

UCB

Société Anonyme / Naamloze Vennootschap

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RPM/RPR Brussels, 0403.053.608

Annual report of the Board of Directors for the financial year ended 31 December 2018

Dear Madam, Dear Sir,

In accordance with the legal requirements and those laid down in UCB SA/NV's Articles of Association, we are pleased to present you our report on the activities of our Company during the last financial year and submit to you, for your approval, the statutory annual accounts of UCB SA/NV for the financial year ended 31 December 2018.

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

Please refer to the UCB Group Integrated Annual Report 2018 for an overview of the activities and consolidated results of the UCB Group.

1. Major events during the financial year 2018

1.1 Pay up capital of subsidiaries

In order to enable UCB Ventures SA/NV to fulfil its financial obligations in relation to its investments, UCB SA/NV has been requested during 2018, as shareholder of UCB Ventures SA/NV, to pay up the capital for an additional amount of € 2 million. After this payment, the total paid-up capital in UCB Ventures SA/NV amounts to € 27 million.

1.2 Transfer of obligations under 2018 Stock Option Plan from UCB SA/NV to UCB Fipar SA/NV

Similar to previous years, the obligations of UCB SA/NV under the 2018 UCB Stock Option Plan have been transferred to UCB Fipar SA/NV. UCB Fipar SA/NV has received a compensation of € 12 million for assuming the obligations under this plan.

1.3 Transactions in UCB securities

During 2018, UCB SA/NV acquired 48 711 UCB shares and disposed of 1 054 516 UCB shares.

As a result, on 31 December 2018, UCB SA/NV retained a total of 2 102 356 UCB shares representing 1.08% of the capital and a par value of € 6 million. The amount reported in the balance sheet under the section "own shares" represents € 112 million.

1.4 Debt and share premium reduction from the UK affiliates

During 2018, UCB SA/NV entered into several transactions with the UK subsidiaries of the UCB Group to reduce its exposure towards the British pound:

- UCB (Investments) Ltd. reduced its equity by £ 524 million through a share premium account reduction (paid to its sole shareholder UCB SA/NV), bringing the investment owned by UCB SA/NV down to € 517 million;
- UCB Celltech (UK branch of UCB Pharma SA/NV) proceeded with an early repayment to UCB SA/NV of £ 450 million loan out of a total loan of £ 650 million.

1.5 Early repayment of the loan towards the European Investment bank ("EIB")

On 21 August 2018, UCB SA/NV used its right to early repay at nominal value the € 150 million loan granted by the European Investment Bank back in 2012. The loan had a final maturity date in May 2019.

Following that repayment, UCB SA/NV has still two outstanding debts towards the European Investment Bank, composed of one loan of € 100 million maturing in April 2020 and one loan of \$ 100 million being repaid through quarterly tranches of \$ 5 million until November 2021.

1.6 Liquidation of UCB Trading Thailand Ltd.

On 15 November 2018, UCB Trading Thailand Ltd. started his liquidation process. Prior to the liquidation, UCB Trading Thailand Ltd. decreased its capital from THB 100.00 million down to THB 6.25 million, by refunding UCB SA/NV for THB 93.75 million. The remaining THB 6.25 million is recognized as financial investment and the remainder will be refunded upon closure of the liquidation.

The affiliate currently shows good solvency. No impairment test on shares is therefore needed.

1.7 Extended €1 billion Credit facility

On 8 January 2018, the credit facility of €1 billion has been amended and extended till 9 January 2023 (including the option to request 2 further extensions of the maturity date by one additional year).

On 29 November 2018, the final maturity date of this credit facility has been extended for the first time with another year up to 9 January 2024.

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

On 31 December 2018, an impairment testing has been performed on the shareholdings of UCB SA/NV. This test resulted in the recognition of impairment charges amounting to € 47 million related to its subsidiary UCB Biopharma Ltda. in Brazil and € 52 million related to its subsidiary UCB Manufacturing Ireland Ltd.

The impairment testing also revealed that some historical impairment charges were no longer relevant. Hence those impairment charges have been reversed for a total amount of € 8 million:

- UCB PHARMA A.E. (Greece) for a total amount of € 7 million;
- UCB PHARMA A.S. (Turkey) for a total amount of € 1 million.

Both the new impairment charges as well as the reversal of the historical impairment charges have been recognized in the financial results in the income statement of 2018.

2. Change in accounting policies

There were no changes in the accounting policies in 2018.

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

The Audit Committee, on behalf of the Board of Directors of UCB SA/NV, assessed the adequacy and effectiveness of the internal control system in detecting fraud, irregularities or infringement of laws, rules and regulations or material control failures on a regular basis. Internal control mechanisms are further described in the UCB Group Integrated Annual Report 2018.

4. Major events after the balance sheet date

On 8 February 2019, UCB SA/NV has been requested, as shareholder of UCB Ventures SA/NV, to pay up the capital for an additional amount of € 15 million. After this payment, the total paid-up capital in UCB Ventures SA/NV amounts to € 42 million.

5. Conflicts of interest met during the financial year

There were no transactions or contractual relationships in 2018 between UCB SA/NV, including its affiliated companies, and a member of the Board of Directors giving rise to conflicts of interest, except as reported in section 3.12 (Application of article 523 of the Belgian Companies Code) of the Corporate Governance Statement included in the UCB Group Integrated Annual Report 2018.

6. Financial information

Results at 31 December 2018

The operations of UCB SA/NV generated in 2018 a net profit of € 22 million after tax compared to € 36 million in 2017.

The evolution in the net profit (decrease of € 14 million) is mainly due to:

- the increase in dividends received from its subsidiaries for a total amount of € 81 million, mainly due to the interim dividend from UCB Finance N.V. for a total amount of € 95 million compared to € 65 million in 2017 and the dividend from UCB (Investments) Ltd. of € 28 million which did not occur last year;

- the decrease in other operating income for € 3 million related to service agreements with the other affiliates;
- the increase in the provision, to cover the risk of share price changes of long-term incentives granted to the Executive Committee and certain categories of employees, for a total amount of € 4 million;
- the decrease of the interests income for a total amount of € 7 million in addition to the decrease of the interests expense for a total amount of € 1 million, both driven by fluctuations of the Euribor rate;
- the additional impairment charges of € 99 million compensated by the reversal of impairment charges on participations for a total amount of € 8 million (please refer to section 1.8);
- the increase of the other net financial profit for a total amount of € 6 million mainly as a result of the one-off realized loss accounted for last year on the sale of options for a total value of € 4 million.

Result appropriation

The total net profit of € 22 million is available for distribution. The Board of Directors proposes the following allocation:

- distribution to the shareholders of a gross dividend of € 1.21 per share; and
- drawing on available reserves for € 210 million.

The Board of Directors thus propose to pay, against delivery of coupon no. 22, a gross dividend of € 1.21 per share (giving right to a dividend net of Belgian 30% withholding tax of € 0.847). The aggregate amount to be distributed to the shareholders may fluctuate depending on the number of UCB shares held by UCB SA/NV (own shares) and its direct subsidiaries on the dividend approval date, as the UCB shares held by UCB SA/NV (own shares) and its direct subsidiaries are not entitled to a dividend. Per 1 January 2019, 192 403 302 UCB shares are entitled to a dividend, representing a total distribution of € 233 million. The Board of Directors will communicate at the General Meeting the total number of UCB shares entitled to the 2018 dividend and will submit the aggregate amount to be distributed to the shareholders for approval. The annual accounts of 2018 will be adapted accordingly.

Subject to the approval of the proposed dividend distribution by the General Meeting, coupon no. 22 will be payable as from 30 April 2019 at KBC Bank NV/SA, Havenlaan 12 Avenue du Port, 1080 Brussels (Belgium).

In accordance with the law, we request you to grant discharge to the Directors and the Statutory Auditor for the performance of their duties during the financial year ended 31 December 2018.

Balance Sheet items at 31 December 2018

On the balance sheet of UCB SA/NV at 31 December 2018, the total assets and liabilities amount to € 7 047 million, as compared to € 7 970 million at 31 December 2017.

The variation on the balance sheet is mainly driven by:

- the decrease of participating interests in affiliates of € 685 million as a result of the equity reduction of the UK affiliate UCB (Investments) Ltd. of £ 524 million through a share premium account reduction (please refer to section 1.4);
- the intra-group receivable amounting to £ 650 million with initial maturity date in 2019 has been extended for £ 400 million with a maturity date in 2020. The receivable has been reclassified from the short term intercompany receivable position to the long term intercompany receivable position;
- the decrease of the investments in own shares for a total amount of € 44 million as a result of the disposal of 1 054 516 UCB shares (please refer to section 1.3);
- the decrease of the deferred charges for € 24 million as a result of the deferral of the premium paid in 2016 for the assignment of the intra-group receivables for a total amount of € 221 million. As per end of December 2018, a total amount of € 168 million is still being deferred to further exercises;
- the decrease in the available reserves for a total amount of € 167 million mainly driven by the result allocation (please refer to section 6 Financial information – Result appropriation);
- the decrease in the provision, to cover the risk of share price changes of long-term incentives granted to the Executive Committee and certain categories of employees, for a total amount of € 3 million mainly due to the transfer of obligations under the 2018 Stock Option Plan from UCB SA/NV to UCB Fipar SA/NV (please refer to section 1.2);
- the reclassification of bond amounting to € 75 million with maturity date in 2019 from the long term debt position to the long term debt payable within the year position;
- the reclassification of the portion of the loan with the European Investment Bank (“EIB”) maturing in 2019, for a total value of € 18 million, from the long term financial debt position to the short term financial debt position;
- the decrease in the short term financial debt position for a total amount of € 561 million as a result of the decrease in the bank overdraft for a total amount of € 9 million and the decrease of the negative cash pooling position for a total amount of € 535 million. These overall decreases of the short term financial debt positions are the outcome of the positive cash flows coming from the UK (please refer to section 1.4);
- the decrease of the deferred revenues for a total amount of € 6 million as a result of the deferral of the premium paid in 2016 for the assignment of the intra-group receivables;
- the decrease of the deferred revenues for a total amount of € 4 million related to the compensation received from UCB Fipar SA/NV for assuming the obligations for stock options

granted in 2013, in line with the exercise of options in 2018. On 31 December 2018 the outstanding revenue to be deferred amounts to € 8 million.

7. Changes to the composition of the Board

Please refer to the Corporate Governance Statement in the UCB Group Integrated Annual Report 2018 for the changes in the Board composition in 2018 as well as the proposals for changes to the composition for 2019.

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

Please refer to the UCB Group Integrated Annual Report 2018, “Notes to the Consolidated Financial Statements”, Point 4 “Financial Risks Management”.

9. Change of control

Please refer to section 3.11.9 of the of the Corporate Governance Statement included in the UCB Group Integrated Annual Report 2018 for a complete overview of all agreements including change of control provisions approved in 2018.

10. Activities in the area of research and development

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

11. Branches of UCB SA/NV

UCB SA/NV has no branches.

12. Corporate Governance Statement

The Corporate Governance Statement (including the Remuneration Report) is included in the UCB Group Integrated Annual Report 2018.



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13. Non-financial information

The Belgian legislation on non-financial information legislation requires the company to report on five corporate social responsibility areas: environmental, social and employee matters, human rights, anticorruption and bribery and diversity & inclusion. All this information is included in the UCB Group Integrated Annual Report 2018.

Brussels, 27 February 2019.

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

Jean-Christophe Tellier
Chief Executive Officer and Director

A handwritten signature in blue ink, appearing to read 'E. du Monceau'.

Evelyn du Monceau
Chair of the Board