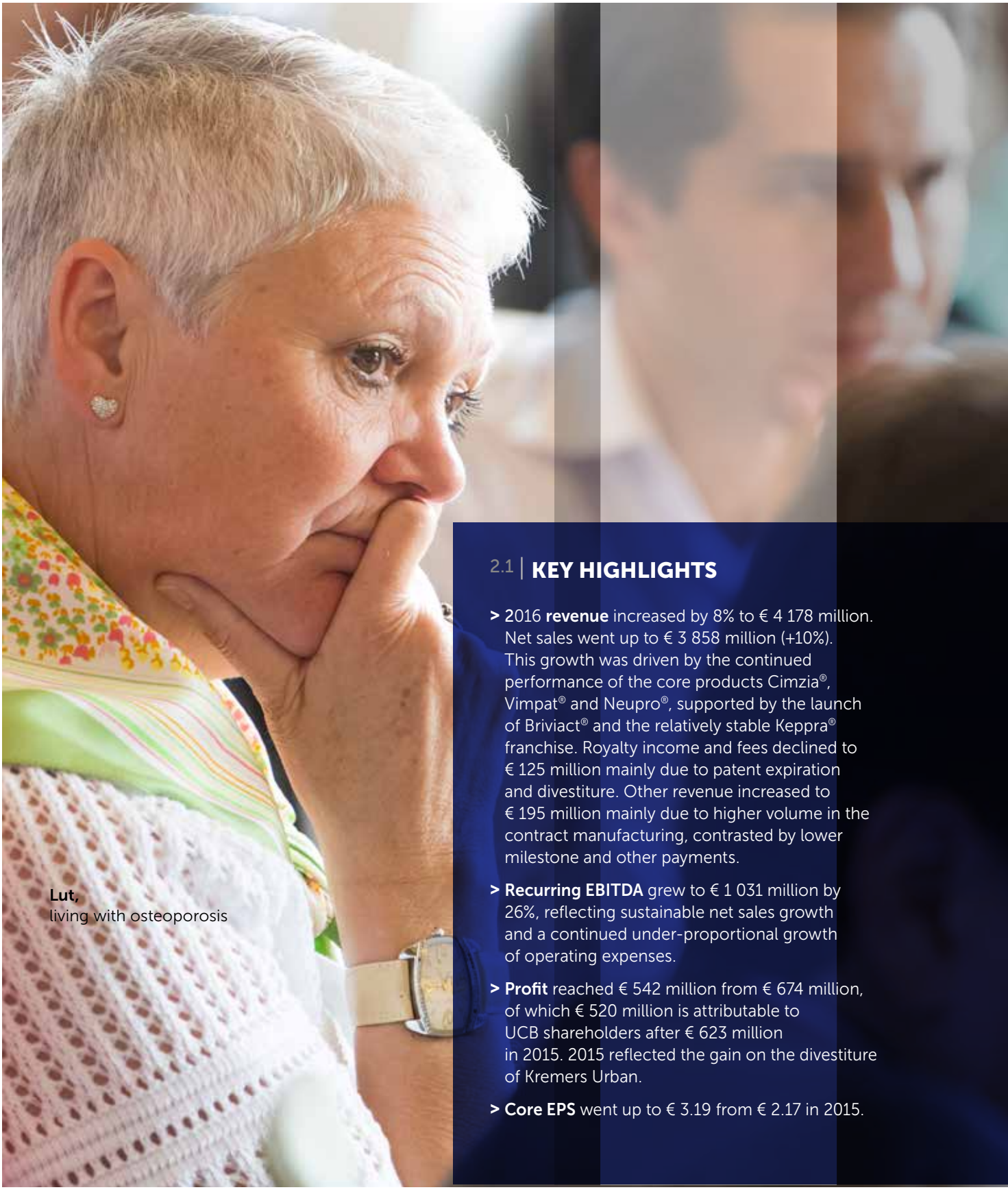
2. BUSINESS PERFORMANCE REVIEW



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

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.

[1] Due to rounding, some financial data may not add up in the tables included in this management report.
[2] CER: constant exchange rates

2.2 | 2016 KEY EVENTS [1]

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 EXXELERATE, 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®.

[1] 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 top-line 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 top-line 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%
Neurology				
Vimpat®	814	679	20%	20%
Keppra®	724	737	-2%	-2%
Briviact®	18		N.A.	N.A.
Neupro®	302	258	17%	18%
Established brands				
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%	
Total net sales	**3 858**	**3 512**	**10%**	**9%**

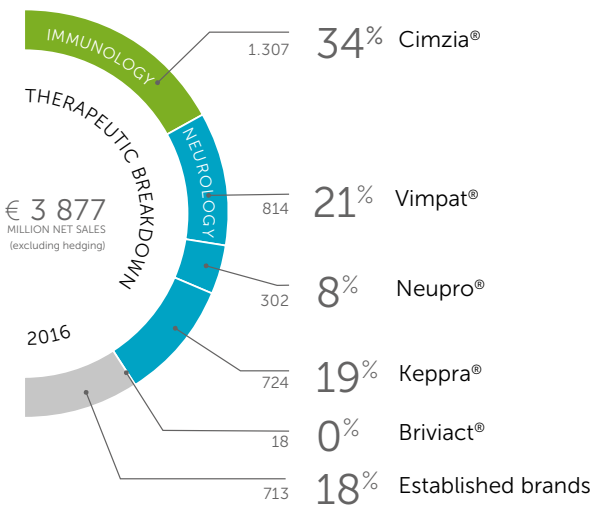
CORE PRODUCTS

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.

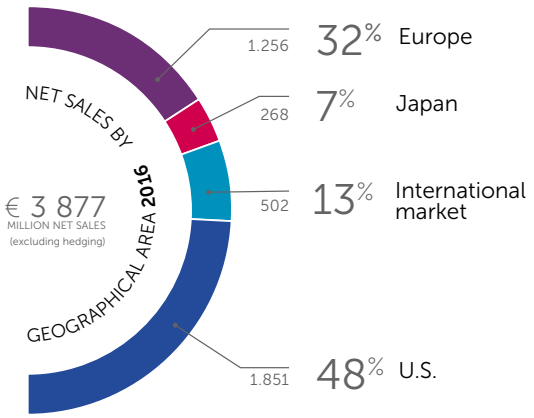
Nootropil® (*piracetam*) for cognitive disorders, had net sales of € 46 million, declining by 10% due to price pressure and divestitures.

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 2016	ACTUAL 2015	VARIANCE ACTUAL RATES € MILLION	VARIANCE ACTUAL RATES %	VARIANCE CER € MILLION	VARIANCE CER %
Net sales U.S.	**1 851**	**1 694**	**157**	**9%**	**152**	**9%**
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.
Established brands						
venlafaxine ER	89	90	-1	-1%	-1	-1%
Other	-2	46	-48	> -100%	-48	> -100%
Net sales Europe	**1 256**	**1 203**	**53**	**4%**	**73**	**6%**
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.
Established brands						
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%
Net sales Japan	**268**	**207**	**60**	**29%**	**42**	**20%**
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.
Established brands						
Xyzal®	48	53	-5	-9%	-4	-7%
Zyrtec®	37	46	-9	-19%	-12	-27%
Other	1	1	0	-16%	0	-25%
Net sales international markets	**502**	**490**	**12**	**3%**	**40**	**8%**
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.
Established brands						
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%
Net sales before hedging	**3 877**	**3 594**	**282**	**8%**	**307**	**9%**
Designated hedges reclassified to net sales	**-19**	**-82**	**63**	**-77%**		
Total net sales	**3 858**	**3 512**	**346**	**10%**	**307**	**9%**



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

	ACTUAL		VARIANCE	
€ million	**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%
Royalty income and fees	**125**	**176**	**-29%**	**-24%**

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 2016	ACTUAL 2015	VARIANCE ACTUAL RATES	VARIANCE 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%
Other revenue	**195**	**188**	**4%**	**5%**

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 2016	ACTUAL 2015	VARIANCE ACTUAL RATES	VARIANCE CER
Revenue	**4 178**	**3 876**	**8%**	**7%**
Net sales	3 858	3 512	10%	9%
Royalty income and fees	125	176	-29%	-24%
Other revenue	195	188	4%	5%
Cost of sales	**-1 202**	**-1 158**	**4%**	**5%**
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%
Gross profit	**2 976**	**2 719**	**9%**	**8%**

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

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 2016	ACTUAL 2015	VARIANCE ACTUAL RATES	VARIANCE CER
Revenue	**4 178**	**3 876**	**8%**	**7%**
Net sales	3 858	3 512	10%	9%
Royalty income and fees	125	176	-29%	-24%
Other revenue	195	188	4%	5%
Gross profit	**2 976**	**2 719**	**9%**	**8%**
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%
Total operating expenses	**-2 180**	**-2 142**	**2%**	**3%**
Recurring EBIT (rEBIT)	**796**	**577**	**38%**	**27%**
Add: Amortization of intangible assets	169	170	0%	1%
Add: Depreciation charges	66	74	-11%	-9%
Recurring EBITDA (rEBITDA)	**1 031**	**821**	**26%**	**18%**

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

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 2016	ACTUAL 2015	VARIANCE ACTUAL RATES	VARIANCE CER
Profit	**542**	**674**	**-20%**	**-27%**
Attributable to UCB shareholders	520	623	-17%	-25%
Attributable to non-controlling interests	22	51	-56%	-56%
Profit attributable to UCB shareholders	**520**	**623**	**-17%**	**-25%**
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%
Core profit attributable to UCB shareholders	**600**	**417**	**44%**	**34%**
Weighted average number of shares (million)	188	192	-2%	
Core EPS attributable to UCB shareholders (€)	**3.19**	**2.17**	**47%**	**36%**

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 biopharmaceuticals 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.

Sheila, living with Parkinson's disease

CONSOLIDATED

FINANCIAL STATEMENTS

1. CONSOLIDATED INCOME STATEMENT
2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION
4. CONSOLIDATED STATEMENT OF CASH FLOWS
5. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

1 | CONSOLIDATED INCOME STATEMENT

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

For the year ended 31 December	NOTE	2016	2015
€ million			
PROFIT FOR THE PERIOD		**542**	**674**
Other comprehensive income			
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
Other comprehensive income/loss (-) for the period, net of tax		-147	375
Total comprehensive income for the period, net of tax		**395**	**1 049**
Attributable to:			
Equity holders of UCB SA		376	1 015
Non-controlling interests		19	34
Total comprehensive income for the period, net of tax		**395**	**1 049**

€ million	NOTE	2016	2015
ASSETS			
Non-current assets			
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
Total non-current assets		**7 881**	**8 118**
Current assets			
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
Total current assets		**2 331**	**2 838**
Total assets		**10 212**	**10 956**
EQUITY AND LIABILITIES			
Equity			
Capital and reserves attributable to UCB shareholders	24	5 584	5 672
Non-controlling interests	20.6	-107	-126
Total equity		**5 477**	**5 546**
Non-current liabilities			
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
Total non-current liabilities		**2 317**	**2 349**
Current liabilities			
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
Total current liabilities		**2 418**	**3 061**
Total liabilities		**4 735**	**5 410**
Total equity and liabilities		**10 212**	**10 956**

For the year ended 31 December	NOTE	2016	2015
€ million			
Profit for the year attributable to UCB shareholders		**520**	**623**
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
Cash flow generated from operations		**914**	**577**
Tax paid during the period		-487	-331
Net cash flow used in (-)/generated by operating activities:			
From continuing operations		726	204
From discontinued operations		-299	42
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES		**427**	**246**
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
Sub-total acquisitions		**-140**	**-150**
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
Sub-total disposals		**457**	**1 039**
Net cash flow used in (-)/generated by investing activities:			
From continuing operations		133	19
From discontinued operations		184	870
NET CASH FLOW USED IN (-) / GENERATED BY INVESTING ACTIVITIES		**317**	**889**
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	38, 24.2	-231	-225
Interest paid	14	-79	-91
Net cash flow used in (-)/generated by financing activities:			
From continuing operations		-1 267	-366
From discontinued operations		0	0
NET CASH FLOW USED IN FINANCING ACTIVITIES		**-1 267**	**-366**
NET INCREASE/DECREASE (-) IN CASH AND CASH EQUIVALENTS		**-523**	**769**
From continuing operations		-408	-143
From discontinued operations		-115	912
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**1 277**	**507**
Effect of exchange rate fluctuations		2	1
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**756**	**1 277**

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
Balance at 1 January 2016	**2 614**	**295**	**-295**	**2 915**	**-66**	**182**	**43**	**-16**	**5 672**	**-126**	**5 546**
Profit for the period				520					520	22	542
Other comprehensive income/loss (-)					-89	-50	-1	-4	-144	-3	-147
Total comprehensive income				**520**	**-89**	**-50**	**-1**	**-4**	**376**	**19**	**395**
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
Balance at 31 December 2016	**2 614**	**0**	**-283**	**3 263**	**-164**	**132**	**42**	**-20**	**5 584**	**-107**	**5 477**

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
Balance at 1 January 2015	**2 614**	**295**	**-173**	**2 515**	**-96**	**-138**	**13**	**-28**	**5 002**	**-160**	**4 842**
Profit for the period				623					623	51	674
Other comprehensive income/loss (-)					30	320	30	12	392	-17	375
Total comprehensive income				**623**	**30**	**320**	**30**	**12**	**1 015**	**34**	**1 049**
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
Balance at 31 December 2015	**2 614**	**295**	**-295**	**2 915**	**-66**	**182**	**43**	**-16**	**5 672**	**-126**	**5 546**