015
Current income taxes	-284	-135
Deferred income taxes	85	24
<b>Total income tax expense (-)/credit</b>	<b>-199</b>	<b>-111</b>

The Group operates internationally, implying being subject to income taxes in many different tax jurisdictions.

The income tax expense on the Group's profit before tax differ from the theoretical amount that would arise using the weighted average tax rate applicable to profits (losses) of the consolidated companies.

Income taxes recognized in the income statement can be detailed as follows:

€ million	2016	2015
Profit before income taxes	764	426
<b>Income tax expense (-) calculated at domestic tax rates applicable in the respective countries</b>	<b>-175</b>	<b>-106</b>
Theoretical income tax rate	23%	25%
Reported current income tax	-284	-135
Reported deferred income tax	85	24
<b>Total reported tax charge</b>	<b>-199</b>	<b>-111</b>
Effective income tax rate	26.0%	25.9%
<b>Difference between theoretical and reported tax</b>	<b>-24</b>	<b>-6</b>
Expenses non-deductible for tax purposes	-44	-69
Non-taxable income	30	52
Decrease/Increase (-) of liabilities for uncertain tax positions	8	47
Effect of previously unrecognized tax credits and losses used in the period	24	7
Tax credits	23	32
Variation in tax rates due to intercompany transfer of assets	0	-25
Variation in tax rates	5	-4
Effect of reversal of previously recognised DTA on tax losses	-87	-61
Current tax adjustments related to prior years	2	48
Deferred tax adjustments related to prior years	59	-57
Net effect of previously unrecognised DTA and non-recognition of current year DTAs	-39	37
Withholding tax	-4	-8
Other taxes	-1	-5
<b>Total difference between theoretical and reported income tax</b>	<b>-24</b>	<b>-6</b>

The theoretical income tax rate has slightly reduced from the prior year due to the reduction of tax rates in a number of jurisdictions in which UCB operates.

The effective tax rate of 26% is in line with the prior year. The key drivers for the rate are a reduction due to prior year adjustments arising from the completion of tax audits in key jurisdictions and the use of previously unrecognised tax losses and credits. There was an increase to the tax rate in respect of losses generated in the period for which no deferred tax asset has been recognised.

The decrease in liabilities for uncertain tax positions was due the closing or further assessments of ongoing tax audits. The Group also proactively disclosed uncertain tax positions to the tax authorities without triggering the application of any correction or penalties. This resulted in the release of the liabilities.

### FACTORS AFFECTING THE TAX CHARGE IN FUTURE YEARS

The Group is aware of many factors that could impact the future effective tax rate of the Group, in particular the profit/losses mix between different territories in which the group operates, the amount of unrecognised losses that in future can be brought onto the balance sheet and the outcome of future tax audits.

Changes to tax legislation in jurisdictions where the Group operates as well as the impact of international tax rules such as the OECD's Base Erosion & Profit Shifting framework may also have a major impact. Following the ongoing implementation of the BEPS framework in the countries in which UCB operates, the Group is consistently assessing its tax position for these countries in view of understanding the risk of double taxation, and impacts on tax rates, tax incentives and the carrying value of deferred taxes.



Corporate restructuring, acquisitions and disposals, future planning as well as legislative changes may also impact the Group's future tax charge.

The Group is specifically paying attention to the following:

- > **U.K.:** Introduction of loss utilisation limitation rules. Management estimates a derecognition of deferred tax assets on tax losses of € 86 million in FY 17 if the law is enacted as currently drafted.
- > **Belgium:** The new law on the innovation income deduction has been enacted. Management assesses that the impact for UCB compared to the previous regime for tax relief for patent income is minimal

compared to the overall benefit of the measure.

In addition, the Belgian Government has announced its intention to substantially reform the corporate tax regime with potential changes to the nominal corporate tax rate and loss limitation rules. UCB is closely following the political and legislative process.

- > **U.S.:** Management continues to closely monitor the potential evolution of the corporate tax environment in the U.S. to understand any potential impact to UCB.
- > The tax environment within which UCB operates could be undergoing some significant changes in the course of FY 17 and this may impact the Group's tax position and subsequently the effective tax rate for the period.

## ▶ 16. COMPONENTS OF OTHER COMPREHENSIVE INCOME

€ million	1 JANUARY 2015	MOVEMENTS 2015 NET OF TAX	31 DECEMBER 2015	MOVEMENTS 2016 NET OF TAX	31 DECEMBER 2016
<b>Items of OCI to be reclassified to profit or loss in subsequent periods:</b>	<b>-154</b>	<b>362</b>	<b>208</b>	<b>-55</b>	<b>153</b>
Cumulative translation adjustments	-138	320	182	-50	132
Available for sale financial assets	12	30	42	-1	41
Cash flow hedges	-28	12	-16	-4	-20
<b>Items of OCI not to be reclassified to profit or loss in subsequent periods:</b>	<b>-294</b>	<b>30</b>	<b>-264</b>	<b>-89</b>	<b>-353</b>
Remeasurement of defined benefit obligation	-294	30	-264	-89	-353
<b>Total other comprehensive income attributed to equity holders</b>	<b>-448</b>	<b>392</b>	<b>-56</b>	<b>-144</b>	<b>-200</b>

## ▶ 17. INTANGIBLE ASSETS

2016	TRADEMARKS, PATENTS AND LICENCES	OTHER	TOTAL
€ million			
<b>Gross carrying amount at 1 January</b>	<b>2 397</b>	<b>387</b>	<b>2 784</b>
Additions	17	54	71
Disposals	-32	-15	-47
Transfer from one heading to another	-17	-33	-50
Divestments	-31	0	-31
Effect of movements in exchange rates	-56	3	-53
<b>Gross carrying amount at 31 December</b>	<b>2 278</b>	<b>396</b>	<b>2 674</b>
<b>Accumulated amortization and impairment losses at 1 January</b>	<b>-1 468</b>	<b>-261</b>	<b>-1 729</b>
Amortization charge for the year	-111	-48	-159
Disposals	29	10	39
Impairment losses recognized in the income statement	-12	0	-12
Transfer from one heading to another	12	-12	0
Divestments	18	0	18
Effect of movements in exchange rates	43	1	44
<b>Accumulated amortization and impairment losses at 31 December</b>	<b>-1 489</b>	<b>-310</b>	<b>-1 799</b>
<b>Net carrying amount at 31 December</b>	<b>789</b>	<b>86</b>	<b>875</b>

<b>2015</b>	TRADEMARKS, PATENTS AND LICENCES	OTHER	TOTAL
€ million			
<b>Gross carrying amount at 1 January</b>	<b>2 535</b>	<b>301</b>	<b>2 836</b>
Additions	8	64	72
Disposals	-31	-1	-32
Transfer from one heading to another	-88	20	-68
Transfer to assets held for sale	-136	0	-136
Effect of movements in exchange rates	109	3	112
<b>Gross carrying amount at 31 December</b>	<b>2 397</b>	<b>387</b>	<b>2 784</b>
<b>Accumulated amortization and impairment losses at 1 January</b>	<b>-1 459</b>	<b>-158</b>	<b>-1 617</b>
Amortization charge for the year	-142	-34	-176
Disposals	32	1	33
Impairment losses recognized in the income statement	-23	-30	-53
Transfer from one heading to another	123	-36	87
Transfer to assets held for sale	69	0	69
Effect of movements in exchange rates	-68	-4	-72
<b>Accumulated amortization and impairment losses at 31 December</b>	<b>-1 468</b>	<b>-261</b>	<b>-1 729</b>
<b>Net carrying amount at 31 December</b>	<b>929</b>	<b>126</b>	<b>1 055</b>

The Group amortises all intangible assets once they are placed in service. The amortization of intangible assets is allocated to cost of sales for all intangible assets that are related to compounds. The amortization charges related to software are allocated to the functions that use this software.

The majority of the Group intangible assets arose from previous acquisitions. During 2016, the Group acquired intangible assets totalling € 71 million (2015: € 72 million). These additions related to in-licencing deals, software and capitalized eligible software development costs and includes the third milestone paid by UCB for an amount of € 11 million to Dermira relating to the Phase 3 clinical program that was designed to evaluate the efficacy and safety of CIMZIA® in adult patients with moderate-to-severe chronic plaque psoriasis.

UCB divested the Nitrates products in 2016. Intangible assets in respect of these products for the business in China, Russia and Ukraine have therefore been divested in 2016 with a total net book value of € 13 million.

During the year, the Group recognized total impairment charges of € 12 million (2015: € 53 million) mainly related to pre-clinical oncology molecules. The impairment charges are detailed in Note 11 and have been presented in the income statement under the caption "Impairment of non-financial assets".

Other intangible assets are primarily comprised of software and in process development projects. The in-process development projects assets are not amortized until they are available for use (*i.e.* when regulatory approval has been obtained) and transferred to the licences caption. Other intangible assets also include software and other intangibles.

# 18. GOODWILL

€ million	2016	2015
<b>Cost at 1 January</b>	<b>5 164</b>	<b>4 882</b>
Acquisition	0	0
Transfer to assets held for sale	0	0
Effect of movements in exchange rates	14	282
<b>Net book value at 31 December</b>	<b>5 178</b>	<b>5 164</b>

The Group tests goodwill for impairment annually or more frequently if there are indications that goodwill might be impaired. For the purpose of the impairment testing, the Group operates as one segment, Biopharmaceuticals, and has one single cash generating unit (CGU), which represents the lowest level at which the goodwill is monitored.

The recoverable amount of the CGU is determined based on the value-in-use calculations and the methodology applied for performing the impairment testing has not been modified compared to 2015.

## KEY ASSUMPTIONS

The calculations performed are based on the cash flow projections as derived from the financials underlying the strategic plan approved by management, covering a period of 10 years. Given the nature of the industry, the long-term projections are used to fully model the appropriate product lifecycles based on the patent expiry and therapeutic area. These long-term projections, which are based on past performance and management's expectations of market developments, are adjusted for specific risks and include:

- > the revenue growth rates of newly launched products;
- > the probability of reaching commercial stage for new products and or indications;
- > the probability of success of future product launches and the expected dates thereof;
- > the post-patent expiry erosion.

There were no significant changes to these key assumptions when comparing to 2015.

Cash flows beyond the projected forecasted period (terminal value) are extrapolated using an estimated growth rate of 3% (2015: 3%). The growth rate does not exceed the long-term average growth rate for the relevant territories in which the CGU operates.

The Group has most of its revenue and expenses in EUR and USD based countries. The following important exchange rates were used in preparing the future cash flows:

	10 YEARS PROJECTION	2015
USD	1.11 - 1.28	1.09 - 1.26
GBP	0.81 - 0.87	0.73 - 0.78
JPY	130	130
CHF	1.09 - 1.02	1.05 - 1.01

Starting from risk free short term LIBOR EUR 6 months and long term EU generic government bonds 20 years (2015: 10 years), the discount rates applied are determined based on the weighted average cost of capital for DCF models, including the 20 year (2015: 10 year) benchmark cost of debt and equity, adjusted to reflect the specific asset and country risks associated with the CGU. Given the industry, the Group used a discount rate for marketed products of 7% (2015: 8.20%) and for pipeline products 13.0% (2015: 13.0%). Marketed products are products that are sold in the market as per year-end, these comprise our products Cimzia®, Vimpat®, Neupro®, Keppra®, Briviact® and other products (Zyrtec®, Xyzal® and others). Pipeline products are products that are not sold yet in the market as per year-end (eg. romosozumab/Evenity™). A different discount rate is used for pipeline products as the risks related to these products are higher than for the products that are already in the market. The discount rates are reviewed at least annually.

Since after-tax cash flows are incorporated into the calculation of the value-in-use of the CGU, a post-tax discount rate is used in order to remain consistent. The use of the post-tax discount rate approximates the result of using a pre-tax rate applied to pre-tax cash flows. A tax rate of 28% was used (2015: 28%).

## SENSITIVITY ANALYSIS

Based on the above, management assessed that no reasonable change in any of the key assumptions for the determination of the recoverable amount would cause the carrying value of the CGU to materially exceed its recoverable amount. For information purposes, the sensitivity analysis using a 0% perpetual growth rate combined with an overall discount rate below 10.5% would not result in an impairment of the goodwill.

# 19. PROPERTY, PLANT AND EQUIPMENT

2016					
€ million	LAND AND BUILDINGS	PLANT AND MACHINERY	OFFICE, COMPUTER EQUIPMENT, VEHICLES AND OTHER	ASSETS UNDER CONSTRUCTION	TOTAL
<b>Gross carrying amount at 1 January</b>	<b>624</b>	<b>871</b>	<b>116</b>	<b>41</b>	<b>1 652</b>
Additions	2	11	3	54	70
Disposals	0	-6	-2	0	-8
Transfers from one heading to another	-65	-87	-3	-10	-165
Transfer to assets held for sale	-16	0	0	0	-16
Effect of movements in exchange rates	-3	-5	-2	0	-10
<b>Gross carrying amount at 31 December</b>	<b>542</b>	<b>784</b>	<b>112</b>	<b>85</b>	<b>1 523</b>
<b>Accumulated depreciation at 1 January</b>	<b>-336</b>	<b>-555</b>	<b>-101</b>	<b>-9</b>	<b>-1 001</b>
Depreciation charge for the year	-22	-44	-7	0	-73
Impairment charge	0	0	0	0	0
Disposals	0	5	2	0	7
Transfers from one heading to another	67	134	6	7	214
Transfer to assets held for sale	0	0	0	0	0
Effect of movements in exchange rates	3	3	2	0	8
<b>Accumulated depreciation at 31 December</b>	<b>-288</b>	<b>-457</b>	<b>-98</b>	<b>-2</b>	<b>-845</b>
<b>Net carrying amount at 31 December</b>	<b>254</b>	<b>327</b>	<b>14</b>	<b>83</b>	<b>678</b>

2015					
€ million	LAND AND BUILDINGS	PLANT AND MACHINERY	OFFICE, COMPUTER EQUIPMENT, VEHICLES AND OTHER	ASSETS UNDER CONSTRUCTION	TOTAL
<b>Gross carrying amount at 1 January</b>	<b>578</b>	<b>809</b>	<b>126</b>	<b>49</b>	<b>1 562</b>
Additions	2	12	3	44	61
Disposals	-7	-12	-3	0	-22
Transfers from one heading to another	22	26	-14	-53	-19
Transfer to assets held for sale	0	0	0	0	0
Effect of movements in exchange rates	29	36	4	1	70
<b>Gross carrying amount at 31 December</b>	<b>624</b>	<b>871</b>	<b>116</b>	<b>41</b>	<b>1 652</b>
<b>Accumulated depreciation at 1 January</b>	<b>-282</b>	<b>-499</b>	<b>-93</b>	<b>-2</b>	<b>-876</b>
Depreciation charge for the year	-25	-44	-8	0	-76
Impairment charge	-22	-5	0	-7	-34
Disposals	4	10	3	0	17
Transfers from one heading to another	0	0	0	0	0
Transfer to assets held for sale	0	0	0	0	0
Effect of movements in exchange rates	-11	-17	-3	0	-31
<b>Accumulated depreciation at 31 December</b>	<b>-336</b>	<b>-555</b>	<b>-101</b>	<b>-9</b>	<b>-1001</b>
<b>Net carrying amount at 31 December</b>	<b>288</b>	<b>316</b>	<b>15</b>	<b>32</b>	<b>651</b>

None of the Group property, plant and equipment is subject to restrictions on title nor has it been pledged as security for liabilities.

During 2016, the Group acquired property, plant and equipment totalling € 70 million (2015: € 61 million). These additions related mainly to IT hardware and other plant and equipment.

During the year, the Group recognized total impairment expense of € 0 million (2015: impairment of € 34 million).

## CAPITALIZED BORROWING COSTS

During the 12 months of 2016, the capitalized borrowing costs amounted to € 0 million (2015: € 0 million).

## LEASED ASSETS

UCB leases buildings and office equipment under a number of finance lease agreements. The carrying value of the leased buildings is € 45 million (2015: € 45 million).

## 20. FINANCIAL AND OTHER ASSETS

### 20.1 | NON-CURRENT FINANCIAL AND OTHER ASSETS

€ million	2016	2015
Available for sale financial assets (refer below) <sup>1</sup>	67	67
Investments in associates	6	5
Cash deposits	9	6
Senior unsecured loan notes related to KU divestment	0	184
Warrant received following disposal of KU	0	29
Derivative financial instruments (Note 36)	62	50
Reimbursement rights with respect to German defined benefit plans	23	23
Other financial assets	30	41
<b>Non-current financial and other assets</b>	<b>197</b>	<b>405</b>

### 20.2 | CURRENT FINANCIAL AND OTHER ASSETS

€ million	2016	2015
Clinical trial materials	38	19
Available for sale financial assets	0	0
Loans granted to third parties	2	1
Derivative financial instruments (Note 36)	46	34
<b>Current financial and other assets</b>	<b>86</b>	<b>54</b>

### 20.3 | AVAILABLE FOR SALE FINANCIAL ASSETS

The current and non-current available for sale financial assets comprise the following:

€ million	2016	2015
Equity securities <sup>1</sup>	64	64
Debt securities	3	3
<b>Available for sale financial assets</b>	<b>67</b>	<b>67</b>

The movement in the carrying values of the available for sale financial assets is as follows:

€ million	2016		2015	
	EQUITY SECURITIES	DEBT SECURITIES	EQUITY SECURITIES	DEBT SECURITIES
At 1 January	64	3	38	2
Additions	2	0	3	1
Disposals	0	0	-7	0
Revaluation through equity	-2	0	30	0
Gain/loss (-) reclassified from equity to the income statement	0	0	0	0
Impairment charge	0	0	0	0
<b>At 31 December</b>	<b>64</b>	<b>3</b>	<b>64</b>	<b>3</b>

<sup>1</sup> Investments in associates are presented on a separate line.

For the financial assets that are valued at amortised cost, the carrying amount approximates the fair value.

The Group has investments in listed debt securities, mainly issued by European governments as well as by some financial institutions. These bonds have been classified as available for sale and are measured at fair value. The fair value of the listed debt securities is determined by reference to published price quotations

in an active market. None of these financial assets are past due at year end.

The equity securities mainly include investments in Willex and Dermira Inc that have been classified as available for sale, as UCB does not have significant influence. These investments are measured at fair value.

The increase is related to an investment in Lumos Pharma Inc (3.6%).



As at the end of 2016, UCB's stakes in Willex and Dermira were 8.75% and 5.16%, (2015: 10.59% and 6.14%) respectively.

The € 184 million outstanding senior unsecured loan notes with Lannett Company, Inc. that the Group received following the disposal of KU in November 2015 were repaid in June 2016.

Due to the declining share price of Lannett Company Inc., an impairment was accounted for in 2016 on the warrants received pursuant to the sale of Kremers Urban Pharmaceuticals Inc. ("KU") in order to reduce the net carrying amount of these warrants down to € 0 (2015: € 29 million).

## 20.4 | INVESTMENTS IN ASSOCIATES

In 2014, the Group made an investment in Berrylium Discovery Corporation, a U.S. corporation. This investment is considered as an investment in an associate and accounted for under the equity method as UCB has significant influence *via* its equity holding (27 %) and Board seat. The Group's share of the investee's profit for 2016 is € 0 million and there are no amounts of other comprehensive income related to the Group's investment in this associate. The investment is included in the non-current financial and other assets on the balance sheet.

## 20.5 | JOINT OPERATIONS

No joint operations were entered into by the Group in 2016.

## 20.6 | SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

The accumulated non-controlling interest as of 31 December 2016 is € -107 million and relates to Edev S.à r.l. ("Edev"). No dividends have been paid to non-controlling interests during either 2016 or 2015.

Based in Luxembourg, Edev is 100% owned by the non-controlling interests and its summarised financial information is shown in the tables below before intercompany eliminations.

Summarised statement of financial position:

€ million	2016	2015
Non-current assets	0	0
Current assets	21	36
<b>Total assets</b>	<b>21</b>	<b>36</b>
Non-current liabilities	87	108
Current liabilities	40	54
<b>Total liabilities</b>	<b>127</b>	<b>162</b>
<b>Non-controlling interest</b>	<b>-106</b>	<b>-126</b>

Summarised income statement:

€ million	2016	2015
Revenue	30	70
Expenses	-8	-19
<b>Profit (loss) attributable to the non-controlling interests</b>	<b>22</b>	<b>51</b>
<b>Total comprehensive income (loss) attributable to the non-controlling interests</b>	<b>19</b>	<b>34</b>

Summarised cash flow statement:

€ million	2016	2015
Net cash inflow (outflow) from operating activities	0	-12
Net cash inflow (outflow) from investing activities	0	0
Net cash inflow (outflow) from financing activities	0	0
<b>Net cash inflow (outflow)</b>	<b>0</b>	<b>-12</b>

## 21. INVENTORIES

€ million	2016	2015
Raw materials and consumables	80	76
Work in progress	437	349
Finished goods	50	132
Goods purchased for resale	11	9
<b>Inventories</b>	<b>578</b>	<b>566</b>

The cost of inventories recognized as an expense and included in "cost of sales" amounted to € 731 million (2015: € 625 million). There are no inventories pledged for security, nor is there any inventory stated at net realizable value. The write-down on inventories amounted to € 15 million in 2016 (2015: € 16 million)

and has been included in cost of sales. Total inventory increased by € 12 million. There were increases in inventories of Cimzia®, Keppra® and Vimpat® whilst the divestments of Nitrates products and Venlafaxine meant reductions in the inventories of these products.

## 22. TRADE AND OTHER RECEIVABLES

€ million	2016	2015
Trade receivables	636	548
Less: provision for impairment	-6	-6
Trade receivables – net	630	542
VAT receivable	57	51
Interest receivables	10	12
Prepaid expenses	71	52
Accrued income	7	8
Other receivables	80	127
Royalty receivables	29	44
<b>Trade and other receivables</b>	<b>884</b>	<b>836</b>

The carrying amount of trade and other receivables approximates their fair values. With respect to trade receivables, the fair value is estimated to be the carrying amount less the provision for impairment and for all other receivables the carrying value approximates fair value given the short-term maturity of these amounts.

There is some concentration of credit risk with respect to trade receivables. For some credit exposures in critical countries, such as the Southern European countries, the Group obtained credit insurance. The Group co-operates with dedicated wholesalers in certain countries. The largest outstanding trade receivable in 2016 from a single customer is 13% (2015: 17%) from McKesson Corp. U.S..

The aging analysis of the Group trade receivables at year-end is as follows:

€ million	2016		2015	
	GROSS CARRYING AMOUNTS	IMPAIRMENT	GROSS CARRYING AMOUNTS	IMPAIRMENT
Not past due	598	0	504	0
Past due – less than one month	20	-1	8	-1
Past due more than one month and not more than three months	10	0	16	0
Past due more than three months and not more than six months	2	0	8	0
Past due more than six months and not more than one year	1	-1	3	0
Past due more than one year	5	-4	9	-5
<b>Total</b>	<b>636</b>	<b>-6</b>	<b>548</b>	<b>-6</b>

Based on historical default rates, the Group believes that no provision for impairment is necessary in respect of trade receivables not past due. This concerns 94% (2015: 92%) of the outstanding balance at the balance sheet date.

The movement in the provision for impairment in respect of trade receivables is shown below:

€ million	2016	2015
<b>Balance at 1 January</b>	<b>-6</b>	<b>-7</b>
Impairment charge recognized in the income statement	-1	-1
Utilization/reversal of provision for impairment	1	2
Effects of movements in exchange rates	0	0
<b>Balance at 31 December</b>	<b>-6</b>	<b>-6</b>

The other classes within trade and other receivables do not contain impaired assets.

The carrying amounts of the Group trade and other receivables are denominated in the following currencies:

€ million	2016	2015
EUR	287	301
USD	305	253
JPY	33	11
GBP	62	117
CNY	41	24
CHF	23	24
KRW	9	12
Other currencies	124	94
<b>Trade and other receivables</b>	<b>884</b>	<b>836</b>

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

The Group does not hold any collateral as security.

## ▶ 23. CASH AND CASH EQUIVALENTS

€ million	2016	2015
Short-term bank deposits	541	1 036
Cash at bank and on hand	220	249
<b>Cash and cash equivalents (excluding bank overdrafts)</b>	<b>761</b>	<b>1 285</b>

Cash and short-term deposits of € 25 million are held in countries with restrictive regulations on exporting capital from the country other than *via* normal dividends, such as China, India, Korea and Thailand. As Edev is 100% owned by non-controlling interests, its cash balance of € 0.1 million is restricted for use in settling its own obligations.

For the purposes of the statement of cash flows, cash and cash equivalents are comprised of the following:

€ million	2016	2015
Cash and cash equivalents	761	1 285
Bank overdrafts (Note 26)	-5	-8
Cash and cash equivalents included in assets held for sale	0	0
Bank overdrafts included in liabilities of disposal group held for sale	0	0
<b>Cash and cash equivalents as reported in the cash flow statement</b>	<b>756</b>	<b>1 277</b>

## ▶ 24. CAPITAL AND RESERVES

### 24.1 | SHARE CAPITAL AND SHARE PREMIUM

The issued share capital of the Company amounted to € 584 million (2015: € 584 million), and is represented by 194 505 658 shares (2015: 194 505 658 shares). The Company's shares are without par value. Pursuant to the Belgium Act of 14 December 2005, bearer securities have been subject to a gradual abolishment, leading to their conversion into registered or dematerialized securities as from 1 January 2014 and their complete abolishment at the end of 2015. At 31 December 2016, 68 104 491 shares were registered and 126 401 167 were dematerialized shares. The holders of UCB shares are entitled to receive dividends as declared and are also entitled to one vote per share at the shareholders' meeting of the Company. There is no authorized, unissued capital.

At 31 December 2016, the share premium reserves amounted to € 2 030 million (2015: € 2 030 million).

### 24.2 | HYBRID CAPITAL

On 18 March 2016, UCB SA exercised its option to redeem the € 300 million perpetual subordinated bonds (the "bonds") that were issued at 99.499% and that offered investors a coupon of 7.75% per annum during the first five years.

These bonds were listed on the Luxembourg Stock Exchange and qualified as 'equity' instruments under IAS 32. Accordingly interest expenses were accounted for as dividends to the shareholders. An amount of € 5 million dividend to shareholders of the perpetual subordinated bonds for the period from 1 January to 18 March 2016 is presented in retained earnings. Any transaction costs were deducted from the Hybrid capital, taking tax effects into account.

### 24.3 | TREASURY SHARES

The Group acquired, through UCB SA and UCB Fipar SA, 700 000 treasury shares (2015: 4 510 000) for a total amount of € 49 million (2015: € 202 million) and transferred 1 121 860 treasury shares (2015: 1 731 267) for a total amount of € 61 million (2015: € 83 million) (net transfer of 421 860 treasury shares for a net amount of € 12 million).

During 2016, the Group did not acquire or dispose of any treasury shares as part of share swap transactions. (2015: 4 290 000 acquired and 1 200 000 disposed)

At 31 December 2016, the Group retained 5 828 362 treasury shares of which none related to share swap deals (2015: 6 250 222 of which none related to share swap deals). These treasury shares have been acquired in order to honour the exercise of stock options and share awards granted to the Board of Directors and certain categories of employees.

In the current year, no call options on UCB shares have been acquired (2015: 1 435 000) and no call options have been exercised (2015: 4 160 000), together leading to € 0 million equity impact (2015: € 2.5 million).

### 24.4 | OTHER RESERVES

Other reserves amount to € -164 million (2015: € -65 million) and consists of the following items:

- > the IFRS acquisition value surplus that arose during the Schwarz Pharma business combination for € 232 million (2015: € 232 million);
- > the remeasurement value of the defined benefit obligation for € -362 million (2015: € -264 million);
- > the purchase of the remaining 25% non-controlling interest in Schwarz Pharma Zuhai Ltd for € -11 million (2015: € -11 million); and
- > the purchase of the remaining 30% non-controlling interest in Meizler Biopharma: € -23 million (2015: € -23 million). UCB acquired 51% of the shares of Meizler Biopharma (subsequently renamed "Meizler UCB") in 2012. The purchase agreement granted a put option to the selling shareholders and a call option to UCB on the remaining shares. In 2013 some amendments were made to the original purchase agreement whereby the ownership percentage of UCB was adjusted to 70% and the terms of the put and call options were amended. In 2015 UCB acquired the remaining 30% interest in the common and preference shares of Meizler UCB. After the completion of the transaction in 2015, the put and call options are no longer outstanding.

### 24.5 | CUMULATIVE TRANSLATION ADJUSTMENTS

The cumulative translation adjustments reserve represents the cumulative currency translation differences relating to the consolidation of Group companies that use functional currencies other than the euro as well as any unrealized cumulative foreign exchange gains or losses resulting from net investment hedges.

## ▶ 25. SHARE-BASED PAYMENTS

The Group operates several equity-based and cash-based compensation plans, including a share option plan, a share appreciation rights plan, a share award plan and a performance share plan to compensate employees for services rendered.

The share option plan, the share award plan and the performance share plan are equity-settled, whereas the share appreciation rights plan is a cash-settled plan. Besides these plans, the Group also operates employee share purchase plans in the U.K. and the U.S. and phantom share plans. The expenses incurred for these plans are immaterial.

### 25.1 | SHARE OPTION PLAN AND SHARE APPRECIATION RIGHTS PLAN

The Remuneration Committee granted options on UCB SA shares to the Executive Committee members, the senior executives and the senior directors of the UCB Group. The exercise price of the granted options under these plans is equal to the lowest of the following two values:

- > the average of the closing price of the UCB shares on Euronext Brussels, during the 30 days preceding the offer; or
- > the closing price of the UCB shares on Euronext Brussels the day before the grant.

A different exercise price is determined for those eligible employees subject to legislation which requires a different exercise price in order to benefit from reduced taxation. The options become exercisable after a vesting period of three years, except for those eligible employees subject to legislation which requires a longer vesting period in order to benefit from reduced taxation. If an employee leaves the Group, his/her options usually lapse upon expiry of a period of six months. Options do not lapse in case of death or retirement and in case of involuntary termination when taxes have been paid upon grant. The Group has no obligation to repurchase or settle the options in cash.

There are no reload features, and the options are not transferable (except in case of death).

The Share Appreciation Rights (S.A.R.'s) plan has similar characteristics to the share option plan, except that it is reserved for UCB employees in the U.S. this plan is cash-settled.

### 25.2 | SHARE AWARD PLAN

The Remuneration Committee granted free UCB SA shares to the Executive Committee members, the senior executives and the senior and middle management of the UCB Group. The free shares have service conditions attached to them whereby beneficiaries are required to remain in service for three years post grant date. Share awards lapse upon leaving the Group, except upon leaving on retirement or death in which case they vest immediately. The beneficiary is not entitled to dividends during the vesting period.

### 25.3 | PERFORMANCE SHARE PLAN

The Remuneration Committee granted performance shares to the Executive Committee members and senior executives who achieved an outstanding performance. The performance shares are conditional on the beneficiary completing three years of service (the vesting period) and are also subject to the fulfilment of certain company performance conditions.

Performance Shares lapse upon leaving the Group, except upon leaving on retirement or death in which case they vest immediately. The beneficiary is not entitled to dividends during the vesting period.

### 25.4 | PHANTOM SHARE OPTION, SHARE AWARD AND PERFORMANCE SHARE PLANS

The Group also has phantom share option, phantom share award and performance phantom share plans (collectively referred to as phantom plans). These phantom plans apply to certain employees who have an employment contract with certain affiliates of the Group and are governed under similar rules to the Group share option, share award and performance share plans except for their settlement. As of 31 December 2016, these plans had 103 participants (2015: 42) and the share-based payment expense incurred for these plans is immaterial.

### 25.5 | EMPLOYEE SHARE PURCHASE PLANS IN THE U.S.

The plan is intended to provide employees of UCB affiliates in the U.S. with an opportunity to purchase common shares of the Group. Shares are acquired at a discount of 15% which is funded by UCB. Employees save a defined percentage of their salary through payroll deduction and shares will be purchased with after-tax employee contributions. The shares are held by an independent third party banking institution in an account in the employee's name.



The limit placed on employees' participation in the plan is as follows:

- > between 1% and 10% of each participant's compensation;
- > US\$ 25 000 per year per participant;
- > maximum of US\$ 5 million total ownership by U.S. employees in all forms of share plans over a rolling period of 12 months.

As of 31 December 2016, the plan had 541 participants (2015: 546). There are no specific vesting conditions and the share-based payment expense incurred for this plan is immaterial.

## 25.6 | SHARE SAVINGS PLAN IN THE U.K.

The purpose of this plan is to encourage the holding of UCB shares by employees in the U.K. Participants save a certain portion of their salary through payroll

deductions and UCB matches every 5 shares bought by each participant with 1 free share. Shares are held in an account in the employee's name by an independent company that acts as a trustee. Employee contributions to the plan are limited to the lower of:

- > 10% of each participant's compensation;
- > GBP 1 500 per year per participant.

As of 31 December 2016, the plan had 172 participants (2015: 133) and the share-based payment expense incurred for this plan is immaterial.

## 25.7 | SHARE-BASED PAYMENT EXPENSE

The total share-based payment expense incurred for the Group amounted to € 26 million (2015: € 83 million), and has been included in the relevant functional lines within the income statement as follows

€ million	2016	2015
Cost of sales	2	5
Marketing and selling expenses	14	42
Research and development expenses	5	18
General and administrative expenses	5	18
Other operating expenses	-	-
<b>Total operating expense</b>	<b>26</b>	<b>83</b>
Of which, equity-settled:		
Share option plans	7	11
Share award plans	37	22
Performance share plan	8	6
Of which, cash-settled:		
Share appreciation rights plan	-29	37
Phantom share option, share award and performance share plans	3	7

## 25.8 | SHARE OPTION PLANS

The movements in the number of share options outstanding and their related weighted average exercise prices as at 31 December are:

	2016			2015		
	WEIGHTED AVERAGE FAIR VALUE (€)	WEIGHTED AVERAGE EXERCISE PRICE (€)	NUMBER OF SHARE OPTIONS	WEIGHTED AVERAGE FAIR VALUE (€)	WEIGHTED AVERAGE EXERCISE PRICE (€)	NUMBER OF SHARE OPTIONS
Outstanding at 1 January	9.40	41.30	5 858 395	8.84	37.02	7 158 066
+ New options granted	11.62	67.23	502 213	11.26	67.35	517 026
(-) Options forfeited	11.07	58.62	50 706	10.95	45.96	166 877
(-) Options exercised	8.91	36.90	971 794	7.34	30.04	1 614 801
(-) Options expired	7.70	40.16	25 879	6.75	37.33	35 019
<b>Outstanding at 31 December</b>	<b>9.66</b>	<b>44.40</b>	<b>5 312 229</b>	<b>9.40</b>	<b>41.30</b>	<b>5 858 395</b>
Number of options fully vested:						
At 1 January			2 418 789			2 225 231
At 31 December			3 326 315			2 418 789

The share options outstanding as at 31 December 2016 with the following last exercise dates and exercise prices are:

LAST EXERCISE DATE	RANGE OF EXERCISE PRICES (€)	NUMBER OF SHARE OPTIONS
31 March 2017	[43.57 - 44.13]	170 412
31 March 2018	[22.01 - 25.73]	148 280
31 March 2019	[21.38 - 22.75]	187 700
31 March 2020	31.62	328 836
31 March 2021	[25.32 - 26.80]	561 200
31 March 2022	32.36	1 104 529
31 March 2023	[48.69 - 49.80]	1 327 550
31 March 2024	58.12	490 944
31 March 2025	67.35	498 555
31 March 2026	67.23	494 223
<b>Total outstanding</b>		<b>5 312 229</b>

The fair value has been determined based on the Black-Scholes valuation model.

The volatility was determined primarily by reference to historically observed share prices of UCB over the last five years. The probability of early exercise is reflected in the expected life of the options. The expected forfeiture rate is based on actual turnover of employees for categories eligible for stock option compensation.

The significant assumptions used in the measurement of the fair value of the share options granted in 2016 and 2015 are:

		2016	2015
Share price at grant date	€	67.81	67.35
Weighted average exercise price	€	67.23	67.35
Expected volatility	%	24.81	23.23
Expected option life	Years	5	5
Expected dividend yield	%	1.62	1.57
Risk free interest rate	%	-0.28	0.33
Expected annual forfeiture rate	%	7.00	7.00

## 25.9 | SHARE APPRECIATION RIGHTS (S.A.R.'S) PLAN

The movements of the S.A.R.'s and the model inputs as at 31 December 2016 can be found in the table below. The fair value of the S.A.R.'s at grant date is determined using the Black-Scholes model. The fair value of the liability is remeasured at each reporting date.

		2016	2015
<b>Outstanding rights as of 1 January</b>		<b>1 593 275</b>	<b>2 001 963</b>
+ New rights granted		172 719	173 266
(-) Rights forfeited		42 637	121 254
(-) Rights exercised		399 431	459 700
(-) Rights expired		3 000	1 000
<b>Outstanding rights as of 31 December</b>		<b>1 320 926</b>	<b>1 593 275</b>
The significant assumptions used in the measurement of the fair value of the share appreciation rights are:			
Share price at year end	€	60.91	83.23
Exercise price	€	67.23	67.35
Expected volatility	%	24.14	23.99
Expected option life	Years	5	5
Expected dividend yield	%	1.81	1.27
Risk free interest rate	%	-0.40	0.03
Expected annual forfeiture rate	%	7	7

## 25.10 | SHARE AWARD PLANS

The share-based payment expense related to these share awards is spread over the vesting period of three years.

The beneficiaries are not entitled to dividends during the vesting period. The movement in the number of share awards outstanding at 31 December is as follows:

	2016		2015	
	NUMBER OF SHARES	WEIGHTED AVERAGE FAIR VALUE (€)	NUMBER OF SHARES	WEIGHTED AVERAGE FAIR VALUE (€)
<b>Outstanding at 1 January</b>	<b>1 346 175</b>	<b>62.16</b>	<b>860 430</b>	<b>54.85</b>
+ New share awards granted	736 579	67.81	707 168	67.35
(-) Awards forfeited	113 702	64.11	97 245	61.24
(-) Awards vested and paid out	118 562	54.88	124 178	41.71
<b>Outstanding at 31 December</b>	<b>1 850 490</b>	<b>64.76</b>	<b>1 346 175</b>	<b>62.16</b>

## 25.11 | PERFORMANCE SHARE PLANS

The movement in the number of performance shares outstanding at 31 December is as follows:

	2016		2015	
	NUMBER OF SHARES	WEIGHTED AVERAGE FAIR VALUE (€)	NUMBER OF SHARES	WEIGHTED AVERAGE FAIR VALUE (€)
<b>Outstanding at 1 January</b>	<b>355 881</b>	<b>58.12</b>	<b>355 873</b>	<b>50.06</b>
+ New performance shares granted	122 708	65.58	96 593	67.35
(-) Performance shares forfeited	36 981	56.88	51 185	38.84
(-) Performance shares vested	118 747	51.81	45 400	36.57
<b>Outstanding at 31 December</b>	<b>322 861</b>	<b>63.92</b>	<b>355 881</b>	<b>58.12</b>

## 25.12 | OPTIONS GRANTED BEFORE 7 NOVEMBER 2002

According to the transitional provisions included in IFRS 2, the options granted before 7 November 2002 and not yet vested at 1 January 2005 are not amortized through the income statement.

Since 31 December 2015 none of these options or warrants are outstanding anymore.

	2016		2015	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE (€)	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE (€)
<b>Outstanding at 1 January</b>	-	-	<b>29 300</b>	<b>40.34</b>
(-) Options forfeited	-	-	-	-
(-) Options exercised	-	-	14 700	41.68
(-) Options expired	-	-	14 600	38.99
<b>Outstanding at 31 December</b>	-	-	-	-

## ▶ 26. BORROWINGS

The carrying amounts and fair values of borrowings are as follows:

€ million	2016	2015
<i>Non-current</i>		
Bank borrowings	326	342
Other long-term loans	0	0
Finance leases	5	7
<b>Total non-current borrowings</b>	<b>331</b>	<b>349</b>
<i>Current</i>		
Bank overdrafts	5	8
Current portion of bank borrowings	12	95
Debentures and other short-term loans	8	12
Finance leases	2	2
<b>Total current borrowings</b>	<b>27</b>	<b>117</b>
<b>Total borrowings</b>	<b>358</b>	<b>466</b>

### 26.1 | BORROWINGS

On 31 December 2016, the Groups weighted average interest rate was 3.00% (2015: 3.53%) prior to hedging. The floating interest rate payments are subject to designated cash flow hedges and fixed interest rate payments are subject to designated fair value hedges, thereby fixing the weighted average interest rate for the Group at 2.31% (2015: 3.06%) post hedging. The fees paid for the arrangement of the bonds (Note 27), and the amended facilities agreement are amortized over the life of the instruments.

Where applicable under hedge accounting, the fair value of the non-current borrowings is determined based on the present value of the payments associated with the debt instruments, using the applicable yield curve and UCB credit spread for the various different currencies.

Since the bank borrowings are at a floating interest rate that is reset every six months, the carrying amount of the bank borrowings equates to its fair value.

The carrying amounts of the Group borrowings are denominated in the following currencies:

€ million	2016	2015
EUR	243	345
USD	95	92
Other	0	0
<b>Total interest bearing loans by currency</b>	<b>338</b>	<b>437</b>
Bank overdrafts – USD	4	4
Bank overdrafts – other	1	4
Debentures and other short term loans – EUR	0	0
Debentures and other short term loans – other	8	12
Finance lease liabilities – EUR	7	9
<b>Total borrowings</b>	<b>358</b>	<b>466</b>

With respect to the current borrowings, the carrying amounts approximate their fair values as the effect of discounting is considered to be insignificant.

UCB did not draw (2015: € 0 million) on the € 1 billion syndicated revolving facility expiring 9 January 2021, following an amended and extended facility agreement from 9 January 2014.

The Group has access to certain committed and non-committed bilateral credit facilities. In this respect, per end of 2016 an aggregated amount of € 85 million was undrawn.

Please refer to Note 4.3 for the maturity analysis of the Group borrowings (excluding other financial liabilities).

## 26.2 | FINANCE LEASE LIABILITIES – MINIMUM LEASE PAYMENTS

€ million	2016	2015
Amounts payable under finance leases:		
1 year or less	2	2
1-2 years	2	1
2-5 years	3	5
More than 5 years	0	1
<b>Present value of finance lease liabilities</b>	<b>7</b>	<b>9</b>
Less: amount due for settlement within 12 months	2	2
<b>Amount due for settlement after 12 months</b>	<b>5</b>	<b>7</b>

Management considers that the carrying value of the Group finance lease liabilities approximate their fair value.

## ▶ 27. BONDS

The carrying amounts and fair values of bonds are as follows:

€ million	COUPON RATE	MATURITY DATE	CARRYING AMOUNT		FAIR VALUE	
			2016	2015	2016	2015
Retail Bond	5.125%	2023	192	189	215	210
Institutional Eurobond	1.875%	2022	350	346	358	350
Institutional Eurobond	4.125%	2021	370	369	394	392
Retail Bond	3.750%	2020	256	257	273	271
EMTN Note <sup>1</sup>	3.284%	2019	20	20	20	20
EMTN Note <sup>1</sup>	3.292%	2019	55	55	55	55
Institutional Eurobond	5.750%	2016	0	506	0	525
<b>Total bonds</b>			<b>1 243</b>	<b>1 742</b>	<b>1 315</b>	<b>1 823</b>
<i>Of which:</i>						
Non-current			1 243	1 236	1 315	1 298
Current			0	506	0	525

<sup>1</sup> The fair value of the EMTN Notes cannot be accurately determined given the limited liquidity in secondary market trading for these notes, and is for reporting purposes replaced by the carrying value.

### 27.2 | RETAIL BONDS

#### > MATURING IN 2023:

During October 2009, UCB completed a public offering of € 750 million fixed rate bonds, carrying a coupon and an effective interest rate of 5.75% per annum, and aimed at retail investors.

During September 2013, UCB launched an unconditional public exchange offer for a maximum of € 250 million out of the € 750 million retail bonds maturing in November 2014 and having a gross coupon of 5.75%. The existing bondholders had the opportunity to exchange their existing bonds against newly issued bonds maturing October 2023 in an exchange ratio of 1 to 1. These bonds carry a coupon of 5.125% per annum while their effective interest rate is 5.398% per annum.

At the end of the exchange period, 175 717 existing bonds were tendered in the exchange offer, representing a nominal amount of € 176 million.

The 175 717 new bonds were issued in October 2013 and have been listed on Euronext Brussels. The existing bonds exchanged in the exchange offer were cancelled by UCB. The outstanding 574 283 of the retail bonds matured and have been redeemed in November 2014.

#### > MATURING IN 2020:

In March 2013, UCB completed a public offering of € 250 million bonds, in the form of a retail public offering in Belgium under its established EMTN program. The bonds were issued at 101.875% of the nominal value. The retail bond has a coupon of 3.75% per annum and an effective interest rate of 3.444% per annum. The bonds have been listed on the regulated market of Euronext Brussels.



## 27.3 | INSTITUTIONAL EUROBONDS

### > MATURING IN 2016:

In December 2009, UCB completed an offering of € 500 million senior unsecured bonds, due in 2016 and aimed at institutional investors. The bonds were issued at 99.635% and have been redeemed at 100% of their principal amount on December 10, 2016. These bonds carried a coupon of 5.75% per annum while their effective interest rate was 5.8150% per annum. The bonds had been listed on the Luxembourg stock exchange.

### > MATURING IN 2021:

In September 2013, UCB completed an offering of € 350 million senior unsecured bonds, due January 2021, issued under its EMTN program. The Bonds were issued at 99.944% in October 2013 and will be redeemed at 100% of their principal amount. These bonds carry a coupon of 4.125% per annum while their effective interest rate is 4.317% per annum. The bonds have been listed on Euronext Brussels.

### > MATURING IN 2022:

In April 2015, UCB completed an offering of € 350 million senior unsecured bonds, due April 2022, issued under its EMTN program. The Bonds were issued at 99.877% in April 2015 and will be redeemed at 100% of their principal amount. These bonds carry a coupon of 1.875% per annum while their effective interest rate is 2.073% per annum. The bonds have been listed on Euronext Brussels.

## 27.4 | EMTN NOTES

### > MATURING IN 2019:

In November 2013, UCB completed an offering of € 55 million notes, due in 2019. The notes were issued at 100% and will be redeemed at 100% of their principal amount. These notes carry a coupon of 3.292% per annum while their effective interest rate is 3.384% per annum. The notes have been listed on Euronext Brussels.

### > MATURING IN 2019:

In December 2013, UCB completed an offering of € 20 million notes, due in 2019. The notes were issued at 100% and will be redeemed at 100% of their principal amount. These notes carry a coupon of 3.284% per annum while their effective interest rate is 3.356% per annum. The notes have been listed on Euronext Brussels.

## 27.5 | FAIR VALUE HEDGES

The Group designates derivative financial instruments under fair value hedges to the Retail Bonds and Institutional Eurobonds. The change in the carrying amount of the bonds is fully attributable to the change in the fair value of the hedged portion of the bonds, and is almost fully offset by a change in fair value of the corresponding derivative financial instrument.

# ▶ 28. OTHER FINANCIAL LIABILITIES

€ million	CARRYING AMOUNT		FAIR VALUE	
	2016	2015	2016	2015
<i>Non-current</i>				
Derivative financial instruments (Note 36)	7	9	7	9
Other financial liabilities	87	108	87	108
<b>Total non-current other financial liabilities</b>	<b>94</b>	<b>117</b>	<b>94</b>	<b>117</b>
<i>Current</i>				
Derivative financial instruments (Note 36)	102	77	102	77
Other financial liabilities	40	54	40	54
<b>Total current other financial liabilities</b>	<b>142</b>	<b>131</b>	<b>142</b>	<b>131</b>
<b>Total other financial liabilities</b>	<b>236</b>	<b>248</b>	<b>236</b>	<b>248</b>

The other financial liabilities include a liability of € 127 million (2015: € 162 million) resulting from the issuance of warrants to the shareholders of Edev Sàrl (note 4.5.3).

## 29. DEFERRED TAX ASSETS AND LIABILITIES

### 29.1 | RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

€ million	2016	2015
Intangible assets	-111	-144
Property, plant and equipment	-18	-9
Inventories	251	190
Trade and other receivables	54	60
Employee benefits	72	88
Provisions	39	26
Other short-term liabilities	-264	-526
Unused tax losses	593	832
Unused tax credits	327	278
<b>Total net deferred tax assets/liabilities (-)</b>	<b>943</b>	<b>795</b>

Total deferred tax assets of € 943 million have been recognized as at 31 December 2016. Based upon the level of past taxable income and projected future taxable profits over the periods in which the deductible temporary differences are estimated to reverse, the Group believes it is probable that the benefits of the recognised deferred tax assets will be realized.

The Group saw an overall increase of the deferred tax recognised. This is predominantly driven by increased deferred tax assets on inventory and R&D tax credits. The total deferred tax asset in respect of R&D tax credits at year end is € 324 million (2015: € 267 million) which will result in an actual cash tax benefit in future periods.

Increased deferred tax assets on U.S. rebates and an internal one-off reorganisation triggered a downward impact on other short-term liabilities and unused tax losses

#### DEFERRED TAX ASSETS ON LOSSES

A deferred tax asset of € 593 million (2015: € 832 million) has been recognized in respect of tax losses carried forward totaling € 2.19 billion (2015: € 2.94 billion) as the Group has concluded that the relevant entities will continue to generate taxable profits in the foreseeable future against which these losses can be used. These losses have arisen in a number of jurisdictions in which UCB operates and do not expire. This period has seen further recognition of losses and tax credits previously unrecognized, as subsidiaries in Belgium, Germany and the U.K. which historically generated losses are demonstrating increasing profitability as well evidence of generating sufficient levels of future taxable profits to justify the recognition of these assets. Undiscounted forecasts have been used to assess the availability of future taxable profits.

As indicated in Note 15, the Group is currently assessing the impact of the announced tax reform in the U.K. as this could have a notable impact on the deferred tax balances following rate changes and/or the introduction

of loss limitation rules. The Group is also monitoring certain key jurisdictions in which the intention has been expressed to reform the tax system.

### 29.2 | UNUSED TAX LOSSES

As of 31 December 2016 the Group also had € 1 709 million (2015: € 2 123 million) of gross unused tax losses for which no deferred tax asset is recognized in the balance sheet. These tax loss carryforwards do not expire.

Based on current forecasts and current legislation, the majority of these losses will be fully utilized within 10 years but it has been decided to not recognize a deferred tax asset on these losses for now given the long term nature of these forecasts.

### 29.3 | TEMPORARY DIFFERENCES FOR WHICH NO DEFERRED TAX ASSET OR DEFERRED TAX LIABILITY IS RECOGNIZED

Deferred tax assets are recognized on temporary differences carried forward that represent income likely to be realized in the foreseeable future. Deferred tax assets amounting to € 684 million (2015: € 490 million) in respect of unutilized tax credits and intangible assets have not been recognized in view of the uncertain character of the recovery.

No deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries. The unrecognized deferred tax liabilities amount to approximately € 14 million (2015: € 9 million).

There is an additional unrecognised deferred tax liability of € 456 million (2015: € 478 million) in respect of an internal reorganisation which occurred in 2014. The tax liability will only materialise on disposal of the relevant asset, an event which is controlled by UCB and for which there are no plans in the foreseeable future.

## 29.4 | DEFERRED TAX WAS DIRECTLY RECOGNIZED IN EQUITY

€ million	2016	2015
Deferred tax recognized in OCI	13	36
Effective portion of changes in fair value of cash flow hedges	13	0
<b>Deferred tax directly recognized in equity</b>	<b>26</b>	<b>36</b>

## ▶ 30. EMPLOYEE BENEFITS

Most employees are covered by retirement benefit plans sponsored by Group companies. The nature of such plans varies according to legal regulations, fiscal requirements and economic conditions of the countries in which the employees are employed. The Group operates both defined contribution plans and defined benefit plans.

### 30.1 | DEFINED CONTRIBUTION PLANS

Post-employment benefit plans are classified as "defined contribution" plans if the Group pays fixed contributions into a separate fund or to a third party financial institution and has no further legal or constructive obligation to pay further contributions. Therefore no assets or liabilities are recognized in the Group balance sheet in respect of such plans, apart from regular prepayments and accruals of contributions. As UCB is required by law to guarantee a minimum return on employee and employer contributions for the Belgian defined contribution plans, these plans are considered to be defined benefit plans. Where reliable estimates can be made for material plans, they are valued using the projected unit credit method under IAS 19. These plans are aggregated with the results for other defined benefit plans. The change in the Belgian legislation introduced in December 2015 whereby the guaranteed interest has been modified has been taken into account in the calculations since 2015.

### 30.2 | DEFINED BENEFIT PLANS

The Group operates several defined benefit plans. The benefits granted include mainly pension benefits, jubilee premiums and termination indemnities. The benefits are granted according to local market practice and regulations.

These plans are either unfunded or funded *via* outside pension funds or insurance companies. For (partially) funded plans, the assets of the plans are held separately in funds under the control of the trustees. Where a plan is unfunded, notably for the major defined benefit plans in Germany, a liability for the obligation is recorded in the Group balance sheet. For funded plans, the Group is liable for the deficits between the fair value of the plan assets and the present value of the benefit obligations. Accordingly, a liability (or an asset when the plan is

over-funded) is recorded in the Group consolidated statement of financial position. Independent actuaries assess all main plans annually.

Since 2008, the Group analyses the Value at Risk on its balance sheet and profit and loss accounts linked to its defined benefits plans. Target risk level in terms of a one-year consolidated balance sheet and profit and loss Value at Risk measures are defined annually based on UCB risk tolerance thresholds.

For UCB, the main risks linked to its defined benefit obligations are discount rate, inflation and longevity. The majority of the risks lays within the U.K., Belgium, Germany and the U.S. It should be noted that longevity is not considered as a risk for the plans in Belgium as benefits are either paid as a lump sum or externalised before being paid as an annuity.

Over the last years, UCB has performed various de-risking projects.

In the U.K., the buy-in was completed for three of the four pension schemes by securing the benefits of all members of the schemes with an insurance company. In addition, one of those three schemes, known as the U.K. British Pension Scheme was bought out on 1<sup>st</sup> October 2015. UCB does therefore no longer have any liabilities towards any members of this scheme.

For the U.K. Celltech Pension and Insurance Scheme, the focus, since 2012, is on de-risking progressively from a 50% growth/50% bonds allocation to a 10% growth/90% bonds allocation. Today the growth/bonds allocation is around 35%/65%.

Finally as part of its de-risking strategy, UCB has decided to start the process of terminating the U.S. Defined Benefit plan by offering lump sum to members and transferring the remaining liabilities to an insurance company.

For the Belgian pension plan, the focus remains on the diversification of the assets. In 2015, the Belgian Pension Board implemented the Mercer "Global Investment Solution" in order to improve the diversification of the assets and investment managers while keeping a close control on risk.

The amount recognized in the consolidated statement of financial position arising from the Group's obligation in respect of its defined benefit plan is as follows:

€ million	2016	2015
Present value of defined benefit obligation	1124	966
Fair value of plan assets	675	615
Funded status – Deficit/surplus (-)	449	351
Effect of asset ceiling	1	1
<b>Net liability arising from defined benefit obligation</b>	<b>450</b>	<b>352</b>
Add: Liability with respect to cash settled share based payments (Note 25)	29	65
<b>Total employee benefit liabilities</b>	<b>479</b>	<b>417</b>
Of which:		
Portion recognized in non-current liabilities	479	417
Portion recognized in non-current assets	0	0

80% of the net liability arising from defined benefit obligations is related to defined benefit pension obligations in Belgium, Germany and Switzerland.

Movements in the present value of the defined benefit obligation in the current year were as follows:

€ million	2016	2015
<b>At 1 January</b>	<b>966</b>	<b>1 086</b>
Current service cost	48	48
Interest expense	25	28
Remeasurement gain(-)/loss		
Effect of changes in demographic assumptions	29	5
Effect of changes in financial assumptions	133	-50
Effect of experience adjustments	-4	4
Past service cost and gain(-)/loss on settlements	-	-5
Effect of change in foreign exchange rates	-41	38
Benefit payments from the plan	-24	-30
Benefit payments from the employer	-5	-6
Settlement payments	-	-149
Plan participants contributions	2	2
Change in scope	-	-
Other	-5	-5
<b>At 31 December</b>	<b>1 124</b>	<b>966</b>

Movements in the fair value of plan assets in the current year were as follows:

€ million	2016	2015
<b>At 1 January</b>	<b>615</b>	<b>705</b>
Interest income	17	20
Remeasurement gain/loss(-)		
Return on plan assets (excl. interest income)	48	-31
Changes in asset ceiling (excl. interest income)	-	-
Effect of change in foreign exchange rates	-36	33
Plan participants contributions	2	2
Employer contributions	60	74
Benefit payments from the plan	-24	-30
Settlement payments	-	-149
Expenses, taxes and premiums paid	-7	-9
Change in scope	-	-
<b>At 31 December</b>	<b>675</b>	<b>615</b>

The fair value of plan assets amounts to € 675 million (2015: € 615 million), representing 60% (2015: 64%) of the defined benefit obligation. The total deficit

of € 449 million (2015: € 351 million) is expected to be eliminated over the estimated remaining average service period of the current membership.

The amounts recognized in the consolidated income statement and in the consolidated statement of comprehensive income in respect of those defined benefit plans are as follows:

€ million	2016	2015
Total service cost (incl. past service cost and gain (-)/loss from settlements)	48	43
Net interest cost	8	8
Remeasurement of other long term benefits	1	-2
Administrative expenses and taxes	3	4
<b>Components of defined benefit costs recorded in income statement</b>	<b>60</b>	<b>53</b>
Remeasurements gain (-)/loss		
Effect of changes in demographic assumptions	27	5
Effect of changes in financial assumptions	132	-50
Effect of experience adjustments	-4	5
Return on plan assets (excluding interest income)	-48	31
Changes in the asset ceiling (excluding interest income)	-	-4
<b>Components of defined benefit costs recorded in OCI</b>	<b>107</b>	<b>-13</b>
<b>Total components of defined benefit cost</b>	<b>167</b>	<b>40</b>

The total service cost, the net interest expense, the remeasurement of other long term benefits, administrative expenses and taxes for the year are included in the employee benefit expenses in the consolidated income statement. 84% of the defined benefit costs recorded in the income statement are

relating to defined benefit pension plans in Belgium, Germany and Switzerland. The remeasurement on the net defined benefit liability is included in the statement of comprehensive income as part of other comprehensive income.

The split of the recognized expense by functional line is as follows:

€ million	2016	2015
Cost of sales	15	11
Marketing and selling expenses	8	7
Research and development expenses	28	20
General and administrative expenses	9	15
Other income and expenses	-	-
<b>Total</b>	<b>60</b>	<b>53</b>

The actual return on plan assets is € 48 million (2015: € -31 million) and the actual return on reimbursement rights is € 0 million (2015: € 0 million).

The major categories of plan assets at the end of the reporting period, are as follows:

€ million	2016	2015
<b>Cash and cash equivalent</b>	<b>50</b>	<b>7</b>
<b>Equity instruments</b>	<b>126</b>	<b>127</b>
Europe	46	42
U.S.	35	36
Rest of the World	45	49
<b>Debt instruments</b>	<b>163</b>	<b>199</b>
Corporate bonds	41	27
Government bonds	60	31
Other	62	141
<b>Properties</b>	<b>8</b>	<b>7</b>
<b>Qualifying insurance policies</b>	<b>162</b>	<b>146</b>
<b>Investment funds</b>	<b>151</b>	<b>123</b>
<b>Other</b>	<b>15</b>	<b>6</b>
<b>Total</b>	<b>675</b>	<b>615</b>



Virtually all equity and debt instruments have quoted prices in active markets. Properties can be classified as Level 3 instruments based on the definitions in IFRS 13 *Fair Value Measurement*.

The assets held in the funds do not contain any direct investment in UCB Group shares, nor any property occupied by, or other assets used by the Group, though this does not exclude UCB shares being included in mutual investment fund type investments. The principal weighted average actuarial assumptions used for the purposes of the actuarial valuations were as follows:

	EUROZONE		U.K.		U.S.		OTHER	
	2016	2015	2016	2015	2016	2015	2016	2015
Discount rate	1.70%	2.20%	2.68%	3.75%	4.00%	4.25%	0.55%	0.95%
Inflation	1.75%	1.75%	3.50%	3.20%	N/A	N/A	N/A	N/A

Significant actuarial assumptions for the determination of the defined obligation are discount rate and inflation. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period.

- > If the discount rate would be 50 basis points higher (lower), the defined benefit obligation would decrease by € 88 million (increase by € 86 million) if all other assumptions were held constant.
- > If the inflation rate would increase (decrease) by 25 basis points, the defined benefit obligation would increase by € 39 million (decrease by € 34 million) if all other assumptions were held constant.

The figures above do not take account of any interrelationships between the assumptions, especially between the discount rate, expected salary increases and inflation rates.

The Group's subsidiaries should fund the entitlements expected to be earned on a yearly basis. Funding usually follows local actuarial requirements and in this framework, the discount rate is set on a risk free rate. Underfunding linked to past service are met by setting up recovery plans and investment strategies based on plan's demographics, appropriate time periods for amortization of past service liability, projected salary increase and the financial capabilities of the local company.

The average duration of the benefit obligation at the end of the reporting period is 16.38 years (2015: 15.55 years). This number can be subdivided into the duration related to:

- > Eurozone: 15.13 years (2015: 13.60 years);
- > U.K.: 18.85 years (2015: 19.11 years);
- > U.S.: 16.39 years (2015: 11.44 years);
- > Other: 20.52 years (2015: 19.06 years).

The Group expects to make a contribution of € 48 million to the defined benefit plans during the next financial year.

ALM (asset-liability matching) studies are typically performed every 3 years. Within those studies, investment strategies are analysed in terms of risk-and-return profiles. An ALM study was also completed in 2016, which resulted in a slight reallocation of the assets.

In setting up the long-term investment strategy of the scheme, the investment committee focuses on some key principles defined by the Group such as:

- > maintaining a balance between the level of contributions acceptable to UCB and the level of investment risk relative to the liabilities;
- > reducing the volatility through investment diversification; and
- > the degree of investment risk should depend on the financial state of the schemes and liability profiles.

# 31. PROVISIONS

The movements in provisions have been disclosed below:

€ million	ENVIRONMENT	RESTRUCTURING	OTHER	TOTAL
<b>At 1 January 2016</b>	<b>22</b>	<b>28</b>	<b>92</b>	<b>142</b>
Business combinations	-	-	-	-
Arising during the year	-	18	50	68
Unused amounts reversed	-2	-2	-5	-9
Transfer from one heading to another	-	-4	-	-4
Effect of movements in exchange rates	-	-2	1	-1
Utilized during the year	-	-12	-18	-30
Transfer to assets held for sale	-	-	-	-
<b>At 31 December 2016</b>	<b>20</b>	<b>26</b>	<b>120</b>	<b>166</b>
Non-current portion	13	5	87	105
Current portion	7	21	33	61
<b>Total provisions</b>	<b>20</b>	<b>26</b>	<b>120</b>	<b>166</b>

## 31.1 | ENVIRONMENTAL PROVISIONS

UCB has retained certain environmental liabilities which were associated to the acquisition of Schwarz Pharma and the divestiture of Films and Surface Specialties in the past. The latter relates to the divested sites on which UCB has retained full responsibility in accordance with the contractual terms agreed upon with Cytec Industries Inc. In 2016 part of the environmental provisions related to the Films business was reversed.

## 31.2 | RESTRUCTURING PROVISIONS

The restructuring provisions arising during 2016 are related to further optimization and reorganization, mainly in Germany and Southern Europe, while the utilization is mainly related to R&D and other severance costs.

## 31.3 | OTHER PROVISIONS

Other provisions relate mainly to:

- > provisions for litigation that comprise mainly provisions where UCB or a subsidiary is or might be a defendant against claims of previous employees;
- > product liability provisions that pertain to the risks related to the normal course of business and for which the Group might be liable by selling these kinds of drugs. In 2016 a further provision of € 19 million was recognized related to Distilbène which is a former product of the UCB Group. UCB is currently defendant in several product liability cases in France. The claimants in these actions claim that their mothers took Distilbène during their pregnancy and that as a result of this they suffered bodily injuries. The provision represents the amount of estimated future cash outflows exceeding the product liability insurance cover (Note 13, Note 39.4). The provision was discounted using a discount rate of 0.95%. If the discount rate would be 25 basis points higher (lower), the provision would decrease (increase) by € 2 million;
- > a provision related to the divestment of the plant in Shannon (€ 11 million);
- > a provision related to toll manufacturing agreements (€ 10 million).

An assessment is performed with respect to the above mentioned risks together with the Group legal advisers and experts in the different domains.

## ▶ 32. TRADE AND OTHER LIABILITIES

### 32.1 | NON-CURRENT TRADE AND OTHER LIABILITIES

€ million	2016	2015
Non-current liabilities linked to project financing <sup>1</sup>	33	72
Other payables <sup>1</sup>	22	34
<b>Total non-current trade and other liabilities</b>	<b>55</b>	<b>106</b>

### 32.2 | CURRENT TRADE AND OTHER LIABILITIES

€ million	2016	2015
Trade payables <sup>1</sup>	274	225
Invoices to receive <sup>1</sup>	135	117
Taxes payable, other than income tax	76	77
Payroll and social security liabilities	152	165
Other payables <sup>1</sup>	49	53
Current liabilities linked to project financing <sup>1</sup>	48	59
Deferred income linked to collaboration agreements <sup>1</sup>	33	79
Other deferred income	73	71
Royalties payables	69	99
Dividend to shareholders of perpetual subordinated bond	0	18
Rebates/discount payable	616	433
Accrued interest	32	33
Other accrued expenses	303	259
<b>Total current trade and other liabilities</b>	<b>1 860</b>	<b>1 688</b>

<sup>1</sup> 2015 reported balances are reclassified according to 2016 trade and other liabilities presentation.

The vast majority of the trade and other liabilities are classified as current and consequently the carrying amounts of the total trade and other liabilities is assumed to be a reasonable approximation of fair value.

"Rebates and discounts payable" include rebates, chargebacks, discounts and accruals for product returns relating to products sold in the U.S. to various customers that are part of commercial and governmental contractual arrangements or other reimbursement programs, including the U.S. Medicaid Drug Rebate program, the U.S. Federal Medicare program and others. The sales returns and allowances are recorded in the same period as the underlying sales as a deduction to sales.

Per management assessment, the total accruals for these items are adequate, based upon currently available information and interpretation of relevant regulations. As these deductions are based on management estimates, the actual deductions might differ from these estimates. Such differences could impact the accruals recognized in the balance sheet in future periods and consequently the level of sales recognized in the income statement in future periods, as there is often a time lag of several months between the recording of the estimate and the final accounting of the sales deductions. The accruals are reviewed and adjusted regularly in light of contractual and legal obligations, historical trends, past experience and projected market conditions.

All returns, chargebacks, rebates and discounts that are not mentioned on the invoice are estimated, deducted from sales and presented on the balance sheet in the appropriate accrual account. The estimate for future product returns is based on several factors, including: historical return rates, expiration date by product, return rate by closed batches, actual returns processed among others, as well as any other specifically-identified anticipated returns due to known factors such as the loss of patent exclusivity, product recalls and discontinuances, or a changing competitive environment. Adjustments to these accruals may be required in the future based on revised estimates to our assumptions, which would have an impact on our consolidated results of operations. The U.S. sales return and allowance liability that is included as part of the rebates and discounts payable liability balance amounts to € 540 million as per 31 December 2016 (31 December 2015: € 396 million).

## ▶ 33. INCOME TAX PAYABLES

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Income tax payables include liabilities for uncertain tax positions for an amount of € 231 million (2015: € 232 million). Liabilities for uncertain tax positions are recorded when the Group considers it probable that a tax position taken is unlikely to be sustained if challenged by the tax authorities. The assessment is done for each liability individually and the resulting liability is the Group's best estimate of the expected exposure in the event of a tax authority challenge. See Note 3.2.5 for more details on the Group's assessment of uncertain tax positions.

UCB faces a number of audits in countries around the world. The issues under discussion are in some cases, complex and these audits can take a number of years to resolve or even reach a firm conclusion on the additional liabilities. Any liability booked in respect of these audits is calculated by the Group as the single best estimate of the current tax it expects to pay using the Group's best judgment of the most likely outcome of such examinations.

Overall the liabilities for uncertain tax positions are stable over 2016. There has been a decrease in 2016 of liabilities relating to the underlying operations of € 8 million. This is mainly due to the closing of certain tax audits or expiry of the statutes of limitation. In addition, some uncertain tax positions were proactively disclosed by the Group without triggering the application of any correction or penalties. A liability for an uncertain tax position of € 7 million in respect of discontinued operations was recognised in the period.

The Group anticipates that current tax audits for which the most significant liabilities for uncertain tax positions are recorded should be concluded or at least a clear indication of the outcome should be known in the course of 2017.

## ▶ 34. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The cash flow statement identifies operating, investing and financing activities for the period.

UCB uses the indirect method for the operating cash flows. The net profit and loss is adjusted for:

- > the effects of non-cash transactions such as depreciation and amortization, impairment losses, provisions, mark-to-market, etc., and the variance in working capital;

- > items of income or expense associated with investing or financing cash flows. Important non-cash transactions for 2016 relate to the impairment of the Lannett warrant for € 28 million (Note 20.3) and R&D tax credits for € 65 million for which the cash benefit will be received in later years.

Important non-cash transactions for 2015 relate to the sale of KU. The consideration received included non-cash items. UCB received senior unsecured notes for an amount of \$ 200 million as well as warrants entitling UCB to subscribe for 2.5 million shares of Lannett's stock.

€ million	NOTE	2016	2015
<b>Adjustment for non-cash transactions</b>		<b>216</b>	<b>313</b>
Depreciation and amortization	8, 19, 17	232	250
Impairment/reversal (-) charges	8, 11	41	88
Equity settled share based payment expense		31	3
Other non-cash transactions in the income statement		-65	-49
Adjustment IAS 39	14	-11	13
Unrealized exchange gain (-)/losses		-11	-65
Change in provisions and employee benefits		-13	61
Change in inventories and bad debt provisions		12	11
<b>Adjustment for items to disclose separately under operating cash flow</b>		<b>199</b>	<b>111</b>
Tax charge of the period from continuing operations	15	199	111
<b>Adjustment for items to disclose under investing and financing cash flows</b>		<b>-129</b>	<b>-59</b>
Gain (-)/loss on disposal of fixed assets		-183	-139
Dividend income (-)/expenses		0	0
Interest income (-)/charge		54	80
<b>Change in working capital</b>			
Inventories movement per consolidated BS		-12	-19
Trade and other receivables and other assets movement per consolidated BS		-54	-58
Trade and other payables movement per consolidated BS		151	229
Share swaps		0	-190
<b>As it appears in the consolidated balance sheet and corrected by:</b>		<b>85</b>	<b>-38</b>
Non-cash items <sup>1</sup>		-54	-143
Change in inventories and bad debt provisions disclosed separately under operating cash flow		-6	-11
Change in interest receivable/payable disclosed separately under operating cash flow		0	2
Change in dividend receivable disclosed separately under investing cash flow		0	0
Change in dividend payable disclosed separately under financing cash flow		23	23
Change in net working capital disclosed under cash flow from discontinued operations		0	0
Currency translation adjustments		-2	60
<b>As it appears in the consolidated cash flow statement</b>		<b>46</b>	<b>-107</b>

<sup>1</sup> Non-cash items are mainly linked to transfers from one heading to another, non-cash movements linked to affiliate's revaluation from Fx currencies and other movements linked to entry/exit in consolidation scope or merge of entities.



## 35. FINANCIAL INSTRUMENTS BY CATEGORY

€ million			ASSETS AT FAIR VALUE THROUGH THE PROFIT AND LOSS	DERIVATIVES USED FOR CASH FLOW HEDGING	AVAILABLE FOR SALE	TOTAL
31 December 2016	NOTE	LOANS AND RECEIVABLES				
Assets as per balance sheet						
Financial assets and other assets (excluding derivative financial instruments and associates)	20	102	0	0	67	169
Derivative financial assets	36	0	98	10	0	108
Trade and other receivables (including prepaid expenses)	22	884	0	0	0	884
Cash and cash equivalents	23	761	0	0	0	761
<b>Total</b>		<b>1 747</b>	<b>98</b>	<b>10</b>	<b>67</b>	<b>1 922</b>

€ million			LIABILITIES AT FAIR VALUE THROUGH THE PROFIT AND LOSS	DERIVATIVES USED FOR CASH FLOW HEDGING	OTHER FINANCIAL LIABILITIES AT AMORTIZED COST	TOTAL
31 December 2016	NOTE					
Liabilities as per balance sheet						
Borrowings	26		0	0	358	358
Bonds	27		0	0	1 243	1 243
Derivative financial liabilities	36		56	53	0	109
Trade and other liabilities	32		0	0	1 915	1 915
Other financial liabilities (excluding derivatives financial instruments)	28		127	0	0	127
<b>Total</b>			<b>183</b>	<b>53</b>	<b>3 516</b>	<b>3 752</b>

€ million			ASSETS AT FAIR VALUE THROUGH THE PROFIT AND LOSS	DERIVATIVES USED FOR CASH FLOW HEDGING	AVAILABLE FOR SALE	TOTAL
31 December 2015	NOTE	LOANS AND RECEIVABLES				
Assets as per balance sheet						
Financial assets and other assets (excluding derivative financial instruments and associates)	20	274	29	0	67	370
Derivative financial assets	36	0	74	10	0	84
Trade and other receivables (including prepaid expenses)	22	836	0	0	0	836
Cash and cash equivalents	23	1 285	0	0	0	1 285
<b>Total</b>		<b>2 395</b>	<b>103</b>	<b>10</b>	<b>67</b>	<b>2 575</b>

€ million			LIABILITIES AT FAIR VALUE THROUGH THE PROFIT AND LOSS	DERIVATIVES USED FOR CASH FLOW HEDGING	OTHER FINANCIAL LIABILITIES AT AMORTIZED COST	TOTAL
31 December 2015	NOTE					
Liabilities as per balance sheet						
Borrowings	26		0	0	466	466
Bonds	27		0	0	1 742	1 742
Derivative financial liabilities	36		58	28	0	86
Trade and other liabilities	32		0	0	1 794	1 794
Other financial liabilities (excluding derivatives financial instruments)	28		162	0	0	162
<b>Total</b>			<b>220</b>	<b>28</b>	<b>4 002</b>	<b>4 250</b>

## ▶ 36. DERIVATIVE FINANCIAL INSTRUMENTS

€ million	ASSETS		LIABILITIES	
	2016	2015	2016	2015
Forward foreign exchange contracts – cash flow hedges	10	10	51	25
Forward foreign exchange contracts – fair value through profit and loss	37	19	50	51
Interest rate derivatives – cash flow hedges	0	0	2	3
Interest rate derivatives – fair value through profit and loss	61	55	6	7
<b>Total</b>	<b>108</b>	<b>84</b>	<b>109</b>	<b>86</b>
Of which:				
Non-current (Notes 20 and 28)	62	50	7	9
Current (Notes 20 and 28)	46	34	102	77

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability, if the maturity of the hedged item is less than 12 months.

The cash flow hedges entered into by the Group were assessed to be highly effective and over 2016, a net unrealized loss of € 17 million (2015: net unrealized gain

of € 12 million) after deferred taxes was included in equity in respect of these contracts. These gains/losses will be recycled to the profit or loss in the period during which the hedged forecast transactions affect the profit or loss.

The ineffective portion recognized in the profit or loss that arises from cash flow hedges amounts to € 0 million (2015: € 0 million).

### 36.1 | FOREIGN CURRENCY DERIVATIVES

The Group policy with respect to the use of financial derivative contracts is described in Note 4 "Financial Risk Management".

The Group entered into several forward foreign exchange contracts in order to hedge a portion of highly probable future sales and royalty income, expected to occur in 2017 and 2018.

The fair values of the foreign currency derivative contracts are as follows:

€ million	ASSETS		LIABILITIES	
	2016	2015	2016	2015
USD	18	9	67	44
GBP	19	7	22	13
JPY	7	1	4	9
CHF	2	2	1	5
RUB	0	3	1	0
Other currencies	2	7	6	5
<b>Total foreign currency derivatives</b>	<b>47</b>	<b>29</b>	<b>101</b>	<b>76</b>

The foreign currency derivatives maturity analysis is noted below:

€ million	2016	2015
1 year or less	-55	-47
1-5 years	1	0
Beyond 5 years	0	0
<b>Total foreign currency derivatives – net asset/net liability (-)</b>	<b>-54</b>	<b>-47</b>

The following table shows the split of foreign currency derivatives by currency of denomination (currencies sold view) as at 31 December 2016:

Notional amounts in € million	USD	GBP	EUR	JPY	CHF	OTHER CURRENCIES	TOTAL
Forward contracts	1 281	672	929	245	42	314	3 483
Currency swaps	989	178	654	73	203	105	2 202
Option/collar	0	0	0	0	0	0	0
<b>Total</b>	<b>2 270</b>	<b>850</b>	<b>1 583</b>	<b>318</b>	<b>245</b>	<b>419</b>	<b>5 685</b>

## 36.2 | INTEREST RATE DERIVATIVES

The Group uses various interest rate derivative contracts to manage its exposure to interest rate movements on its borrowings. The re-pricing dates and amortization characteristics are aligned with those of the fixed rate bonds. The outstanding interest rate derivative contracts are as follows:

CONTRACT TYPE	NOMINAL VALUES OF CONTRACTS (MILLION)	AVERAGE RATE (- IS PAYER/+ IS RECEIVER)	PLUS MARGIN OF POINTS (- IS PAYER/ + IS RECEIVER)	FOR PERIODS FROM/TO		FLOATING INTEREST RECEIPTS
IRS	EUR 150	-0,87%		21-08-12	21-08-17	EURIBOR 3 Months
IRS	EUR 200	1,53%		04-10-13	04-01-21	-EURIBOR 3 Months
IRS	EUR 150	1,59%		04-10-13	04-01-21	-EURIBOR 3 Months
IRS	EUR 250	1,36%		27-11-13	27-03-20	-EURIBOR 3 Months
IRS	EUR 175	1,91%		27-11-13	02-10-23	-EURIBOR 3 Months
IRS	EUR 150	-1,12%		27-03-14	27-03-20	EURIBOR 3 Months
IRS	USD 100	-1,97%		20-11-14	22-11-21	USD LIBOR 3 Months
IRS	EUR 100	0,44%		17-12-15	02-04-22	-EURIBOR 6 Months
IRS	EUR 100	0,45%		17-12-15	02-04-22	-EURIBOR 6 Months
CCIRS	USD 230	-USD LIBOR 3 Months	-0,16%	27-11-13	02-10-23	EURIBOR 3 Months
CCIRS	EUR 205	USD LIBOR 3 Months	0,45%	03-10-16	02-10-23	-EURIBOR 3 Months

## 36.3 | HEDGE OF NET INVESTMENT IN A FOREIGN ENTITY

Any unrealized cumulative foreign exchange gains or losses resulting from net investment hedges are taken up under Cumulative Translation Adjustments. These unrealized gains and losses will remain in equity and will only be recycled to profit or loss when the Group no longer holds the underlying assets.

## ▶ 37. EARNINGS PER SHARE

### 37.1 | BASIC EARNINGS PER SHARE

€	2016	2015
From continuing operations	2.88	1.38
From discontinued operations	-0.12	1.87
<b>Basic earnings per share</b>	<b>2.76</b>	<b>3.25</b>

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

### 37.2 | DILUTED EARNINGS PER SHARE

€	2016	2015
From continuing operations	2.88	1.38
From discontinued operations	-0.12	1.87
<b>Diluted earning per share</b>	<b>2.76</b>	<b>3.25</b>

### 37.3 | EARNINGS

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

#### BASIC

€ million	2016	2015
Profit/loss (-) from continuing operations attributable to shareholders of UCB SA	543	264
Profit/loss (-) from discontinued operations	-23	359
<b>Profit attributable to shareholders of UCB SA</b>	<b>520</b>	<b>623</b>

#### DILUTED

€ million	2016	2015
Profit/loss (-) from continuing operations attributable to shareholders of UCB SA	543	264
Profit/loss (-) from discontinued operations	-23	359
<b>Profit attributable to shareholders of UCB SA</b>	<b>520</b>	<b>623</b>

### 37.4 | NUMBER OF SHARES

In thousands of shares	2016	2015
Weighted average number of ordinary shares for basic earnings per share	188 365	192 082
<b>Weighted average number of ordinary shares for diluted earnings per share</b>	<b>188 365</b>	<b>192 082</b>

## ▶ 38. DIVIDEND PER SHARE

The gross dividends paid in 2016 and 2015 were € 210 million (€ 1.10 per share) and € 205 million (€ 1.06 per share) respectively.

A dividend in respect of the year ended 31 December 2016 of € 1.15 per share, amounting to a total dividend of € 220 million, is to be proposed

at the annual general meeting of the shareholders on 27 April 2017.

In accordance with IAS 10, events after the reporting period, the proposed dividend has not been recognized as a liability at year-end.

## ▶ 39. COMMITMENTS AND CONTINGENCIES

### 39.1 | OPERATING LEASE COMMITMENTS

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

€ million	2016	2015
Less than 1 year	25	19
Between 1 and 5 years	72	69
More than 5 years	7	10
<b>Total</b>	<b>104</b>	<b>98</b>

The Group has a number of non-cancellable operating leases primarily related to company cars and office spaces.

The leases cover an initial period of three to five years. Lease payments are increased annually to reflect

market rentals. None of the leases include contingent rentals. In 2016, € 39 million (2015: € 44 million) was recognized as an expense in the income statement in respect of operating leases.

### 39.2 | CAPITAL AND OTHER COMMITMENTS

At 31 December 2016, the Group has committed to spend € 69 million (2015: € 40 million) mainly with respect to capital expenditures to increase the capacity of the Bulle plant and installation of a new assembly line in Belgium.

UCB has entered into long-term development agreements with various pharmaceutical enterprises, clinical trial operators and financial investors. Such collaboration agreements may include milestone

payments which are dependent on successful clinical development or on meeting specified sales targets. The table below sets out the maximum that would be paid if all milestones, however unlikely, are achieved but excludes variable royalty payments based on unit sales and amounts accrued for milestones already achieved. The amounts are not risk-adjusted or discounted and the timing of the payments is based on the Group's current best estimate of achievement of the relevant milestones.

€ million	2016	2015
Less than one year	76	70
Between one and five years	170	227
More than five years	776	748
<b>Total</b>	<b>1 022</b>	<b>1 045</b>

UCB has concluded several agreements with Contract Manufacturing Organizations for the supply of its products. Total outstanding commitments towards these CMOs amount to € 390 million as per end of 2016.

As part of UCB's innovation strategy, UCB has established a corporate venture fund, UCB Ventures. The main objectives of the fund are to add breadth to UCB's innovation ecosystem, to create a window on new technologies, products, platforms and channels to augment or complement UCB's existing activities, to develop network and strategic relationships in the venture capital investor community to identify opportunities that UCB might not otherwise see. Within this framework UCB has made investment commitments in 2016 for a total amount of US\$ 20 million of which US\$ 10 million is related to an investment in a venture capital fund and US\$ 10 million to a direct investment in the proposed public share offering by Arix Bioscience plc.

### 39.3 | GUARANTEES

Guarantees arising in the normal course of business are not expected to result in any material financial loss.

### 39.4 | CONTINGENCIES

The Group continues to be actively involved in litigations, claims and investigations. The on-going matters could result in liabilities, civil and criminal penalties, loss of product exclusivity and other costs, fines and expenses associated with findings adverse to UCB's interests. Potential cash outflows reflected in a provision might be fully or partially off-set by insurance in certain circumstances. UCB has not established provisions for potential damage awards for certain additional legal claims against our subsidiaries if UCB currently believes that a payment is either not probable or cannot be reliably estimated.



## 1. | INTELLECTUAL PROPERTY MATTERS (SELECTED MATTERS)

### Vimpat®

- > **Delaware District Court Litigation:** In June 2013, UCB filed suit in the District Court of Delaware, against 16 defendants, who were seeking approval of their generic versions of Vimpat®. The defendants filed paragraph IV certifications challenging, among other things, the validity of the RE38,551 ('551) Vimpat® patent. On 12 August 2016, Judge Stark ruled in UCB's favor and upheld the validity of the patent. The defendants have appealed the ruling to the Court of Appeals for the Federal Circuit.
- > **Inter Partes Review (IPR):** In November 2015, Argentum Pharmaceuticals filed a petition for an IPR before the U.S. Patent and Trademark Office (USPTO) and Patent Trial and Appeal Board (PTAB), seeking to invalidate the Vimpat® '551 patent. In May 2016, the PTAB instituted the review. Mylan, Breckenridge, and Alembic have joined the IPR. An Oral Hearing was held on 24 January 2017. A decision is expected on or before 23 May 2017.
- > **Ex Parte Reexamination:** In March 2016, Argentum Pharmaceuticals filed an ex parte reexamination request before the Patent Trial and Appeal Board (PTAB), seeking to invalidate the Vimpat® '551 patent. On 16 June 2016, the USPTO granted the request for the reexamination. On 7 December 2016, the USPTO issued its first non-final office action. On 24 January 2017, the USPTO stayed the review, pending the outcome of the IPR discussed above.
- > **Accord U.K. Litigation:** In July, 2016, Accord Healthcare filed a legal action before the United Kingdom High Court, requesting a declaration of invalidity and revocation of European Patent (U.K.) 0 888 829, disclosing and claiming lacosamide. Trial is scheduled for September 2017.
- > **Zydus II Delaware District Court Litigation:** In October 2016, UCB filed suit in the District Court of Delaware, against Zydus Pharmaceuticals, who is seeking approval of its second generic version of Vimpat®. The defendant filed a paragraph IV certification challenging, among other things, the validity of the '551 Vimpat® patent. Zydus was a defendant in the original Vimpat® litigation noted above. Zydus has filed a motion to stay this litigation pending the outcome of the Vimpat® litigation noted above, the pending IPR and the stayed reexamination.

### Neupro®

- > **Watson Delaware District Court Litigation:** In August 2014, UCB filed suit in the District Court of Delaware against Watson Pharmaceuticals, who is seeking approval of its generic version of Neupro®. Watson filed a paragraph IV certification challenging, among other things, the validity of certain patents pertaining to Neupro®. Trial is scheduled for June 2017.

- > **Zydus Delaware District Court Litigation:** In November 2016, UCB filed suit in the District Court of Delaware against Zydus Pharmaceuticals, who is seeking approval of its generic version of Neupro®. Zydus filed a paragraph IV certification challenging, among other things, the validity of certain patents pertaining to Neupro®. The case is on-going.

### Toviaz®

- > **Mylan Delaware District Court Litigation:** In January 2015, UCB filed suit in the District Court of Delaware against Mylan Pharmaceuticals, who is seeking approval of its generic version of Toviaz®. Mylan filed a late paragraph IV certification challenging, among other things, the validity of certain patents pertaining to Toviaz®. In the United States, Toviaz® is distributed by Pfizer. On 26 January 2017, Judge Sleet ruled in Pfizer/UCB's favor and upheld the validity of all of the Orange Book listed patents. We are currently awaiting notice of whether Mylan will appeal the ruling.
- > **Mylan Inter Partes Review (IPR):** In January 2016, Mylan Pharmaceuticals filed a petition for an IPR before the U.S. Patent and Trademark Office (USPTO), seeking to invalidate all of the Orange Book listed patents pertaining to Toviaz®. In July 2016, the Patent Trial and Appeal Board (PTAB) instituted the review. Alembic, Torrent and Amerigan have filed joinder motions. A decision is expected on or before 20 July 2017.
- > **Torrent Delaware District Court Litigation:** In February 2017, UCB filed suit in the District Court of Delaware against Torrent Pharmaceuticals Ltd. and Torrent Pharma Inc., who is seeking approval of its generic version of Toviaz®. Torrent filed a late paragraph IV certification challenging, among other things, the validity of certain patents pertaining to Toviaz®. In the United States, Toviaz® is distributed by Pfizer. This case is on-going. In June 2013, UCB filed its first lawsuit defending the validity of certain Toviaz® patents, against nine generic companies, and on 20 April 2016, Judge Sleet ruled in Pfizer/UCB's favor upholding the validity of all of the Orange Book listed patents. None of the defendants appealed the ruling. The second lawsuit UCB filed defending certain Toviaz® patents was the Mylan case noted above, where Judge Sleet ruled again in Pfizer/UCB's favor on 26 January 2017.

### Adair Patent Litigation – Chugai

On 14 December 2016, Chugai Pharmaceuticals filed a legal action in the United Kingdom Patents Court, seeking a declaration that the sale of their product Actemra® does not infringe UCB's U.S. patent 7,556,771. The case is on-going.

## 2. | **PRODUCT LIABILITY MATTERS**

### **Reglan® product liability litigation**

UCB continues to be a defendant in slightly less than 4500 Reglan product liability cases. The cases have been largely consolidated in three different jurisdictions: Philadelphia, San Francisco, and New Brunswick. Each of the cases involves claims of injury resulting from an alleged failure to warn of the risks associated with the use of metoclopramide for more than 12 weeks. The vast majority of claims involve alleged injuries sustained as a result of the use of generic metoclopramide. There are no cases currently scheduled for trial in 2017. While the Company believes it has meritorious defenses to these claims, in order to avoid the expense and distraction of litigation, the Company has entered into a confidential Master Settlement Agreement which establishes a framework to resolve all of the claims against the Company for an amount which is within the Company's existing insurance coverage limits. The Settlement is subject to sufficient participation by the plaintiffs as determined in the Company's sole discretion. All major jurisdictions are expected to enter into a joint stipulation in February 2017 which will result in dismissal with prejudice of virtually all cases. This will trigger funding by the insurance company of the settlement fund. The Company anticipates the Settlement to be finalized in Q4 2017.

### **Distilbène product liability litigation – France**

Entities of the UCB Group have been named as defendants in several product liability cases in France. The claimants in these actions claim that their mothers took distilbène, a former product of the UCB Group, during their pregnancy, and that as a result of this they suffered bodily injuries. The Group has product liability insurance in place, but as this insurance cover will not be sufficient, the Group has accounted for a provision of € 69 million relating to these case (Note 13 and 31.3).

## 3. | **INVESTIGATIONS**

### **New York Attorney General – Medicaid Rebates**

On 22 June 2015, the Company received a subpoena from the New York Attorney General's Office, Medicaid Fraud Control Unit ("NYAG"), seeking documents pertaining to alleged underpayment of Medicaid rebates for certain periods between 2002-2005. The Company is cooperating fully with the NYAG.

### **Southern District of New York – Pharmacy Benefit Managers and Cimzia®**

In March, 2016, the Company received a Civil Investigative Demand (CID) from the Civil Frauds Unit of the U.S. Attorney's Office in the Southern District of New York. The CID requests the Company to identify and provide all contracts (from January 2006 through the present) between the Company and any Pharmacy Benefit Manager (PBM) concerning Cimzia®, including all documents necessary to show all services performed by any PBM as well as all payments made to any PBM.

As of August 2016, all documents requested have been submitted to the government. The Company is cooperating with the U.S. Attorney's Office in response to the CID provided.

## 4. | **OTHER MATTERS**

### **Divested Business Litigation – Desmopressin**

In October 2008, Apotex Inc. filed suit against UCB, Lonza Braine S.A. and S&D Chemicals (Canada) Ltd., in the Ontario Superior Court in Toronto, Ontario, Canada, alleging breach of contract and seeking damages for alleged failure to supply Apotex with the drug, desmopressin. UCB divested this drug as a part of its Bioproducts Business to Lonza in 2006. Lonza has cross-claimed against UCB and S&D Chemicals, UCB has cross-claimed against Lonza and S&D Chemicals, and S&D Chemicals has cross-claimed against UCB and Lonza. Trial is scheduled for September 2017.

### **Ahrens ERISA litigation**

In February 2015, a complaint was filed in the U.S. District Court for the Northern District of Georgia naming as defendants UCB Holdings, Inc., UCB, Inc. Defined Benefit Pension Plan, and the Administrative Committee of the UCB, Inc. Defined Benefit Pension Plan. The complaint seeks class action status and purports to assert claims for certain pension benefits on behalf of certain current and former employees of UCB, Inc. who had previously been employed by two different predecessor companies which were acquired by UCB, Inc. in the 1990s. On 6 January 2016, the court granted UCB's motion to dismiss five of the ten claims in the case. The matter was mediated in August 2016 and on 9 February 2017, the court granted the motion for preliminary approval of the settlement. Notice to class members will be sent by 13 March 2017, and the hearing on the motion for final approval of the settlement is scheduled for 19 May 2017.

## 5. | **CONCLUDED LEGAL MATTERS**

### **Desitin litigation**

UCB Pharma SA (UCB) was a defendant in a litigation initiated by Desitin Arzneimittel GmbH (Desitin) pending at the district court of Hamburg (Germany). Desitin was claiming damages for the loss allegedly suffered from the enforcement of an injunction obtained by UCB against Desitin's trademark "Kepmini" which injunction was later revoked. Desitin was claiming damages in the amount of € 10 million. A further court hearing was held on 10 November 2016, and subsequently the court again encouraged the parties to engage in settlement negotiation. A settlement was reached on 22 December 2016, under which UCB had to pay to Desitin® an amount of € 1.8 million until end January 2017, which was provided in the 2016 financials. The case is now closed.

## Medical Research Council (MRC)

UCB was a defendant in a litigation initiated by the Medical Research Council (MRC) which was scheduled to begin trial in May 2016 in the High Court of Justice, Chancery Division in London (U.K.). The dispute was successfully resolved prior to trial through a mutually

agreed settlement by the parties on terms which were very favorable to UCB. All claims were dropped and the proceedings have been dismissed.

It is not anticipated that any other material liabilities will arise from the contingent liabilities other than those provided for in Note 31 (2015: no material liabilities).

# ▶ 40. RELATED PARTY TRANSACTIONS

## 40.1 | INTRA-GROUP SALES AND SERVICES

During the financial years ended 31 December 2016 and 2015, all intra-UCB Group transactions were carried out based on assessments of mutual economic benefit to the parties involved, and the applicable conditions were established in accordance with criteria of at arm's length negotiations and fair dealing, and with a view to creating value for the entire UCB Group. Conditions governing intra-UCB Group transactions were similar to conditions governing third-party transactions.

With regard to the sale of intermediary and finished products, these criteria were accompanied by

the principle of increasing each party's respective production cost by an at arm's length profit margin. With regard to intra-UCB Group services rendered, these criteria are accompanied by the principle of charging fees sufficient to cover each party's respective incurred costs and an at arm's length mark-up. Intra-Group transactions carried out within the UCB Group constitute standard transactions for a biopharmaceutical Group. These transactions include the purchase and sale of intermediary and finished medical products, deposits and loans for UCB Group affiliates as well as centralized functions and activities carried out by the UCB Group in order to optimize operations through economies of scale and scope.

## 40.2 | FINANCIAL TRANSACTIONS WITH RELATED PARTIES OTHER THAN UCB SA AFFILIATES

During 2016 there have been no financial transactions with other related parties other than affiliates of UCB SA.

## 40.3 | KEY MANAGEMENT COMPENSATION

Key management compensation as disclosed below comprises compensation recognized in the income statement for members of the Board of Directors and the Executive Committee, for the portion of the year where they exercised their mandate.

€ million	2016	2015
Short-term employee benefits	13	12
Termination benefits	0	0
Post-employment benefits	4	3
Share-based payments	10	7
<b>Total key management compensation</b>	<b>26</b>	<b>22</b>

Short-term employee benefits include salaries (including social security contributions), bonuses earned during the year, car leasing and other allowances where applicable. Share-based compensation includes the amortization over the vesting period of the fair value of equity instruments granted, and comprises share options, share awards and performance shares as

further explained in Note 25. The termination benefits contain all compensated amounts, including benefits in kind and deferred compensation. There have been no loans granted by the Company or a subsidiary of the Group to any Director or officer of the Group, nor any guarantees given with respect hereto.

## 40.4 | SHAREHOLDERS AND SHAREHOLDERS STRUCTURE

The main shareholder of UCB is Financière de Tubize SA (also referred to herein as the "Reference Shareholder" or "Tubize"), a Belgian company listed on Euronext Brussels.

Based on the transparency declarations received by Tubize and, as the case may be, more recent public disclosures, the shareholder structure of Tubize can be summarized as follows:

	CONCERT		OUTSIDE CONCERT		TOTAL	
	VOTING RIGHTS	%	VOTING RIGHTS	%	VOTING RIGHTS	%
Financière Eric Janssen SPRL	8 525 014	19.14%	1 988 800	4.46%	10 513 814	23.60%
Daniel Janssen	5 881 677	13.20%	-	-	5 881 677	13.20%
Altaï Invest SA	4 969 795	11.16%	11 500	0.03%	4 981 295	11.18%
Barnfin SA	3 899 833	8.75%	-	-	3 899 833	8.75%
Jean van Rijckevorsel	7 744	0.02%	-	-	7 744	0.02%
<b>Total voting rights held by the reference shareholders</b>	<b>23 284 063</b>	<b>52.27%</b>	<b>2 000 300</b>	<b>4.49%</b>	<b>25 284 363</b>	<b>56.76%</b>
Other shareholders	-	-	19 264 235	43.24%	19 264 235	43.24%
<b>Total voting rights</b>	<b>23 284 063</b>	<b>52.27%</b>	<b>21 264 535</b>	<b>47.73%</b>	<b>44 548 598</b>	<b>100.00%</b>

Altaï Invest SA is controlled by Evelyn du Monceau, born Evelyn Janssen. Barnfin SA is controlled by Bridget van Rijckevorsel, born Paule Bridget Janssen.

The reference shareholders of Tubize, belonging to the Janssen family, act in concert, *i.e.* they have entered into a shareholders' agreement concerning the concerted exercise of their voting rights in order to pursue a sustainable common policy with regard to Tubize and concerning the possession, acquisition or transfer of voting securities cf. article 3, §1, 13°, a), b) and c) of the Law on the disclosure of large shareholdings and article 3, §1, 5°, a) and b) of the Law on public takeover bids.

With respect to its shareholding in UCB, Tubize is acting in concert with Schwarz, *i.e.* they have entered into an agreement concerning the concerted exercise of their voting rights in order to pursue a sustainable common policy with regard to UCB and concerning the possession, acquisition or transfer of voting securities (cf. article 3, §1, 13°, b) and c) of the Law on the disclosure of large shareholdings and article 3, §1, 5°, b) of the Law on public takeover bids).

Financière de Tubize SA and Schwarz Vermögensverwaltung GmbH & Co. KG now collectively hold 36.27% of the total number of UCB shares.

UCB and its subsidiaries also hold UCB shares (see below for an overview of their shareholdings at 31 December 2016).

The remaining UCB shares are held by the public.

Please find on the next page an overview of the large shareholdings of UCB (including assimilated financial instruments) on the basis of the transparency notifications received pursuant to the law of 2 May 2007, on the disclosure of large shareholdings (situation as at 31 December 2016):

## UCB CONTROLLING AND MAJOR SHAREHOLDINGS ON 31 DECEMBER 2016

Situation as per 31 December 2016

SITUATION AS PER\*

<b>Share capital €</b>		<b>583 516 974</b>		13 March 2014
<b>Total number of voting</b>		<b>194 505 658</b>		13 March 2014
<b>1</b>	<b>Financière de Tubize SA ("Tubize")</b>			
	securities carrying voting rights (shares)	68 076 981	35.00%	18 December 2015
<b>2</b>	<b>Schwarz Vermögensverwaltung GmbH &amp; Co. KG ("Schwarz")</b>			
	securities carrying voting rights (shares)	2 471 404	1.27%	13 March 2014
<b>Tubize + Schwarz<sup>3</sup></b>				
	securities carrying voting rights (shares)	<b>70 548 385</b>	<b>36.27%</b>	
<b>3</b>	<b>UCB SA/NV</b>			
	securities carrying voting rights (shares)	3 079 536	1.58%	30 December 2016
	assimilated financial instruments (options) <sup>1</sup>	1 000 000	0.51%	17 November 2015
	assimilated financial instruments (other) <sup>1</sup>	0	0.00%	18 December 2015
	<b>TOTAL</b>	<b>4 079 536</b>	<b>2.10%</b>	
<b>4</b>	<b>UCB Fipar SA</b>			
	securities carrying voting rights (shares)	2 748 826	1.41%	30 December 2016
	assimilated financial instruments (options) <sup>1</sup>	435 000	0.22%	03 June 2015
	assimilated financial instruments (other) <sup>1</sup>	0	0.00%	18 December 2015
	<b>TOTAL</b>	<b>3 183 826</b>	<b>1.64%</b>	
<b>UCB SA/NV + UCB Fipar SA<sup>2</sup></b>		<b>7 263 362</b>	<b>3.73%</b>	
	securities carrying voting rights (shares)	5 828 362	3.00%	
	assimilated financial instruments (options) <sup>1</sup>	1 435 000	0.74%	
	assimilated financial instruments (other) <sup>1</sup>	0	0.00%	
<b>Free float<sup>4</sup> (securities carrying voting rights (shares))</b>		<b>118 128 911</b>	<b>60.73%</b>	
<b>5</b>	<b>The Capital Group Companies Inc.</b>			
	securities carrying voting rights (shares)	19 462 506	10.01%	13 November 2015
<b>6</b>	<b>Vanguard Health Care Fund</b>			
	securities carrying voting rights (shares)	9 741 353	5.01%	28 October 2014
<b>7</b>	<b>BlackRock Inc.</b>			
	securities carrying voting rights (shares)	5 923 369	3.05%	29 December 2016

(all percentages are calculated on the basis of the current total number of voting rights)

<sup>1</sup> Assimilated financial instruments within the meaning of article 6 of the Royal Decree of 14 February 2008 on the disclosure of large shareholders, which, if exercised, grant an additional voting right: *i.e.*, securities, options, futures, swaps, interest term agreements and other derivatives concerning existing securities carrying voting rights that grant their holder the right to acquire such securities carrying voting rights pursuant to an agreement that is binding under the applicable law and only on the holders' own initiative.

<sup>2</sup> UCB SA/NV indirectly controls UCB Fipar SA | article 6, §5, 2° and article 9, §3, 2° of the Law on the disclosure of large shareholdings.

<sup>3</sup> Tubize and Schwarz have declared to be acting in concert | article 6, §4 and article 9, §3, 3° of the Law on the disclosure of large shareholdings.

<sup>4</sup> Free float being the UCB shares not held by the Reference Shareholder (Tubize), Schwarz, UCB SA/NV or UCB Fipar SA. Only securities carrying voting rights (shares) held by these entities are taken into account for this calculation, to the exclusion of assimilated financial instruments.



## ▶ 41. EVENTS AFTER THE BALANCE SHEET DATE

- January/February 2017 – As part of its innovation strategy, UCB has committed to invest an additional \$ 20 million in venture funds investing in innovative life sciences and healthcare companies.
- February 2017 – Following the approval by the U.S. Food and Drug Administration of Xyzal® Allergy 24HR as an over-the-counter (OTC) treatment for the relief of symptoms associated with seasonal and

year-round allergies, UCB is entitled to guaranteed payments for a total amount of \$ 75 million to be paid over 10 years by Chattem Inc., a Sanofi Company, due to the outlicensing agreement for Xyzal in the OTC Field in the U.S. that was concluded in 2015. This outlicensing agreement was concluded within the framework of UCB's strategy to outlicense its non-core products.

## ▶ 42. UCB COMPANIES (FULLY CONSOLIDATED)

NAME AND OFFICE	HOLDING	CONTROLLING PARTNER
<b>AUSTRALIA</b>		
UCB Australia Pty. Ltd. – Level 1, 1155 Malvern Road – 3144 Malvern, Victoria	100%	UCB SA
<b>AUSTRIA</b>		
UCB Pharma Gesellschaft m.b.H. – Twin Tower, Wienerbergstrasse 11/12a, 1110 Wien	100%	UCB Finance NV
<b>BELGIUM</b>		
UCB Fipar SA – Allée de la Recherche, 60 – 1070 Brussels (BE0403.198.811)	100%	UCB Belgium SA
UCB Biopharma SPRL – Allée de la Recherche, 60 – 1070 Brussels (BE0543.573.053)	100%	UCB Pharma SA
UCB Belgium SA – Allée de la Recherche, 60 – 1070 Brussels (BE0402.040.254)	100%	UCB Pharma SA
UCB Pharma SA – Allée de la Recherche, 60 – 1070 Brussels (BE0403.096.168)	100%	UCB SA
Sifar SA – Allée de la Recherche, 60 – 1070 Brussels (BE0453.612.580)	100%	UCB Finance NV
UCB Ventures SA – Allée de la Recherche, 60 – 1070 Brussels (BE0667 816 096)	100%	UCB SA
UCB Ventures Belgium SA – Allée de la Recherche, 60 – 1070 Brussels (BE0668 388 891)	100%	UCB Ventures SA
<b>BRAZIL</b>		
UCB Farma Brasil Ltda – Alameda Araguaia 3833 (part) Tamboré – Barueri – CEP:06455-000 Sao Paulo	100%	UCB SA
UCB Biopharma SA – Alameda Araguaia 3833 Tamboré – Barueri – CEP:06455-000 Sao Paulo	100%	UCB Farma Brasil Ltda
<b>BULGARIA</b>		
UCB Bulgaria EOOD – 15, Lyubata Str., Fl. 4 apt. 10-11, Lozenetz, Sofia 1407	100%	UCB SA
<b>CANADA</b>		
UCB Canada Inc. – 2060 Winston Park Drive, Suite 401 – ON L6H5R7 Oakville	100%	UCB Holdings Inc.
<b>CHINA</b>		
UCB Trading (Shanghai) Co Ltd – Suite 317, 439 No.1 Fu Te Xi Yi Road, Shanghai (Waigaoqiao Free Trade Zone)	100%	UCB SA
UCB Pharma (Hong Kong) Ltd – Unit 3713-18,37F, Tower 1, Millenium City 5, 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong	100%	UCB Pharma GmbH
UCB Pharma (Zhuhai) Company Ltd – Section A., Workshop, No.3 Science & Technology 05 <sup>th</sup> Road, Innovation Coast, National Hi-Tech Industrial Development Zone – Zhuhai Guangdong Province	100%	UCB Pharma GmbH

NAME AND OFFICE	HOLDING	CONTROLLING PARTNER
<b>CZECH REPUBLIC</b>		
UCB S.R.O. – Thámova 13 – 186 00 Praha 8	100%	UCB SA
<b>DENMARK</b>		
UCB Nordic AS – Arne Jacobsen Alle 15 – 2300 Copenhagen	100%	UCB Finance NV
<b>FINLAND</b>		
UCB Pharma Oy Finland – Itsehallintokuja 6 – 02600 Espoo	100%	UCB Finance NV
<b>FRANCE</b>		
UCB Pharma SA – Défense Ouest 420, rue d’Estienne d’Orves – 92700 Colombes	100%	UCB SA
<b>GERMANY</b>		
UCB Pharma GmbH – Alfred-Nobel-Strasse 10 – 40789 Monheim am Rhein	100%	UCB GmbH
UCB GmbH – Alfred-Nobel-Strasse 10 – 40789 Monheim am Rhein	100%	UCB Finance NV
UCB BioSciences GmbH – Alfred-Nobel-Strasse 10 – 40789 Monheim am Rhein	100%	UCB Pharma GmbH
Sanol GmbH – Alfred-Nobel-Strasse 10 – 40789 Monheim am Rhein	100%	UCB Pharma GmbH
UCB Innere Medizin GmbH & Co. KG – Alfred-Nobel-Strasse 10 – 40789 Monheim am Rhein	100%	UCB Pharma GmbH
UCB Primary Care GmbH – Alfred-Nobel-Strasse 10 – 40789 Monheim am Rhein	100%	UCB Pharma GmbH
<b>GREECE</b>		
UCB A.E. – 63 Agiou Dimitriou Street – 17456 Alimos – Athens	100%	UCB SA
<b>HUNGARY</b>		
UCB Hungary Ltd – Obuda Gate Building Arpád Fejedelem útja 26-28 – 1023 Budapest	100%	UCB SA
<b>INDIA</b>		
UCB India Private Ltd – 504, Peninsula Corporate Park, Ganpatrao Kadam Marg, Lower Parel – 400 013 Mumbai	100%	UCB SA
Uni-Mediflex Private Ltd – 504, Peninsula Corporate Park, Ganpatrao Kadam Marg, Lower Parel – 400 013 Mumbai	100%	UCB S.A
<b>IRELAND</b>		
UCB (Pharma) Ireland Ltd – United Drug House Magna Drive, Magna Business Park, City West Road – Dublin 24	100%	UCB SA
UCB Manufacturing Ireland Ltd – Shannon Industrial Estate – Shannon, County Clare	100%	UCB SA
UCB Biopharma Ireland LTD <sup>2</sup> – Shannon Industrial Estate – Shannon, County Clare	100%	UCB Biopharma SPRL.
<b>ITALY</b>		
UCB Pharma SpA – Via Varesina 162 – 20166 Milano	100%	UCB SA
<b>JAPAN</b>		
UCB Japan Co Ltd – Shinjuku Grand Tower, 8-17-1 Nishi-Shinjuku 160-0023 Shinjuku, Tokyo	100%	UCB SA
<b>LUXEMBOURG</b>		
Edev Sàrl – Rue Eugène Ruppert, 5C – 2453 Luxembourg	0%	N/A
Phase III Development Company Sàrl – Avenue de la Gare, 41 – 1611 Luxembourg	0%	N/A
UCB Lux SA <sup>3</sup> – Rue Eugène Ruppert, 12 – 2453 Luxembourg	100%	UCB SA
<b>MALAYSIA</b>		
UCB Trading (Malaysia) Sdn. Bhd. – Level 21, Suite 21.01, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur	100%	UCB SA

NAME AND OFFICE	HOLDING	CONTROLLING PARTNER
<b>MEXICO</b>		
UCB de Mexico SA de C.V. – Homero #440, 7fl Col. Chapultepec Morales – 11570 Mexico D.F.	100%	UCB SA
Vedim SA de C.V. – Homero #440, 7fl Col. Chapultepec Morales – 11570 Mexico D.F.	100%	Sifar SA
<b>NETHERLANDS</b>		
UCB Finance N.V. – Lage Mosten 33 – 4822 NK Breda	100%	UCB SA
UCB Pharma B.V. (Netherlands) – Lage Mosten 33 – 4822 NK Breda	100%	UCB Finance NV
<b>NORWAY</b>		
UCB Pharma A.S. – Grini Naeringspark 8b – 1361 Osteras, Baerum	100%	UCB Finance NV
<b>POLAND</b>		
Vedim Sp. z.o.o. – Ul. Kruczkowskiego 8 – 00-380 Warszawa	100%	Sifar SA
UCB Pharma Sp. z.o.o. – Ul. Kruczkowskiego 8 – 00-380 Warszawa	100%	UCB SA
<b>PORTUGAL</b>		
UCB Pharma (Produtos Farmaceuticos) Lda – Rua Victor Câmara, Edifício Q 60, D. Maria I, Piso 1, Fracção D, Quinta da Fonte, 2770-229 Paço de Arcos	100%	Vedim Pharma SA
<b>ROMANIA</b>		
UCB Pharma Romania S.R.L. – 40-44 Banu Antonache, 4 <sup>th</sup> fl., district 1 – 011665 Bucharest	100%	UCB SA
<b>RUSSIA</b>		
UCB Pharma LLC – Shturvaluaya 5 bldg 1 – 125364 Moscow	100%	UCB SA
UCB Pharma Logistics LLC – Perevedenovky pereulok 13 bldg 21 – 105082 Moscow	100%	UCB SA
<b>SINGAPORE</b>		
UCB Trading (SG) Pte. Ltd. – 8 Marina Boulevard #05-02, Marina Bay Financial Centre Tower 1, 18981 Singapore	100%	UCB SA
<b>SOUTH KOREA</b>		
Korea UCB Co Ltd. – 5 <sup>th</sup> Floor Grace tower 127 Teheran-ro (Yeoksam -dong), Gangnam – gu, 135-911 Seoul	100%	UCB SA
<b>SPAIN</b>		
Vedim Pharma SA – Plaza de Manuel Gómez Moreno, s/n, Edificio Bronce, 5 <sup>th</sup> floor – 28020 Madrid	100%	UCB SA
UCB Pharma SA – Plaza de Manuel Gómez Moreno, s/n, Edificio Bronce, 5 <sup>th</sup> floor – 28020 Madrid	100%	Vedim Pharma SA
<b>SWEDEN</b>		
UCB Pharma AB (Sweden) – Stureplan 4C 4 van – 11435 Stockholm	100%	UCB Finance NV
<b>SWITZERLAND</b>		
UCB Farchim SA (A.G. – Ltd.) – ZI de Planchy, Chemin de Croix Blanche 10 – 1630 Bulle	100%	UCB Investissements SA
UCB Investissements SA – ZI de Planchy, Chemin de Croix Blanche 10 – 1630 Bulle	100%	UCB Finance NV
Doutors Réassurance SA – ZI de Planchy, Chemin de Croix Blanche 10 – 1630 Bulle	100%	UCB Investissements SA
UCB-Pharma AG – ZI de Planchy, Chemin de Croix Blanche 10 – 1630 Bulle	100%	UCB Investissements SA
Medeva Pharma Suisse SA – Chemin de Croix Blanche 10 – 1630 Bulle	100%	UCB Investissements SA
UCB Medical Devices SA – ZI de Planchy, Chemin de Croix Blanche 10 – 1630 Bulle	100%	UCB Investissements SA

NAME AND OFFICE	HOLDING	CONTROLLING PARTNER
<b>TAIWAN</b>		
UCB Pharmaceuticals (Taiwan) Ltd – 10 F., No.287, Sec.3, Nanjing E. Road, Songshan Dist. – 10595 Taipei	100%	UCB SA
<b>THAILAND</b>		
UCB Trading (Thailand) Ltd – 98 Sathorn Square, 37/F, Room 3780, North Sathorn Road, Khwaeng Silom, Khet Bangrak – 10500 Bangkok	100%	UCB SA
<b>TURKEY</b>		
UCB Pharma A.S. – Palladium Tower, Barbaros Mah., Kardelen Sok. No.2, Kat.24/80 – 37746 Istanbul	100%	UCB SA
<b>U.K.</b>		
UCB Fipar Ltd, subs. of UCB Inc. – 208 Bath Road – SL1 3WE Slough, Berkshire	100%	UCB Inc.
Fipar U.K. Ltd, subs of UCB Fipar Ltd. – 208 Bath Road – SL1 3WE Slough, Berkshire	100%	UCB Fipar Ltd
UCB (Investments) Ltd – 208 Bath Road – SL1 3WE Slough, Berkshire	100%	UCB SA
Celltech Group Ltd – 208 Bath Road – SL1 3WE Slough, Berkshire	100%	UCB (Investments) Ltd
Celltech R&D Ltd – 208 Bath Road – SL1 3WE Slough, Berkshire	100%	Celltech Group Ltd
UCB Ireland <sup>3</sup> – 208 Bath Road – SL1 3WE Slough, Berkshire	100%	UCB Lux SA
Celltech Ltd – 208 Bath Road – SL1 3WE Slough, Berkshire	100%	Celltech Group Ltd
Darwin Discovery Ltd – 208 Bath Road – SL1 3WE Slough, Berkshire	100%	Celltech Group Ltd
UCB Pharma Ltd – 208 Bath Road – SL1 3WE Slough, Berkshire	100%	Celltech Group Ltd
International Medication Systems (U.K.) Ltd <sup>1</sup> – 208 Bath Road – SL1 3WE Slough, Berkshire	100%	UCB Pharma GmbH
Schwarz Pharma Ltd – 208 Bath Road – SL1 3WE Slough, Berkshire	100%	Celltech Group Ltd
<b>UKRAINE</b>		
UCB Ukraine LLC – 19 Grygoriya Skovorody Str., Business – center “Podol Plaza” – 04070 Kiev	100%	UCB Pharma GmbH
<b>U.S.</b>		
UCB Holdings Inc. – Corporation Trust Center, 1209 Orange Street – 19801 Wilmington, Delaware	100%	UCB Finance NV
Fipar U.S. Inc. <sup>2</sup> – Corporation Trust Center, 1209 Orange Street – 19801 Wilmington, Delaware	100%	Fipar U.K. Ltd
UCB Inc. – Corporation Trust Center, 1209 Orange Street – 19801 Wilmington, Delaware	100%	UCB Holdings Inc.
UCB Biosciences Inc. – Corporation Trust Center, 1209 Orange Street – 19801 Wilmington, Delaware	100%	UCB Inc.
UCB Pharco Inc. <sup>2</sup> – 300 Delaware Avenue 9 <sup>th</sup> floor – 19801 Wilmington, Delaware	100%	UCB Inc.
Celltech U.S. LLC <sup>2</sup> – Corporation Trust Center, 1209 Orange Street – 19801 Wilmington Delaware	100%	Celltech Group Ltd
UCB Manufacturing Inc. – Corporation Trust Center, 1209 Orange Street – 19801 Wilmington, Delaware	100%	UCB Inc.
UCB Technologies Inc. – C T Corporation System, 111 Eight Avenue, NY, 10011 New York	100%	UCB Manufacturing Inc.
Upstate Pharma LLC – C T Corporation System, 111 Eight Avenue, NY, 10011 New York	100%	UCB Inc.

<sup>1</sup> The shares in IMS have been disposed of as per 1 August 2016. The results of IMS are included in the Consolidated Income Statement for 2015 and 2016 (up till 31 July 2016).

<sup>2</sup> These companies have merged with other companies of the Group and are included in the Consolidated Income Statement for 2015 and 2016 (up till their effective merge date).

<sup>3</sup> UCB Lux SA and UCB Ireland have been liquidated as per 30 December 2016 and 16 November 2016 respectively. These companies are included in the Consolidated Income Statement for 2015 and 2016 (up till their liquidation date).





# 05.



Andreas, living with Parkinson's disease

# RESPONSIBILITY STATEMENT

We hereby confirm that, to the best of our knowledge, the consolidated financial statements as of 31 December 2016, prepared in accordance with International Financial Reporting standards (IFRS), as adopted by the European Union, and with the legal requirements applicable in Belgium, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation as a whole, and that the management report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed by Jean-Christophe Tellier (CEO) and Detlef Thielgen (CFO) on behalf of the Board of Directors.



# 06.



Esther, living with Crohn's disease

# REPORT OF THE STATUTORY AUDITOR

## Statutory auditor's report to the general shareholders' meeting on the consolidated financial statements for the year ended 31 December 2016

In accordance with the legal requirements, we report to you on the performance of our mandate of statutory auditor. This report includes our opinion on the consolidated financial statements, as well as the required additional statement. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated income statement and the consolidated statements of other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS – UNQUALIFIED OPINION

We have audited the consolidated financial statements of UCB SA ("the Company") and its subsidiaries (jointly "the Group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. The total of the consolidated statement of financial position amounts to EUR 10.212 million and the consolidated income statement shows a profit for the year (attributable to equity holders) of EUR 520 million.

#### *Board of directors' responsibility for the preparation of the consolidated financial statements*

The board of directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines, is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Statutory auditor's responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISAs) as endorsed in Belgium. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements.

We have obtained from the board of directors and the company's officials the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Unqualified Opinion*

In our opinion, the consolidated financial statements set forth on pages 77 – 155 give a true and fair view of the group's net equity and consolidated financial position as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The board of directors is responsible for the preparation and the content of the management report on the consolidated financial statements.

In the context of our mandate and in accordance with the Belgian standard which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we provide the following additional statement which does not impact our opinion on the consolidated financial statements:

- The management report on the consolidated financial statements set forth on pages 29 – 75 includes the information required by law, is consistent with the consolidated financial statements and does not present any material inconsistencies with the information that we became aware of during the performance of our mandate.

Brussels, 22 February 2017

The Statutory Auditor  
PwC Réviseurs d'Entreprises scrl/Bedrijfsrevisoren bcvba  
Represented by

Romain Seffer\*  
Registered Auditor

\*Romain Seffer SC SPRL  
Board Member, represented by its permanent representative, Romain Seffer



# 07.



**Victoria,**  
living with psoriasis





# ABBREVIATED STATUTORY FINANCIAL STATEMENTS OF UCB SA

## 1. INTRODUCTION

In accordance with the Belgian Companies Code, it has been decided to present an abbreviated version of the statutory financial statements of UCB SA

The statutory financial statements of UCB SA are prepared in accordance with Belgian Generally Accepted Accounting Principles.

It should be noted that only the consolidated financial statements as presented above, present a true and fair view of the financial position and performance of the UCB Group.

The statutory auditor has issued an unqualified audit opinion and certify that the non-consolidated financial statements of UCB SA for the year ended 31 December 2016 give a true and fair view of

the financial position and results of UCB SA in accordance with all legal and regulatory dispositions.

In accordance with the legislation, these separate financial statements, together with the management report of the Board of Directors to the general assembly of shareholders, as well as the auditor's report will be filed at the National Bank of Belgium within the statutory periods.

These documents are available on our website [www.ucb.com](http://www.ucb.com) or on simple request, addressed to:

UCB SA  
Corporate Communication  
Allée de la Recherche 60  
B-1070 Brussels (Belgium)

## 2. BALANCE SHEET

€ million

	AT 31 DECEMBER 2016	AT 31 DECEMBER 2015
<b>ASSETS</b>		
Formation expenses	16	21
Intangible assets	0	0
Tangible assets	8	8
Financial assets	4 783	7 727
<b>Fixed assets</b>	<b>4 807</b>	<b>7 755</b>
Amounts receivable after more than one year	2 145	1 049
Amounts receivable within one year or less	634	46
Short-term investments	153	201
Cash at bank and on hand	29	93
Deferred charges and accrued income	234	20
<b>Current assets</b>	<b>3 195</b>	<b>1 409</b>
<b>Total assets</b>	<b>8 002</b>	<b>9 164</b>
<b>LIABILITIES</b>		
Capital	584	584
Share premium	1 999	1 999
Reserves	2 992	3 023
Profit brought forward	161	191
<b>Equity</b>	<b>5 736</b>	<b>5 797</b>
Provisions	48	56
<b>Provisions and deferred taxes</b>	<b>48</b>	<b>56</b>
Amounts payable after more than one year	1 527	1 310
Amounts payable within one year or less	601	1 923
Accrued charges and deferred income	90	78
<b>Current liabilities</b>	<b>2 218</b>	<b>3 311</b>
<b>Total liabilities</b>	<b>8 002</b>	<b>9 164</b>

## 3. INCOME STATEMENT

€ million	AT 31 DECEMBER 2016	AT 31 DECEMBER 2015
Operating income	71	91
Operating charges	-118	-151
<b>Operating result</b>	<b>-47</b>	<b>-60</b>
Financial income	473	388
Financial charges	-264	-155
<b>Financial result</b>	<b>209</b>	<b>233</b>
<b>Profit before income taxes</b>	<b>162</b>	<b>173</b>
Income taxes	-1	-1
<b>Profit for the year available for appropriation</b>	<b>161</b>	<b>172</b>

Following the Royal Decree of 18 December 2015 holding implementation of Directive 2013/34/EU of 26 June 2013 on the annual and consolidated financial statements and related reports of certain types of undertakings, that amended the RD of 30 January

2001 implementing the Companies Code, the exceptional results are now shown as part of operating result or financial result depending on the nature of the amounts.

## 4. APPROPRIATION ACCOUNT

€ million	AT 31 DECEMBER 2016	AT 31 DECEMBER 2015
Profit for the period available for appropriation	161	172
Profit brought forward from previous year	0	19
<b>Profit to be appropriated</b>	<b>161</b>	<b>191</b>
To legal reserve	0	0
To other reserves	0	0
<b>Withdrawal from capital and reserves</b>	<b>59</b>	<b>19</b>
From capital and share premium account	0	0
From reserves	59	19
<b>Appropriation to capital and reserves</b>	<b>0</b>	<b>0</b>
Profit to be carried forward	0	0
<b>Result to be carried forward</b>	<b>0</b>	<b>0</b>
Dividends	-220	-210
<b>Profit to be distributed</b>	<b>-220</b>	<b>-210</b>
If the proposed allocation of the profit is approved, the total gross dividend will be fixed at:	€ 1.15	€ 1.10
If the proposed allocation of profit is approved and taking into account the tax regulations, the total net dividend off withholding tax per share will be fixed at:	€ 0.805	€ 0.803

The activities of UCB SA generated in 2016 a net profit of € 161 million after income taxes. The amount available for distribution is € 161 million.

The issued share capital of UCB SA is represented by 194 505 658 shares without par value as per 31 December 2016.

Per 4 January 2017, UCB SA owns 3 079 536 own shares in order to honour the exercise of share options and share awards granted to the Board of Directors and certain categories of employees.

The Board of Directors proposes to pay a gross dividend of € 1.15 per share. If this dividend proposal is

approved by the General Meeting on 27 April 2017, the net dividend of € 0.805 per share will be payable as of 3 May 2017 against the delivery of coupon #20. The shares held by UCB SA are not entitled to a dividend. Per 4 January 2017, 191 426 122 UCB shares are entitled to a dividend, representing a total distribution of € 220 million. This amount may fluctuate depending the number of UCB shares held by UCB SA on the dividend approval date. The Board of Directors will communicate at the general meeting the total number of UCB shares entitled to a dividend and will submit the aggregate amount to be distributed for approval. The annual accounts of 2016 will be adapted accordingly.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The Board of Directors made the following decisions in accordance with the Article 28 of the Royal Decree of 30 January 2001 on implementing the company code.

### 5.1 | INTANGIBLE ASSETS

Research and development costs have been capitalised as intangible assets at their purchase or at cost. These capitalised costs have been entirely depreciated in the year but the difference between the actual amount of depreciation taken in the year and the gross amount capitalised has been treated as a write-back of depreciation on the exceptional income.

A straight-line depreciation rate of 33.33% has been applied to these costs, based on a three-year life considering "pro rata temporis". The depreciation of the purchase price of patents, licenses and similar items is either in accordance with a prudent assessment of the economic life of such intangible assets or at a minimum rate equal to that of the assets required to handle the patent or process, or by a fixed period of the depreciation not lower than five years considering "pro rata temporis".

### 5.2 | TANGIBLE ASSETS

Tangible assets purchased from third parties have been included in the balance sheet at purchase price; assets manufactured by the company itself have been valued at cost. The purchase price or cost is depreciated on a straight-line basis considering "pro rata temporis". The depreciation rates are as follows:

> Administrative buildings	3%
> Industrial buildings	5%
> Tools	15%
> Furniture and office machinery	15%
> Vehicles	20%
> Computer equipment and office machines	33.3%
> Prototype equipment	33.3%

### 5.3 | FINANCIAL ASSETS

Shareholdings have been valued in accordance with the proportion held in shareholders' funds of the company concerned. Shareholdings which are not included in the scope of the consolidation have been valued at cost. A specific write-down has been made whenever the valuation made each year shows a permanent loss in value.

### 5.4 | RECEIVABLES AND LIABILITIES

They are shown at their book value. Receivables have been written down if their repayment, when due, is entirely or partly uncertain and doubtful.

### 5.5 | ASSETS AND COMMITMENTS EXPRESSED IN FOREIGN CURRENCIES

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions.

Non-monetary assets and liabilities (intangible and tangible assets, shareholdings), denominated in foreign currencies, are translated at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at balance sheet date rate. Realised and unrealised exchange differences on foreign currency transactions are recognised in the income statement.

### 5.6 | PROVISIONS

All the risks born by the company have been the subject of provisions reviewed each year, in accordance with the rules of prudence, good faith and sincerity. Provisions are recorded at normal value.

### 5.7 | FOREIGN CURRENCIES

Derivatives are accounted for 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 the IFRS methodology. Additionally, the effective portion of changes in the fair value of the derivative financial instruments that are designated and qualify as cash flow hedges, are classified 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.

### 5.8 | FAIR VALUE ADJUSTMENTS ON LOANS BEING ACQUIRED

Loans that have been acquired are recognized in the balance sheet at nominal value. All differences between the nominal value and the acquisition value are recognized on an accrual account and taken in the income statement pro rata temporis on a linear basis over the remaining duration of the loans.

## GLOSSARY OF TERMS

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**CER** Constant exchange rates

### **CORE EPS/CORE EARNINGS PER SHARE**

Profit attributable to UCB shareholders, adjusted for the after-tax impact of non-recurring items, the financial one-off items, the non-recurring income taxes, the after-tax contribution from discontinued operations and the after-tax amortization of intangibles linked to sales, divided by the non-dilutive weighted average number of shares

### **EBIT/EARNINGS BEFORE INTEREST AND TAXES**

Operating profit as mentioned in the consolidated financial statements

### **EMA/EUROPEAN MEDICINES AGENCY**

Agency responsible for the evaluation of medicinal products designed to protect and promote human and animal health. [www.emea.europa.eu](http://www.emea.europa.eu)

**EPS** Earnings per share

### **ESTABLISHED BRANDS**

Portfolio of 150 post-patent, high-quality medicines, with proven value for patients and doctors since many years

### **FDA/U.S. FOOD AND DRUG ADMINISTRATION**

Agency within the U.S. Department of Health and Human Services is responsible for protecting and promoting the nation's health. [www.fda.gov](http://www.fda.gov)

### **FINANCIAL ONE-OFF ITEMS**

Gains and losses arising upon the sale of non-current financial assets (other than derivatives and reimbursement rights with respect to defined benefit plans) as well as impairment losses accounted for on these financial assets are considered as financial one-off items.

### **KU**

Kremers Urban, specialty generic pharmaceutical company in the U.S.

### **NET DIVIDEND**

The amount a shareholder of UCB will receive after principal deduction of Belgian withholding tax, which is currently 30%. Lower withholding tax rates may be applicable for certain categories of investors

### **NET FINANCIAL DEBT**

Non-current and current borrowings, bonds and bank overdrafts less available for sale debt securities, restricted cash deposit with respect to financial lease agreements, cash and cash equivalents

### **nr AxSpA**

Non radiographic axial spondyloarthritis

### **PGTCS**

Primary generalized tonic-clonic seizures

### **PMDA/PHARMACEUTICALS AND MEDICAL DEVICES AGENCY**

Japanese regulatory agency in charge of protecting the public health by assuring safety, efficacy and quality of pharmaceuticals and medical devices. <http://www.pmda.go.jp/english/>

### **POS**

Partial onset seizures, also known as focal seizures

### **RECURRING EBIT (REBIT)**

Operating profit adjusted for impairment charges, restructuring expenses, and other income and expenses

### **RECURRING EBITDA (REBITDA/Recurring Earnings Before Interest, Taxes, Depreciation and Amortization charges)**

Operating profit adjusted for amortization, depreciation, impairment charges, restructuring expenses and other income and expenses

### **WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES**

Number of ordinary shares outstanding at the beginning of a given period, adjusted by the number of shares bought back or issued during the period, multiplied by a time-weighting factor

### **WORKING CAPITAL**

Includes inventories, trade and other receivables and trade and other payables, both due within and after 12 months

## Financial calendar 2017

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24 April	Interim report (3 months)
27 April	Annual general meeting
27 July	2017 half-year financial results
20 October	Interim report (9 months)

## Forward-looking statements

This Annual Report contains forward-looking statements, including, without limitation, statements containing the words “believes”, “anticipates”, “expects”, “intends”, “plans”, “seeks”, “estimates”, “may”, “will”, and “continue” and similar expressions. These forward-looking statements are based on current plans, estimates and beliefs of management. By their nature, such forward-looking statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties, and assumptions which might cause the actual results, financial condition, performance or achievements of UCB, or industry results, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements contained in this Annual Report.

Important factors that could result in such differences include but are not limited to: changes in general economic, business and competitive conditions, the inability to obtain necessary regulatory approvals or to obtain them on acceptable terms, costs associated with research and development, changes in the prospects for products in the pipeline or under development by UCB, effects of future judicial decisions or governmental investigations, product liability claims, challenges to patent protection for products or product candidates, changes in laws or regulations, exchange rate fluctuations, changes or uncertainties in tax laws or the administration of such laws and hiring and retention of its employees. There is no guarantee that new product candidates in the pipeline will progress to product approval or that new indications for existing products will be developed and approved. Products or potential products which are the subject of partnerships, joint ventures or licensing collaborations may be subject to differences between the partners. Also, UCB or others could discover safety, side effects or manufacturing problems with its products after they are marketed. Moreover, sales may be impacted by international and domestic trends toward managed care and health care cost containment and the reimbursement policies imposed by third-party payers as well as legislation affecting biopharmaceutical pricing and reimbursement.

Given these uncertainties, the public is cautioned not to place any undue reliance on such forward-looking statements. These forward-looking statements are made only as of the date of this Annual Report. UCB expressly disclaims any obligation to update any such forward-looking statements in this Annual Report to reflect any change in its expectations with regard thereto or any change in events, conditions, for circumstances on which any such statement is based, unless such statement is required pursuant to applicable laws and regulations.

## Report language

Pursuant to Belgian Law, UCB is required to prepare its Annual Report in French and Dutch. UCB has also made this report available in English.

## Availability of the Annual Report

The Annual Report is as such available on the website of UCB ([www.ucb.com](http://www.ucb.com)). Other information on the website of UCB or on any other website, does not form part of this Annual Report.

## Contact

### Investor Relations

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VP Investor Relations  
Tel.: +32 2 559 9414  
E-mail: [investor-relations@ucb.com](mailto:investor-relations@ucb.com)  
[antje.witte@ucb.com](mailto:antje.witte@ucb.com)

### Communications

*France Nivelles*,  
VP Global Communication  
and Change Support  
Tel.: +32 2 559 9178  
E-mail: [france.nivelles@ucb.com](mailto:france.nivelles@ucb.com)

### Corporate Societal Responsibility

*Dirk Teuwen*,  
VP Corporate Societal Responsibility  
Tel.: +32 2 559 9161  
E-mail: [csr@ucb.com](mailto:csr@ucb.com)  
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