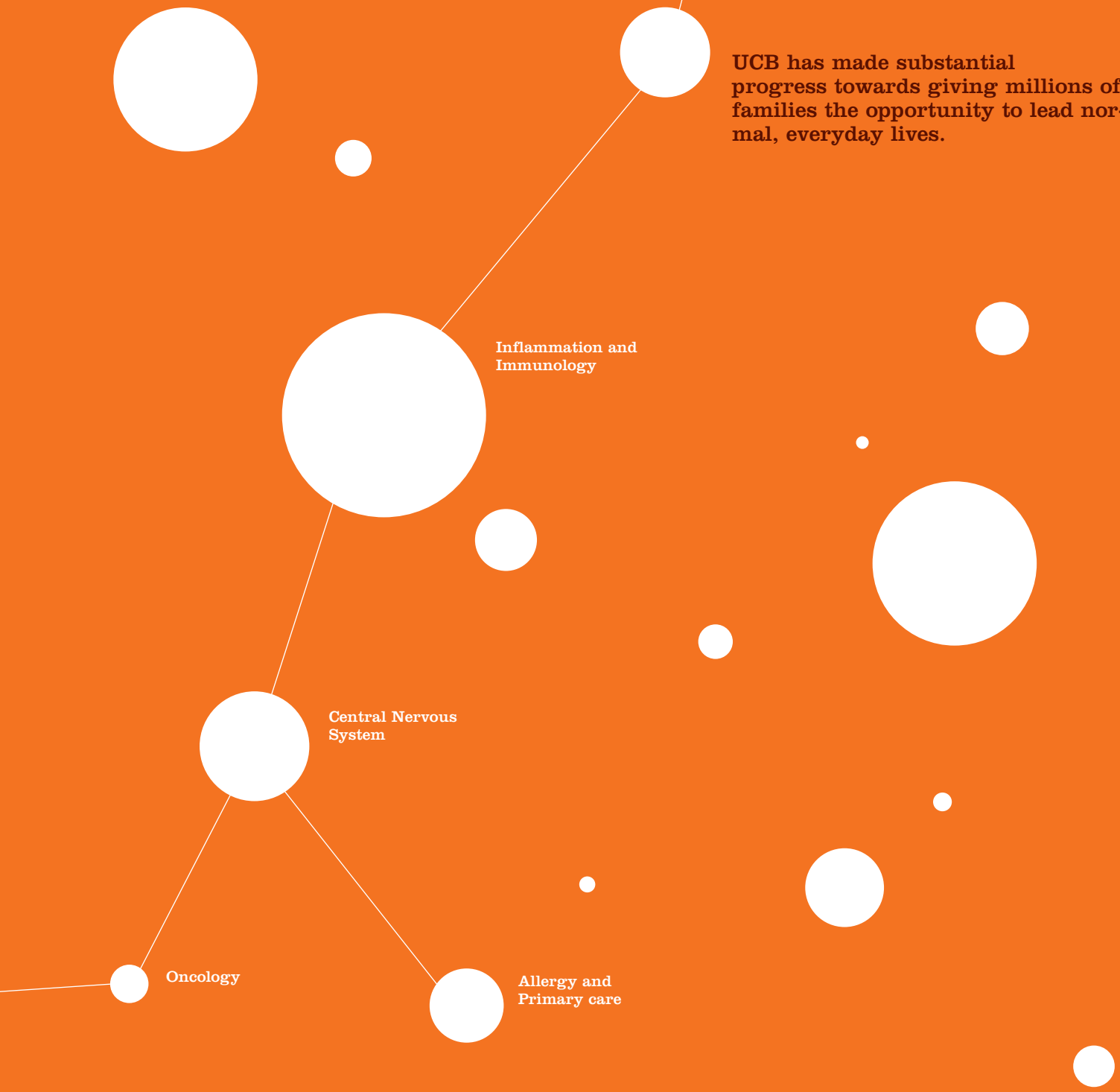
A Global Biopharma Leader

Annual Report 2005

UCB has made substantial progress towards giving millions of families the opportunity to lead normal, everyday lives.



We could tell you that our goal is to be one of the world's leading biopharmaceutical companies.

Or that we are driven by a passionate desire to liberate families living with severe diseases, such as epilepsy and Crohn's disease, from the socially and physically disabling consequences of these diseases.

All this is true, but actions speak louder than words. And, as this Annual Report demonstrates, we have made substantial progress towards our goal, giving millions of families the opportunity to lead normal, everyday lives.

Table of contents

01. During 2005
02. Other highlights
04. About UCB
08. Letter to the Shareholders
10. Executive Committee overview
14. Senior Leadership Team
16. Central Nervous System
18. Inflammation and Immunology
20. Oncology
22. Allergy and Primary Care products
26. Research & Development
28. Our human capabilities
30. Our global network
32. Our corporate social responsibility
36. Corporate Governance Report
46. Financially connected
Connecting to Investors
Contacts

UCB: Financial Highlights

million EUR	2005 (a) Reported	2004 (b) Reported	2004 (c) Pro Forma (1)	Change % (a) versus (c)
Results				
Net sales[2]	2 043	1 674	1 847	11%
Revenue[3]	2 341	1 885	2 124	10%
Recurring EBITDA[4]	529	424	461	15%
Recurring EBITA[5]	475	381	405	17%
Recurring EBIT[6]	437	359	367	19%
EBIT[7]	364	281	359	1%
Profit from continuing operations	270	197	234	16%
Core net profit[8]	316	-	266	19%
Profit	755	329	234	223%
Research & Development expenses	511	361	451	13%
Capital expenditures	86	82	-	-
Net financial debt	591	1 723	-	-
Cash flow from operating activities	290	366	-	-
Share information				
Earnings per share (EUR per share)[9]	5.26	2.27	1.61	16%
Core earnings per share (EUR per share)[10]	2.20	-	1.84	20%
Gross dividend per share (EUR per share)[11]	0.88	0.86	-	-
Number of shares (year-end)	145 933 000	145 933 000	-	
Share price (year-end – EUR per share)	39.68	37.57	-	6%
Market capitalisation (year-end – billion EUR)	5.8	5.5	-	6%
Other				
Number of employees (year-end) from continuing operations	8 525	8 598		
Average USD/EUR exchange rate	1.242	1.243		

1 Pro Forma: 12 months of Celltech and excluding Surface Specialties
2 Unless otherwise specified, sales refer to net sales
3 Revenue including net sales and royalty income
4 Operating profit before depreciation, impairment expenses, intangible amortisation expenses, restructuring expenses and other income/expenses
5 Operating profit before impairment expenses, intangible amortisation expenses, restructuring expenses and other income/expenses
6 Operating profit before impairment expenses, restructuring expenses and other income/expenses
7 Operating profit or Earnings before Interest and Taxes
8 Core net profit: profit from continuing operations after taxes adjusted to exclude after-tax impairment related expenses, restructuring expenses, other income/expenses, one-time financial income and intangible amortisation expenses
9 Earnings per share calculated by dividing Profit by the weighted average number of shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares
10 Core earnings per share calculated by dividing Core net profit by the weighted average number of shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares
11 Dividend before tax as proposed by Board of Directors to General Shareholders' Meeting

Revenue 2005

2 341

million EUR	2005 Reported	2004 Pro Forma
Revenue[3]	2 341	2 124

Recurring EBIT 2005

437

million EUR	2005 Reported	2004 Pro Forma
Recurring EBIT[6]	437	367

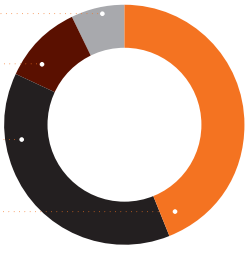
Profit from continuing operations

270

million EUR	2005 Reported	2004 Pro Forma
Profit from continuing operations	270	234

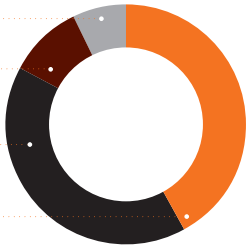
Net Sales – by geography
2005 Reported

7% Rest of the World
11% Japan
38% Europe
44% U.S.A.



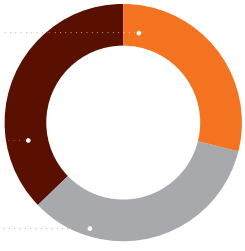
Net Sales – by geography
2004 Pro Forma[1]

7% Rest of the World
10% Japan
41% Europe
42% U.S.A.



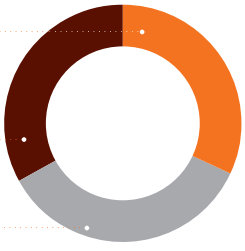
Net Sales – by therapeutic area
2005 Reported

37% CNS
34% Allergy
29% Others



Net Sales – by therapeutic area
2004 Pro Forma[1]

33% CNS
35% Allergy
32% Others



CNS includes Keppra®, Nootropil®, Atarax® and Metadate™ CD/Equasym™ XL

Allergy includes Zyrtec® and Xyzal®

During 2005, we increased our global sales by 11%[1], with profit from continuing operations up 16%[1], and made strong headway in R&D. This included significant Phase III clinical results for our promising new biological molecule, Cimzia™, initially targeted at Crohn's disease.

But that is not all…

1 2005 versus 2004 Pro Forma

Bryan didn't score. But he got a goal – the ability to lead a normal life.

For a long time, Bryan's epilepsy stopped him doing many of the everyday things kids love to do. Like playing soccer. And life wasn't easy for his family either. His parents lived in constant fear that he would have a seizure when they weren't around to help. Then they discovered Keppra®, UCB's novel anti-epileptic drug. Now Bryan is seizure-free. And both he and his family are free to get back to a normal life.

In this report you will find examples of people living with severe diseases. Case studies like these are the first step in a new UCB campaign to raise awareness of the challenges faced by families living with severe diseases.

Other highlights included:

- Sales of Keppra® rose 34%, reinforcing its position as the emerging gold standard for the treatment of epilepsy. New regulatory filings in 2005 and 2006 will enhance its momentum. Keppra®'s successors, *brivaracetam* and *seletracetam*, also progressed well: both are now in Phase II clinical trials.

- A strong performance from our allergy franchise provided added fuel for growth. Sales of Xyzal® grew by 21%, increasing its market share in Europe to 14%, while Zyrtec® exceeded expectations, extending its share in the U.S.A., where we co-promote it with Pfizer. Zyrtec®'s sales also grew in Japan, assisted by an entrepreneurial switch of its co-distributor.

- We have streamlined our business to create a fully integrated, global organisation. R&D, manufacturing and other core functions, including supply chain, now have a common global platform. We have also restructured our commercial operations into three separate units – Central Nervous System, Inflammation, and Primary Care – to give our business even greater focus and resilience. The synergies gained from these changes have been reinvested mostly in R&D.

- Research & Development investment increased by 13% (Pro Forma) to 25% of sales – a measure of our confidence in our pipeline and our determination to bring our innovations to the market as quickly as possible. R&D productivity is also on track, with virtually all our molecules in development, including Cimzia™ and new indications for Keppra®, advancing on schedule or ahead of it. Additional molecules are expected to enter the pipeline in the near future.

- To take our performance to an even higher level, we have strengthened our teams at all levels with world-class recruits: Many of these have come from top pharmaceutical and biotechnology companies, underlining the mounting confidence in our strategy and ability to deliver.

- The closing of the sale of our Surface Specialties activities occurred on 28 February 2005, generating a capital gain of 475 million euro.

Of course, a year is a relatively short time in the biopharmaceutical industry. So, before we delve more deeply into our results, we would like to sketch out the four key strengths of our business – four reasons why we expect to continue to deliver solid therapeutic and financial results over the long term.

1

Focused on severe diseases

UCB focuses on severe diseases that are physically and socially disabling, with a high burden of care on the patients' families and friends.

As these diseases are treated by a relatively small number of specialists, this enables us to have a close relationship and regular dialogue with physicians and their patients – an essential ingredient for understanding and addressing the daily realities of these diseases.

These types of diseases also require a smaller sales force, so more of our resources can be devoted to R&D and other key functions.

- Dedicated to three therapeutic areas:
  .....Central Nervous System (including epilepsy)
  .....Inflammation and Immunology (including allergy)
  .....Oncology

- Beyond the molecule: therapies plus patient support programmes

- World leader in epilepsy and allergy

- Molecules in development for:
  .....Epilepsy
  .....Neuropathic pain
  .....Respiratory diseases (allergy)
  .....Crohn's disease
  .....Rheumatoid arthritis
  .....Psoriasis
  .....Multiple sclerosis
  .....Non-small-cell lung cancer
  .....And other severe diseases

2

Powerful large- and small-molecule R&D

Our unique combination of expertise in small, chemically-derived molecules and large, antibody-based molecules gives us the flexibility to address diseases from different angles, increasing our ability to alleviate their disabling symptoms.

As a world leader in antibodies, our technological expertise in large molecules is particularly impressive. This includes the ability to identify the most appropriate antibodies, as well as patented technology to re-engineer them for greater efficacy, convenience and cost-effectiveness.

- Three Research Centres of Excellence:
  - .....Three therapeutically-focused Centres located in Braine-l'Alleud (Belgium), Slough (U.K.) and Cambridge (U.K.) and covering CNS disorders; oncology and immunology, and inflammation, including multiple sclerosis; respectively
  - .....Our Celltech Antibody Centre of Excellence in Slough (U.K.) provides antibody expertise for our other three Centres

- Key technologies:
  - .....Antibody selection
  - .....Biological scaffolds
  - .....SV2A biology
  - .....Rich expertise in proprietary chemistry
  - .....Unique technology for integrating chemistry and biology

- An intellectual property estate of over 500 patent families

- 16 R&D partners

3

Creative and entrepreneurial

By combining Celltech's creativity and entrepreneurship with UCB's commercially pragmatic approach to innovation, we have produced an unusually vibrant and fertile environment for making scientific advances that are both therapeutically and financially attractive.

Our scale plays an equally important role. As a medium-sized biopharmaceutical company, we are small enough for our colleagues' individual contributions to be felt and large enough to turn their efforts into novel therapies that can help to transform the lives of families around the world. This deep-seated understanding that each of us can make an important difference, lies at the heart of our culture and propels us to make even greater advances.

- Multi-disciplinary teams
- Globally networked to cross-fertilise ideas and capabilities
- Scientists encouraged to explore new fields to further our scientific endeavour
- 8 525 colleagues, united by one goal – to enable families living with severe diseases to lead normal, everyday lives

4

The global footprint to make a world of difference

With R&D teams in the world's biggest markets – the U.S.A., Europe and Japan – as well as strategically-positioned manufacturing sites around the globe, we have the geographic reach to realise the therapeutic and commercial potential of our innovations.

This is reflected in the fact that we now have sales in over 50 countries, including 1.1 billion U.S. dollar of our sales in the U.S.A. and 230 million euro of sales in Japan.

Our global presence, which is mirrored in the unique international diversity of our staff, also enables us to tap into the very best talent the world has to offer.

- R&D units in Belgium (Braine-l'Alleud), U.K. (Cambridge and Slough), Switzerland (Bulle), U.S.A. (Atlanta and Rochester) and Japan (Tokyo)
- Strategic manufacturing sites in Belgium, Switzerland, Italy, U.S.A., India, and Japan
- A worldwide team of 3 700 focused sales and marketing professionals
- Geographically balanced sales: 44% in the U.S.A., 38% in Europe, 11% in Japan, and 7% Rest of the World

Letter to the Shareholders

2005 was a very good year for UCB, both financially and operationally, validating the Company's decision in 2004 to transform itself into a pure biopharmaceutical company, with a dual pipeline of large and small molecules.

Delivering innovations for specia

During the year:

- Revenue increased by 24% (or 10% Pro Forma) to 2 341 million euro, supported by a 22% (or 11% Pro Forma) rise in sales to 2 043 million euro, fuelled by strong growth in the U.S.A. and Japan. Recurring earnings before interest and taxes also rose by 22% (or 19% Pro Forma) to 437 million euro.

- Net profit grew by 130% to 755 million euro. This included a 12-month contribution of 270 million euro from our continuing biopharmaceutical operations, up 37% (or 16% Pro Forma), and a two-month contribution of 10 million euro from our discontinued Surface Specialties division, which was sold on 28 February 2005, producing a 475 million euro capital gain. Our growth from continuing operations more than offset the recurring contribution earned by our divested non-biopharmaceutical activities.

- Net debt declined from 1 723 million euro in 2004 to 591 million euro, largely due to the proceeds from the divestment of our Surface Specialties division, as well as the sale of other units that did not fit our strategy of 'Innovation for Specialists™' in severe diseases, such as the Food Diagnostics operation. Early in 2006, we divested our peptide contract manufacturing business to Lonza.

Strong sales growth

Keppra®, which is already the top anti-epileptic drug in the U.S.A. and rapidly approaching market leadership in Europe, was the driving force behind our sales growth in 2005, increasing its sales by 34% to 560 million euro. Our allergy franchise continued to play an important role. Sales of Xyzal®, for example, rose by 21% to 126 million euro while Zyrtec® increased its consolidated sales by 3% to 562 million euro. Zyrtec®'s in-market sales in the U.S.A., where we co-promote the product with Pfizer, were 1 362 million U.S. dollar, up 6%. These achievements were supported by a 4% rise in sales of our other products, such as our anti-tussive medicine, Tussionex®, and our long-established CNS products such as Nootropil® and Atarax®, demonstrating our ability to obtain value out of mature markets.

Major advances in R&D

We made equally impressive progress in R&D – the key to sustaining the Company's long-term growth. This included excellent Phase III clinical trial results for Cimzia™ (certolizumab pegol, CDP870) for Crohn's disease and continued advances in developing *brivaracetam*, *seletracetam*, CDP791 and other molecules. CDP484 was the exception, as it did not meet its expected target profile, and further development has been discontinued. In addition, several promising new molecules are expected to enter development in the near future.

To accelerate the progress of our pipeline and to capitalise on the potential of Cimzia™, which is expected to be our first large molecule to reach the market, we increased our investment in R&D by 13% (Pro Forma) to 511 million euro.

lists

More focused cost management

After taking into account our higher R&D investment and over 100 million euro of synergies from integrating our business to reap the advantages of our global scale, our sales and administration costs rose by 4% (Pro Forma) to 844 million euro. More focused cost management programmes will ensure we have the resources to fund our R&D pipeline, as well as the launch of Cimzia™.

Moving forward with confidence

As we enter 2006, we aim to sustain our growth and realise even greater shareholder value. Our confidence is reinforced by the attention we are getting from both international investors and the financial community. During 2005, our international investor base not only broadened, especially in the U.S.A., we also attracted a growing number of analysts who monitor our stock. With the adoption of IFRS accounting principles and strengthened communications, we expect to make UCB's story more widely known and understood.

We have also been encouraged by the large number of high-quality recruits to UCB in 2005, who have joined the experienced and dynamic UCB team. Many of these new colleagues come from world-class pharmaceutical and biotechnology companies, suggesting that many in our industry share our confidence in our future.

Although we recognise there are challenges ahead, our long-standing track record of success has shown that we have been able to rise to these and deliver superior shareholder value. Our solid balance sheet, which gives us opportunities to grow organically as well as through in-licensing and/or strategically appropriate acquisitions, reinforces this belief.

In the meantime, our gratitude goes to our colleagues at UCB who have managed the changes successfully and delivered better than expected results, as well as to the Board of Directors of UCB for their continued support. We would like to pay a special tribute to Daniel Janssen, who, after 44 years with UCB, including 22 years as Vice-Chairman of the Board of Directors, is due to retire from our Board in 2006. And obviously, we would like to thank physicians, patients, health authorities, and our shareholders around the world for their confidence and their feedback.

2006 is already shaping up well with the preparation for Cimzia™'s launch and we are looking forward to reporting on further progress later in the year.

Roch Doliveux
Chief Executive Officer

Georges Jacobs
Chairman

Executive Committee overview

UCB's results in 2005 not only underline the Company's ability to turn novel therapeutic ideas into commercial realities, but also the value of focusing on so-called 'niche' markets.

Unlocking

For the families living with severe diseases, such as epilepsy and Crohn's disease, these are not niche markets, of course. These diseases are grinding daily realities that dramatically impact their lives – this is what drives us to produce such strong results.

This passion to succeed, and care, is genuine. At UCB, many of us, including the Executive Committee, regularly meet with the individuals suffering from these diseases, as well as their families and physicians. That is one of the advantages of our size and therapeutic focus: we are able to stay close to the ultimate beneficiaries of our therapies. This doesn't just provide us with important insights, enabling us to develop more effective and appropriate treatments, it gives us a strong sense of humility and, above all, a powerful urge to succeed. When you see and hear for yourself how diseases such as Crohn's disease and epilepsy can limit an entire family's ability to lead a normal everyday life, often with severe emotional consequences, it is hard not to be driven to alleviate them.

Historically, diseases like these have tended not to receive the attention they deserve, largely due to the comparatively small size of these markets. However, as UCB has shown, it is possible to make a significant therapeutic and financial impact with strategic focus, the right business model, and the right people and culture.

Focus is the critical word. By concentrating on delivering 'Innovation for Specialists™' in severe diseases in a well-defined range of therapeutic areas – notably inflammation and immunology, CNS and oncology – we are able to play to our scientific and technological strengths, as well as minimise our sales and marketing overheads. True, these are relatively small markets for large pharmaceutical companies but for a medium-sized company like UCB they are sizeable in absolute terms. Unlike other biopharmaceutical businesses of similar size, we have the global presence to realise our products' potential in these markets, as we have demonstrated with the extraordinary success of Keppra®, now the top anti-epileptic in the U.S.A. and a close second in Europe.

Ultimately our long-term success depends on generating a steady stream of novel medicines from pragmatic ideas. And the key to this is to foster an environment that enables everyone to realise their full creative potential. During the year we took several important steps to unlock this potential, including major organisational adjustments.

One of the most significant organisational developments during the year was the global integration of our R&D capability, bringing together our expertise in chemistry and biology, with unique technology to capitalise on the synergies of these two scientific disciplines. Cimzia™, which was developed

creativity

using both biology and chemistry to improve its effectiveness and tolerability, is just one example of what can be achieved with this interdisciplinary approach.

This philosophy of cross-fertilising ideas and capabilities runs throughout our R&D. To ensure that we can scale up our breakthroughs and bring them to market as rapidly as possible, for example, each of our three Research Centres of Excellence has a multidisciplinary team, including members of development, manufacturing, intellectual property, sales and marketing, and other core functions needed to turn innovations into commercial realities.

Equally important, our Centres of Excellence give our R&D teams the time and space to explore new possibilities, avoiding the bureaucracy often associated with larger organisations. Having the time for experimentation, scientific discussion, thought and reading is an integral part of the innovation process. In fact, our research scientists are encouraged to spend time investigating and reflecting on new avenues that ignite their personal and collective scientific interest. Interestingly, three of our biggest breakthroughs – Zyrtec®, Keppra® and Cimzia™ – originated this way.

Our success, however, doesn't just hinge on R&D. It depends on the skills and entrepreneurship of everyone at UCB. To help them realise their individual and collective potential, we are invoking staff throughout the Company to operate more autonomously, with clear responsibilities and accountable business objectives. To ensure this freedom is exercised effectively and to the highest professional and ethical standards, we have in place strong corporate guidelines and rigorous, streamlined processes for four key areas: quality, supply chain, development and finance.

We have also enhanced the efficiency of our global manufacturing operations by streamlining and restructuring them to create a globally integrated production platform.

This has not only given us greater focus and flexibility, but also enabled us to release more resources for our innovations by leveraging our scale, for example through global purchasing, which was created in 2005.

Moreover, we have divested operations that are not in line with our long-term strategic vision of focusing on the research, development and commercialisation of therapies for severe diseases. This included the sale of our Food Diagnostics business as well as our contract-manufacturing division in Ashton (U.K.) in 2005. In all cases, we have sought acquirers who are strategically committed to these businesses so that staff who accompany these businesses have an even brighter future. When we say that people matter at UCB, we mean it and show it even when tough decisions are required.

Executive Committee overview
continued

Despite the scale of these changes, UCB has retained its focus, making especially strong progress in R&D. This is a testament to both the Company's adaptability and our commitment to combatting the impacts of severe diseases.

In addition to our advances in finalising the development of Cimzia™, we made a number of new regulatory filings to extend the therapeutic applications of our products and maximise their commercial potential. With Keppra®, for instance, we gained FDA[1] and EMEA[2] approval for a paediatric indication of this ground-breaking therapy, plus received an FDA approvable letter and an EMEA positive opinion for an intravenous formulation. We also submitted filings to the FDA and EMEA for Keppra® as a treatment for primary generalised myoclonic seizures. More generally, we delivered on the timelines of virtually every clinical study, highlighting our 'can do' mentality.

Where we don't have the commercial strength, requisite expertise or intellectual property to move forward we 'partner for strength', as we have shown with new alliances with companies such as GSK for Zyrtec® in Japan, Lonza for the manufacturing of our biologicals and ImClone Systems to co-develop CDP791. UCB is a highly pragmatic company. Our goal isn't to win international accolades but to deliver therapeutic advances for families living with severe diseases, as well as superior shareholder returns.

This pragmatism extends to our continued involvement in the Primary Care market with products such as Xyzal® and Zyrtec®. Although our long-term growth lies in severe diseases, which are initially serviced by specialists, we maintain an efficient foothold in the Primary Care market, as many of our drugs will ultimately be prescribed by general practitioners.

Yes, we have had a good and busy year but we are realistic and humble enough to recognise that we still have a lot to do. We are making the necessary improvements, fired up by positive results from the pivotal Phase III trials for Cimzia™ for Crohn's disease.

1 Food & Drug Administration
2 European Medicines Agency

These and other developments in 2005 are described in this Annual Report. The challenge in 2006 and beyond – and our eyes are very firmly fixed on delivering positive returns over the long term, not to be short-term crowd pleasers – will be to maintain our focus and passion for success. More specifically, our priorities in 2006 include:

- **Preparing for the launch of Cimzia™;**
- **Ensuring Keppra®'s potential is fully recognised and accelerate the development of our follow-on therapies, *brivaracetam* and *seletracetam*;**
- **Continuing to grow profitably our Primary Care business, while securing our long-term allergy franchise in the U.S.A.;**
- **Further strengthening our four core processes: quality, supply chain, finance and development;**
- **Fostering cost consciousness;**
- **Enhancing long-term growth through internal innovations and external product acquisitions.**

Executive Committee

Roch Doliveux, Chief Executive Officer and Chairman of the Executive Committee
Appointed January 2005. Previously Director-General of UCB's Pharma Sector; CEO of Pierre Fabre Pharmaceuticals; President of Schering-Plough International, plus other posts with this company in the U.S.A., France and Belgium. Started at Ciba-Geigy (now Novartis), working in Switzerland, Peru and France. He is member of the Board of Directors of UCB, and also a member of the Board of the European Federation of Pharmaceutical Association (EFPIA) and of CHIREC (chain of private hospitals in Belgium).

Melanie Lee, Executive Vice President, Research & Development
Appointed July 2004. Previously Executive R&D Director at Celltech and Research Unit Head at Glaxo Welcome (now GSK). Also chairs Cancer Research Technology, the technology transfer subsidiary of Cancer Research U.K. (CRUK) and is a CRUK Trustee. Elected fellow of the Academy of Medical Sciences (U.K. – 2003) and awarded honorary doctorate by University of York (U.K. – 2004)

Luc Missorten, Executive Vice President and Chief Financial Officer
Appointed in November 2004. Previously General Manager of UCB Pharma Spain; Chief Financial Officer of Interbrew (now Inbev) and started at Citibank. He is also member of the Board of Directors of Vandemoortele Group.

Jean-Pierre Pradier, Executive Vice President, Human Resources
Appointed in June 1997. Previously Executive Vice President HR for Clintec Inc., a Baxter-Nestlé joint venture company, based in Switzerland, Vice President HR International with Baxter Healthcare, based in the U.S.A. and Belgium, Vice President HR for Baxter Europe; with previous experience in HR and Finance experience with Eli Lilly in France.

Bill Robinson, Executive Vice President, Global Operations
Appointed in April 2005. Previously 30+ years with Eli Lilly as Vice President, Operational Excellence; Vice President, Sales & Marketing U.S.A. and a number of other marketing and general management roles in Europe, Africa, Asia-Pacific and U.S.A. He is also member of the Board of Directors of First Horizon Pharmaceuticals.

Bob Trainor, Executive Vice President and General Counsel
Appointed in October 2004. Previously Vice President, Associate General Counsel of Schering-Plough; Assistant General Counsel of Johnson & Johnson; Attorney with the New York law firm Donovan Leisure Newton & Irvine and started as Counsel of the Committee on the Judiciary at the United States House of Representatives.

Senior Leadership Team

Fuelled by the energy and experience of our Senior Leadership Team, we are moving towards our goal of becoming one of the world's top biopharmaceutical companies.

Experience

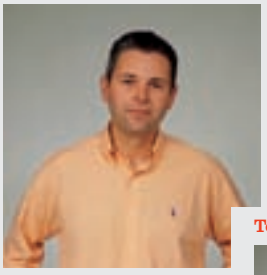
Michel Lurquin Belgian

Senior Vice President
Global Technical Services &
Operations

Neil Weir British

Vice President Research –
Antibodies Pipeline,
Biologicals

Bernard Lauwers Belgian



Vice President
Financial Control

Tony Tebbutt American

Senior Vice President
U.S.A. Operations

Grahaem Brown British

Senior Vice President
Global Development

Jean-Christophe Donck
Belgian

Vice President Corporate
Communications &
Investor Relations

Olav Hellebo Norwegian

Vice President
Inflammation Operations

UCB is a globally networked company with a management and leadership structure that is designed to provide fast communication and execution across the world. It is composed of three interconnected teams, each with clear, complementary roles:

- The Executive Committee has the overall responsibility for executing our strategy approved by the Board of Directors as well as the day-to-day management of the Company. With just six members, it is small and flexible enough to make rapid, informed decisions, based on insights from our Senior Leadership Team and Global Leadership Team.

- Our Senior Leadership Team, which is composed of the heads of all our core functions, R&D, manufacturing operations, sales & marketing, finance, human resources, communications and legal, drives our day-to-day business, recommends strategies to the Executive Committee and advises on broad people topics. Drawing on its shared knowledge and experiences, the team identifies company-wide opportunities and challenges that need to be addressed and provides an important bridge into our operations via its links with our Global Leadership Team.

- Our Global Leadership Team of 160 members around the world is the core team for implementing our strategies, addressing issues and opportunities, as well as delivering results and successes throughout our network so that each of our 8 525 colleagues is fully informed.

Philippe Waty Belgian

Vice President
Corporate Compensations & Benefits/HR Systems

François Meurgey French

Senior Vice President
Centre of Excellence Commercialisation

Gerd Johnscher German

Senior Vice President
Quality, Drug Safety & HS&E

Simon Looman Dutch

Vice President
European Operations

Mark Bushfield British

Vice President Research – New Chemical Entities Pipeline

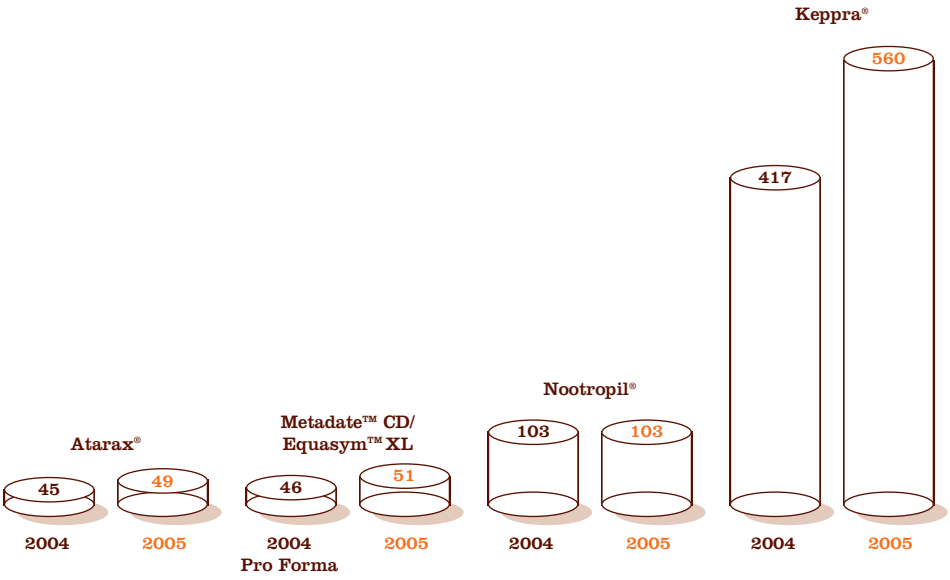
Vincent Damien Belgian

Senior Vice President & Chief Information Officer

OUR WORLD LEADERSHIP IN EPILEPSY RESEARCH, TOGETHER WITH OUR EXPERTISE IN PROTEIN VIROLOGY, IS ADVANCING OUR UNDERSTANDING OF THE KEPPRA®-BINDING PROTEIN FUNCTION IN OTHER NEUROLOGICAL DISEASES.

It was one of the smartest moves the Fortier family ever made.

Bryan is not just handy on the soccer field, he is also a smart little chess player. Unfortunately, until recently, he wasn't able to fully apply his mind to the game, or his schoolwork, owing to epileptic seizures. However, since his parents agreed to a neurologist's advice to try Keppra®, Bryan is now seizure-free and back to his winning ways. As his mother Sherry said : 'It gave us Bryan back.'



CNS products (Net sales in million EUR)

In just five years, we have grown Keppra® into a 560 million euro business, with 20%[1] of the U.S. anti-epileptic market.

Optimising Keppra®'s potential: Keppra® grew strongly throughout the world. In the U.S.A., it extended its leadership for treatment of epilepsy with a 32% rise in sales, while in Europe it grew by 37%, edging it closer to the top position. As it still only has a 9% share in treatment days[2], it has considerable potential for further growth. Major regulatory approvals and filings during 2005 will help unlock its potential. In the U.S.A. and Europe, for instance, UCB launched Keppra® as an add-on therapy for treating partial-onset seizures in children aged four and older. We also submitted regulatory filings to both the FDA and EMEA for using Keppra® for the treatment of primary generalised myoclonic seizures and to the EMEA for monotherapy. Additional filing for primary generalised tonic-clonic seizures is expected. In addition, we received a FDA approvable letter and an EMEA positive opinion for Keppra®'s intravenous formulation. In Japan, Keppra® successfully completed its first Phase III trial and is now undergoing its second pivotal Phase III trial, with the aim of submitting a regulatory filing in 2007.

Building our long-term, anti-epileptic franchise: Keppra®'s two major successors, *brivaracetam* and *seletracetam*, both being developed as once-daily therapies, progressed well through Phase II trials. *Brivaracetam* also became eligible for orphan drug review in Europe and in the U.S.A. for the treatment of myoclonic epilepsy. Our goal is to receive approval from the regulatory authorities before Keppra® loses its exclusivity in 2009 in the U.S.A. and in 2010 in Europe.

Progress with multiple sclerosis: For multiple sclerosis, we are continuing to explore a promising stable of molecules, such as CDP323, which is one of the few oral alpha-4 integrin antagonists.

Extending our positions in other CNS fields: During the year, Xyrem®, licensed-in from Jazz Pharmaceuticals, obtained European Commission Marketing approval for the treatment of cataplexy, a symptom of narcolepsy. Advances were also made with Metadate™ CD for attention deficit/hyperactivity disorders, with sales in the U.S.A. reaching 49 million euro. This product was recently launched in the U.K. under the brand name Equasym™ XL. Despite stiff generic competition, Nootropil®, a cognitive enhancer, and Atarax®, a non-benzodiazepinic tranquilliser, performed well, thanks to the efforts of our colleagues in Eastern Europe, Asia and other regions, generating sales of 103 million euro and 49 million euro respectively.

1 (IMS, Value, MAT Q4/05)
2 (IMS, Treatment days, MAT Q4/05)

A UNIQUE COMBINATION OF EXPERTISE IN SMALL, CHEMICALLY-DERIVED MOLECULES AND LARGE, ANTIBODY-BASED MOLECULES GIVES UCB THE FLEXIBILITY TO ADDRESS DISEASES FROM DIFFERENT ANGLES, INCREASING ITS ABILITY TO ALLEVIATE THEIR DISABLING SYMPTOMS.

Soon Ben's jokes about Crohn's disease won't be quite so funny.

Ben is a comedian with a difference. He has Crohn's disease. And he jokes about it in his routine. Which is a lot funnier than living with the disease, as he points out – the mad rushes to the bathroom…waking up in the middle of the night to find you have soiled yourself (ha, ha!)…the difficulties of holding down a relationship.

UCB's efforts to develop a new therapy for Crohn's disease could help treat these problems. And put an end to many of Ben's jokes, which would really give him something to laugh about.

Cimzia™ could become UCB's next major growth-driver, supported by substantial new investments.

Cimzia™ (certolizumab pegol, CDP870) is being prepared for launch: Excellent phase III clinical results for Cimzia™ for the treatment of Crohn's disease have encouraged us to significantly scale up our support for this large molecule.

Intended for launch in 2007, Cimzia™ is a unique PEGylated antibody fragment that aims at providing strong and sustained efficacy, with infrequent dosing, together with the added convenience of subcutaneous administration. To prepare for market introduction, we have significantly increased our investment in its development and built a global, multidisciplinary 'life-cycle' team around it, spanning all the key functions, beyond R&D. We are also actively hiring top talent.

Equally importantly, UCB has formed a strategic manufacturing alliance with Lonza in Switzerland, where Lonza will produce PEGylated antibody fragment-based bulk actives, providing valuable bio-production skills, knowledge and expertise.

Making progress in rheumatoid arthritis: In addition to two positive pivotal Phase III clinical trials of Cimzia™ for rheumatoid arthritis, where the molecule met all primary endpoints, two new large Phase III studies of Cimzia™ for the treatment of this disease have been initiated. A liquid formulation, with a subcutaneous delivery device suitable for home administration, is being pursued and undergoing Phase III clinical evaluation. Results are expected between the end 2006 and early 2007.

Exploring Cimzia™'s potential for new indications: We started a Phase II dose-ranging clinical evaluation of Cimzia™ for psoriasis in the last quarter of 2005. Results are expected during the first half of 2007.

WHERE WE DON'T HAVE THE COMMERCIAL STRENGTH OR REQUISITE EXPERTISE, WE 'PARTNER FOR STRENGTH'.

We don't always agree with our partners. Except about one thing.

To innovate, you need to think differently. That is why our partners are so important. They bring fresh ideas to the table, challenging how we think. Although sparks can fly as competing ideas collide, they invariably ignite new thoughts for innovations. So we are more than happy if our partners don't always agree with us, provided they share one core value with us – a passion to enable families living with severe diseases to enjoy normal, everyday lives.

To accelerate our progress in oncology, we are teaming up with new partners.

New partnership opens the door to success in non-small-cell lung cancer: Our novel antibody, CDP791, designed to interrupt the growth of the blood vessels that feed tumours, has potential against a broad spectrum of cancers, most notably non-small-cell lung cancer, its initial target. With our new partnership with ImClone Systems Inc., an oncology-focused biotechnology company, we accessed intellectual property and expertise in vascular endothelial growth factor (VEGF) biology. We are in a much stronger position to realise this molecule's commercial value, particularly in the U.S.A.

During 2005, we started Phase II trials for CDP791 for non-small-cell lung cancer.

Moving forward with Non-Hodgkin's Lymphoma: Building on our 'partnering for strength' strategy, we continued to develop CMC544 for Non-Hodgkin's Lymphoma, now in Phase I trials, together with Wyeth.

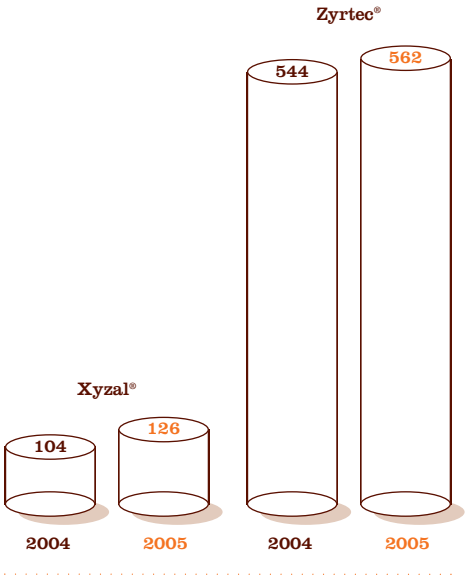
Proven experience and technology in oncology: Together with experienced partners, UCB has already demonstrated its ability to produce a marketable oncology product, with Mylotarg®. Co-developed by Wyeth and UCB's Celltech Antibody Centre of Excellence, this large molecule, which is indicated for acute myeloid leukaemia, has validated our technology to deliver cytotoxic agents to tumours, an approach adopted by CMC544.

Our combined expertise in large and small molecules places us in a strong position to make greater headway in the battle against cancer. With small molecules, it is possible to inhibit the signals that instruct cancerous cells to multiply or survive, while large molecules give us, for example, the facility to deliver toxins in a highly targeted way, reducing side effects.

AS THE WORLD LEADER IN ANTIHISTAMINES, WITH OUR FLAGSHIP PRODUCTS XYZAL® AND ZYRTEC®, UCB IS COMMITTED TO COMBATTING THIS DISEASE AND TO MAKING EVEN GREATER HEADWAY.

Planting seeds of hope for allergy sufferers across the world.

Over 250 million people suffer from allergies. Many are allergic to pollen, others like Ségolène, pictured here, are allergic to dairy products and other everyday items. The symptoms, including runny eyes and noses, might not seem severe but day-in, day-out, they can erode your confidence and energy, as Ségolène will tell you.



Allergy products (Net sales in million EUR)

Our allergy franchise continues to grow profitably.

As general practitioners in the Primary Care sector can act as gatekeepers to specialists, as well as selectively prescribe therapies for severe diseases, it is important to have a credible albeit focused presence in this market. And UCB does. Over the last 30 years, we have established strong relationships with selected general practitioners in Europe, the U.S.A., Japan and other countries such as India through the quality of our medical and sales and marketing teams as well as our products.

World leadership in allergy: Our flagship antihistamines – Zyrtec®, the world's most widely prescribed second-generation antihistamine, and Xyzal®, which has market leadership in seven countries in Europe – have given us a powerful global presence in allergy. Through our co-promotion of Zyrtec® in the U.S.A. with Pfizer, we have also gained valuable insights into how to partner for success in Primary Care. During 2005, we continued to build on these strengths, producing solid commercial results. Sales of Xyzal®, for example, grew by 21%, despite a weak allergy season in Europe, while in-market Zyrtec®'s sales increased by 39% in Japan and rebounded in the U.S.A., achieving record in-market sales of 1 362 million U.S. dollar, up 6%, 10 years after the drug was launched. UCB consolidated 244 million euro of the total in-market sales of Zyrtec® in the U.S.A.

Solid base of other products: In addition to antihistamines, UCB offers general practitioners other medicines mainly in the respiratory, inflammatory and CNS fields, enabling us to keep in regular contact with them. These range from our 12-hour cough and cold medicine, Tussionex®, to Delsym®, a 12-hour anti-tussive, Lortab™, an analgesic, or BUP-4™ treating urinary incontinence. During the year, Tussionex® grew its sales by 32% to 108 million euro and Delsym® rose by 8% to 31 million euro.

An experienced sales and marketing force: We have 1 536 Primary Care sales and marketing representatives in Europe, 189 in Japan and 517 in the U.S.A.

OUR COMMITMENT GREATER PROGRESS IMPACTS OF SEVERE FAMILIES IS UNDERL THAT OUR R&D INTE INVESTMENT IN R&D OF SALES – IS NOW IN THE INDUSTRY.

TO MAKING EVEN IN ALLEVIATING THE DISEASES ON INED BY THE FACT NSITY – OUR AS A PERCENTAGE ONE OF THE HIGHEST

This Annual Report outlines how we are driving the therapeutic and financial returns from this investment:

- By bringing together smart people and smart applications of science across the globe to develop novel therapies;

- By creating an environment that enables everyone who works with us to realise their full potential, including our colleagues, customers and partners.

Integrating our expertise in chemistry and biology to produce more effective therapies.

R&D

Capitalising on the synergies of large and small molecules: By successfully integrating our biology and chemistry expertise, we have been able to develop novel biological scaffolds to engineer more effective and better-tolerated antibody-based therapies. Cimzia™ was created this way, as were CDP791 and CMC544 for cancer, all currently in clinical development. Integrating our capabilities in biology and chemistry has also given us fresh insights into how UCB's small molecules behave in the body. For example, our understanding of SV2A biology, together with our powerful utilisation of chemistry, molecular biology and pharmacology in advancing small molecules, has enabled the development of potentially highly efficacious anti-epileptic drugs beyond Keppra®. Furthermore, our substantial in-house clinical development capability extends to antibody-based therapeutics, as well as chemical entities.

Joining forces with cutting-edge partners around the globe: Promising new collaborations include our partnership with Amgen to develop a breakthrough therapy for osteoporosis. With Amgen's expertise in bone biology and genetics, we are working on a UCB-patented protein that rebuilds bones. Together with Biogen IDEC, we are also designing better-tolerated molecules targeted at the CD40 ligand protein, which is a pivotal modulator in many immunological diseases. UCB also teams up with leading academic and other industry partners.

World-class technology platforms: Our leadership in antibodies is supported by a variety of advanced technologies, including Selected Lymphocyte Antibody Method (SLAM) which allows us to isolate functionally active antibodies with exceptional speed. We also have expertise in PEGylation, humanising antibodies and E-coli expression. For chemically-derived molecules, UCB has important intellectual property and SV2A biology know-how, the engine of Keppra®, as well as rich seams of proprietary chemistry.

Partnering Arrangements

NCE Discovery
AstraZeneca
Bristol-Myers Squibb
Chembridge
Combinature
Discovery Partners Int'l
Johnson & Johnson

A strong pipeline

Central Nervous System (CNS)
Diseases

- Epilepsy
- Neuropathic pain
- Multiple sclerosis

Inflammation
Diseases

- Crohn's disease
- Rheumatoid arthritis
- Psoriasis
- Others

Oncology
Diseases

- Non-small-cell lung cancer
- Non-Hodgkin's lymphoma

NBE Discovery
Abgenix
Access
BioInvent
Celtic Pharmaceuticals
Medarex
Millennium
Seattle Genetics

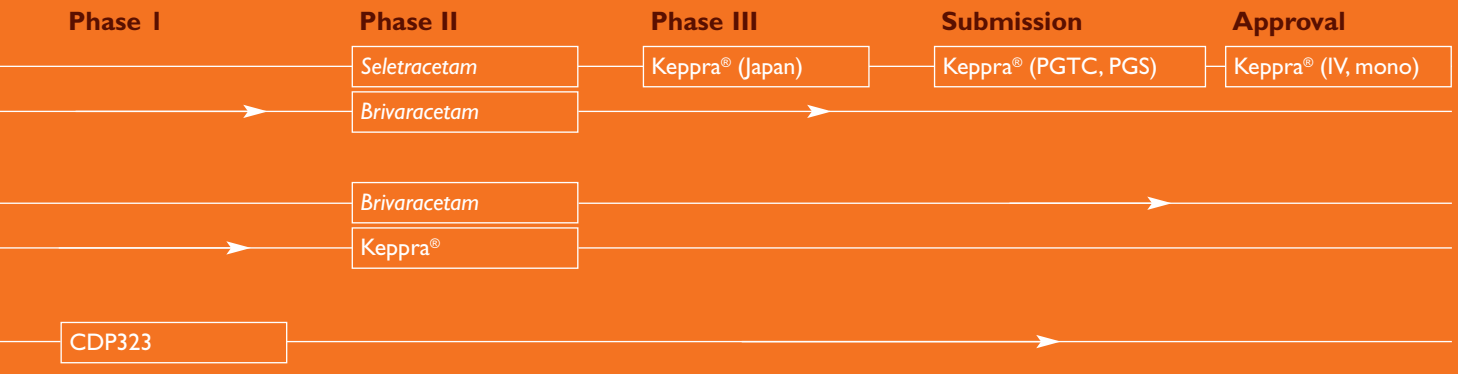
NBE Product Development
Amgen
Biogen Idec
ImClone

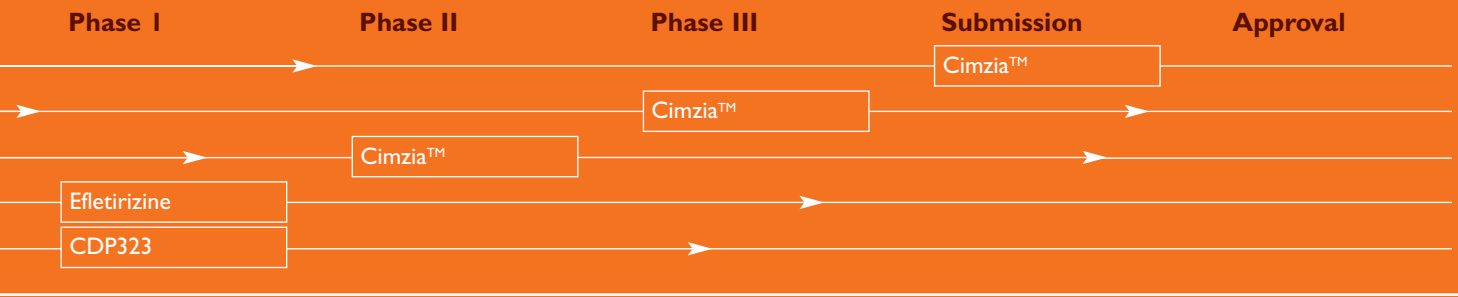
NCE Marketed Product
Abbott
GlaxoSmithKline
Daiichi
Jazz Pharmaceuticals
Maruishi
Pfizer
Watson

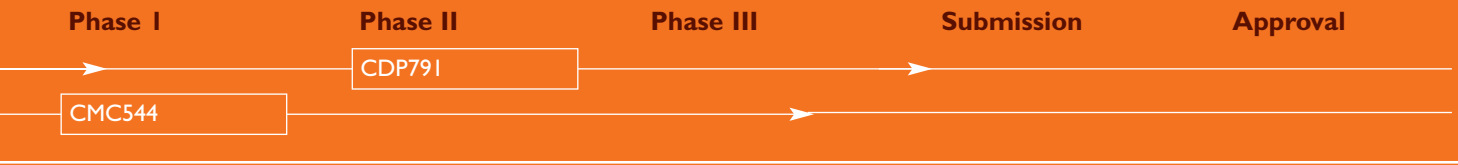
NBE Marketed Product
Wyeth

Strategic NBE Manufacturing
BioReliance
Lonza
Nektar
Sandoz (now Novartis)

NBE New Biological Entity
NCE New Chemical Entity







Our human capabilities

Fostering a culture where creativity and entrepreneurship can flourish.

Our people

Multi-disciplinary, patient-focused teams:
We have established multi-disciplinary teams for each of our therapeutic areas, enabling us to cross-fertilise ideas and capabilities. Each team contains the functional expertise needed to develop and commercialise novel molecules, such as R&D, manufacturing and sales & marketing, ensuring our breakthroughs reach the market as quickly as possible. In addition, internal initiatives have been launched to increase our staff's understanding of the daily realities of severe diseases – essential insights to design more appropriate therapies. This has included inviting patients to discuss how diseases, such as epilepsy and rheumatoid arthritis, affect their ability to lead normal lives.

Cultivating a high-performance culture:
Our colleagues are being given greater freedom to explore their individual and collective potential, underpinned by smart, stretching objectives and clearly defined responsibilities. Our performance management approach embraces all these elements and empowers staff to set their own objectives, based on business goals and challenges. We encourage continuous coaching and feedback, to discuss progress, identify areas for improvement and refine priorities so that UCB people know how they are doing and what they need to do to further-develop as professionals.

We have defined our expectations of UCB leadership through six visible, demonstrated behaviours which each of our leaders need to embrace to achieve leadership excellence and enhance outstanding long-term company results. A successful UCB leader drives the company, delivers results, leads by influence and operates through networks, builds talents and teams, communicates openly and positively, and strives for personal excellence.

At UCB, attracting, developing and retaining exceptional people is paramount. To support employee success and job satisfaction, we offer global career opportunities and talent development programmes. Through their individual development plans, our colleagues partner with their leaders to identify skills, behaviours and knowledge needed to achieve specific goals. Our competitive position is linked to the knowledge and skills of our colleagues. Training and development through practical learning and professional growth are critical to our continued success.

UCB also relies on a global talent review programme to identify and develop the next generations of leaders. We motivate our people by providing them with a challenging and exciting work environment and giving them the experience, exposure and support they need to succeed.

UCB rewards and recognises performance and individual development. Our compensation and benefit packages are designed to provide a competitive edge in our business.

Enriching our human diversity: The diversity of our staff, which spans a broad spectrum of nationalities, cultures, ages, religions and other personal characteristics, is one of UCB's greatest strengths. It helps us embrace change and difference, sparks creativity and gives us a more rounded, balanced view, as well as greater insights into the different needs of families living with severe diseases. To enhance this strength, we are embarking on new programmes to increase and capitalise on our diversity via networking, mentoring and training. This will include initiatives to enhance our staff's work-life balance.

Staff – by geography (year-end)

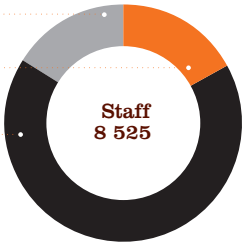
	2005	2004
Europe	5 670	5 732
U.S.A.	1 471	1 506
Rest of World	1 384	1 355
Total headcount – Continuing operations	8 525	8 598

2005

16% Rest of the World

17% U.S.A.

67% Europe

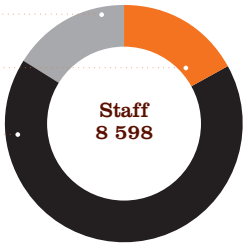


2004

16% Rest of the World

17% U.S.A.

67% Europe



Staff – by qualification (year-end)

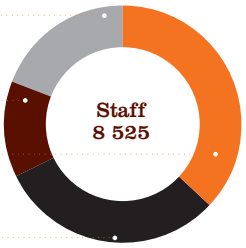
2005

19% Other employees

13% Workers

37% Sales

31% Management



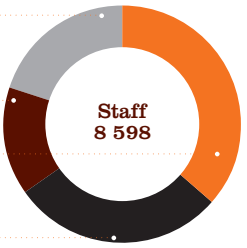
2004

20% Other employees

15% Workers

37% Sales

29% Management



	2005	2004
Total personnel expenses (million EUR) including wages, salaries and social charges	507	446
Average personnel cost per employee (thousand EUR)	59	52

Our global network

Working globally to leverage our scale and intellectual capital.

Global

Optimising our production capabilities:
Managing our production globally is enabling us to streamline our manufacturing capability and re-focus production to the most cost-effective and quality-driven sites.

This development, which is being carefully orchestrated to ensure quality standards remain consistently high, is expected to reduce our cost of goods. In 2005, for instance, we rationalised our entire injectables production capability in order to create a single production platform in Italy.

A leaner production capability and our strong enhanced process development have also given us the flexibility to respond rapidly to sudden surges in demand. For example, when sales of Keppra® are soaring to unprecedented levels, we are able to satisfy demand without any interruption and, of course, while maintaining the product's quality. Further initiatives to streamline our manufacturing network, as well as our supply chain, are underway.

Networking our knowledge and capabilities:
As a globally integrated business, we are able to share our insights more effectively, plus utilise our presence in time zones across the world to complete projects more quickly. With Cimzia™, for instance, data was passed between time zones, enabling us to work on it around the clock and hit our tight Phase III clinical deadlines.

Bringing our values to life across the world:
Having successfully integrated UCB and Celltech at an organisational level, we have introduced initiatives to ensure all our staff across the globe share the same values and aspirations so we can move forward as a united team with a common purpose and beliefs. Our seven values include:

- **Passion and Performance:** We are passionate about what we do and about UCB's performance.
- **Care:** We care for the patient and for people.
- **Accountability:** We require accountability as an individual and solidarity as a team member for achieving UCB's objectives.
- **Entrepreneurship:** We embrace resilient entrepreneurs that show initiative.
- **Integrity and Quality:** We act with integrity and ensure flawless quality in our core processes.
- **Innovation:** We foster innovation from inside and outside to be smarter than our competitors.
- **Focus and 'Act Now':** By focusing, we make things happen immediately, identifying the right opportunities and acting swiftly.

Hilde Sonck

Hocine Sidi-Said

Bettina Freischütz

Fabrice Egros

Leah Lipsich

Michael Puri

Kristy Nichols

Domenico Fanara

Patty Fritz

Mohamed Chaoui

Our corporate social responsibility

Raising awareness of severe diseases so they receive the attention and resources they deserve.

Social

De-mystifying epilepsy: A new play, commissioned by UCB, has brought to life the devastating effects that uncontrolled seizures can have on the daily lives of people with epilepsy, seen through the eyes of a specialist. First performed in Australia, at the 2005 World Congress of Neurology, one of the main aims of Brain Storm is to demonstrate that more open and honest communication between physicians and their patients holds the key to managing this disease more effectively.

Giving people living with severe diseases a helping hand: Our Keppra® Family Epilepsy Scholarship Program is just one example of how we ease the burden on families affected by severe diseases. This unique programme provides financial assistance for epilepsy patients, their families, and caregivers looking to further their education. In 2005, fifteen scholarships were awarded (10 for patients, 5 for caregivers) and, in 2006, we will double the number of scholarships. We also sponsor the H.O.P.E. (Helping Other People With Epilepsy) Mentoring Program™, co-developed with the Epilepsy Foundation in the U.S.A. To date, the H.O.P.E. Mentoring Program™ has reached over 83 000 people in the U.S.A.

Support for healthcare professionals: We are committed to providing support for programmes to keep healthcare professionals at the forefront of epilepsy treatment and innovation. Our Neurology Residents Scholarship Program™ is a case in point. Recognised medical experts teach the basics of epilepsy to neurology residents from nearly every resident programme in the U.S.A. To advance scientific knowledge about the safety and outcomes associated with pregnant women treated with Keppra®, we also support the Keppra® Pregnancy Registry: the only pregnancy registry in the U.S.A. that tracks mother and child during pregnancy, and the child for up to five years after birth.

Integrating HSE into our culture: In line with our core value of 'care', UCB is integrating health, safety and environment (HSE) considerations into every facet of its business. We are continuously improving our existing systems, methodologies and practices to enhance our performance and our HSE risk management capabilities. To measure and report on our performance we aim to be consistent with the 'Sustainability Reporting Guidelines' published by the Global Reporting Initiative™ (GRI). The GRI is an independent institution that develops and disseminates applicable HSE and other sustainability reporting criteria.

Chelsea has lit up Taylor's life in more ways than one.

When Taylor has an epileptic seizure, his parents can rest assured that he is in good hands. Or, more accurately, good paws. Chelsea is a two-year old Labrador who is not only able to turn on the lights and ring 911 when help is needed, using a special keypad, but also able to sense when Taylor is about to have a seizure, alerting his family to the risks.

Chelsea is one of a number of dogs in the U.S.A. trained by Canine Assistants to look after people with severe diseases. UCB is proud to fund this non-profit organisation. And even more delighted that Chelsea has given Taylor new-found freedom and confidence. For further details, visit www.canineassistants.org

Our HSE performance indicators for 2005 in relation to 2004 are presented below.

1. Safety Indicators: Lost Time Accident Frequency Rate and Severity Rate

The number of accidents (including traffic accidents at work) arising in the course of work, and resulting in at least one full day away from work, for every million hours worked.

	2005	2004
Frequency	5.9	6.4
Severity	0.13	0.11

There have been no fatalities at any of our sites.

2. Energy consumption at Manufacturing and R&D sites (electricity, gas, oil)

	2005	2004
Energy consumption (normalised in giga-joules per million euro)	379	546

3. Water consumption at our manufacturing and R&D sites

	2005	2004
Water usage (normalised in cubic metres per million euro)	243	421

4. Waste generated at Manufacturing and R&D sites

In 2005, 79% of our waste was re-used, recycled or recovered.

	2005	2004
Total waste (normalised in tonnes per million euro)	6.8	8.8

CORPORATE GOVERNANCE

AS A BELGIUM-HEADQUARTERED COMPANY WITH A COMMITMENT TO THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE, UCB'S BOARD OF DIRECTORS ADOPTED THE CHARTER OF CORPORATE GOVERNANCE IN OCTOBER 2005, AS REQUIRED BY THE BELGIAN CODE ON CORPORATE GOVERNANCE.

Directors and Auditors

Board of Directors
Baron Jacobs, Chairman
Baron Daniel Janssen, Deputy Chairman
Dr Roch Doliveux, Executive Director
H.R.H. Prince Lorenz of Belgium, Director
Alan John Blinken, Director
Baron Karel Boone, Director
Dr Peter Fellner, Director
Guy Keutgen, Director
Gerhard N. Mayr, Director
Countess Diego du Monceau de Bergendal, Director
Count Arnoud de Pret Roose de Calesberg, Director
Mrs Jean van Rijckevorsel, Director
Dr Jean-Louis Vanherweghem, Director

Michèle de Cannart d'Hamale, Secretary of the Board

Honorary Directors
Baron Jaumotte, Honorary Chairman of the Board of Directors
Willy De Clercq, Honorary Chairman of the Board of Directors
Mark Eyskens, Honorary Chairman of the Board of Directors
Paul Etienne Maes, Honorary Chairman of the Executive Committee
Francis Cattoir
Count Didisheim
Mrs André Janssen
Eric Janssen
Alain Jubert
Baron de Neve de Roden
Baron Velge

Honorary Chairmen of the Executive Committee
Baron Jacobs
Baron Daniel Janssen
Paul Etienne Maes

Statutory Auditors
Emmanuèle Attout
Daniel Goossens

Corporate Governance Report

As a Belgium-headquartered company with a commitment to the highest standards of corporate governance, UCB's Board of Directors adopted the Charter of Corporate Governance in October 2005, as required by the Belgian Code on Corporate Governance. This Charter, which is available on our web site (www.ucb-group.com), describes the main aspects of UCB's Corporate Governance, including its governance structure and the terms of reference of the Board of Directors, as well as those of its Committees and the Executive Committee.

In accordance with the Belgian Code, the following pages describe the factual information relating to UCB's Corporate Governance. This includes changes to the Company's Corporate Governance together with relevant events that took place during the year under review, such as the appointment of new Directors, designation of Committee members or the annual remuneration received by each member of the Board and by the Executive Committee. It also includes explanations, where applicable, of any deviations from the Belgian Code.

1. Board of Directors and Board committees

a) Board of Directors

Composition of the Board of Directors and Independent Directors

From 1 January until 14 June 2005, the composition of the Board of Directors was the following:

Georges Jacobs, Chairman
Daniel Janssen, Vice-Chairman
Roch Doliveux, Executive Director
Prince Lorenz of Belgium
Alan Blinken
Karel Boone
Mark Eyskens
Eric Janssen
Guy Keutgen
Evelyn du Monceau
Bridget van Rijckevorsel
Jean-Louis Vanherweghem

At the Shareholders' meeting, on 14 June 2005, the terms of office of Mark Eyskens, an Independent Director, and Eric Janssen, a representative of the main shareholder and a Non-Independent Director, who had reached the age limit, came to an end. Three new Non-Executive Directors were appointed at the meeting:

Peter Fellner

Peter Fellner (1943), who is British, is Executive Chairman of Vernalis plc, and also chairman of the privately held UK biotechnology company, Astex Therapeutics Ltd and a Non-Executive Director of Qinetiq Group plc, one of Europe's largest technology-based companies. He is also a Director of Evotec AG, Bespak plc, Acambis plc and Isis Innovation Ltd. In addition he is a member of the UK Medical Research Council and a member of the Apax Healthcare Advisory Board. He was previously chairman of Celltech Group plc, having served as its CEO from 1990 to 2003. He oversaw its development into the U.K.'s largest biotechnology company, until its acquisition by UCB in 2004. Before joining Celltech, Peter Fellner served as CEO of Roche U.K., from 1986 to 1990. From 1984 to 1986 he was Director of the Roche U.K. Research Centre.

Gerhard Mayr

Gerhard N. Mayr (1946) is Austrian. He received a Master's degree in chemical engineering from the Swiss Federal Institute of Technology (Zurich, Switzerland) in 1969, and a Master of Business Administration degree from Stanford University in 1972. In March 2004, Gerhard Mayr retired as Executive Vice President of Pharmaceutical Operations at Eli Lilly & Company after 32 years of service. He had been responsible for global pharmaceutical operations, and sales and marketing worldwide, at Lilly – a leading innovation-driven pharmaceutical company.

Gerhard Mayr is a former Chairman of both the International Executive Committee and the Europe Committee of the Pharmaceutical Research Manufacturers of America. He was a Board member of the European Federation of the Pharmaceutical Industry from 1995-97 and 2000-2002. He is also a member of the boards of Bank Austria-Creditanstalt AG and OMV AG. In addition, he is a member of the Apax Healthcare Advisory Board, as well as a member of the boards of Project Hope and the Vienna Science-Research and Technology Foundation.

Arnoud de Pret

Arnoud de Pret (1944) is Belgian and a commercial engineer from UCL (Louvain). He started his career as Credit Officer with Morgan Guaranty Trust of New-York (Brussels and Antwerp) in 1971. He became Treasurer and Corporate Finance Manager Cockerill (Liège) in 1978, joining UCB (Brussels)

in 1981 as Chief Financial Officer and a Member of the Executive Committee. In 1990, he became Treasurer and Corporate Finance Manager at Société Générale de Belgique before joining Umicore in 1991 as Chief Financial Officer and a member of the Management Committee until May 2000. He is also a Director and member of the Audit Committee of InBev, Umicore, Sibelco, Delhaize Group and serves on the Advisory Board of Euronext.

Daniel Janssen, Evelyn du Monceau and Bridget van Rijckevorsel are representatives of the main UCB shareholder and, as such, are not eligible to be Independent Directors. This is also the case for: Arnoud de Pret, who substituted for Eric Janssen after the 2005 General Meeting of Shareholders as a representative of the main UCB shareholder; and for Gaëtan van de Werve d'Immerseel who is proposed to substitute for Daniel Janssen after the 2006 General Meeting of Shareholders as a representative of the main UCB shareholder.

Since Georges Jacobs was performing executive functions at the UCB Group until 31 December 2004, he does not meet the independence criteria either. Roch Doliveux is an Executive Director, and is therefore not an Independent Director. Peter Fellner has been Adviser to the Chairman of the UCB Executive Committee since 1 January 2005, and was an Executive Director of Celltech Group PLC until April 2003, which became part of the UCB Group in July 2004, and does not therefore meet the independence criteria for these two reasons.

Guy Keutgen has been a Non-Executive Director of UCB since 1990, and his term has been renewed more than three times. Although he satisfies the independence criteria stipulated in law and by the Board of Directors he does not meet the independence criteria stipulated by the Belgian Code on Corporate Governance, due to the number of times his term has been extended. Nevertheless, the Board of Directors considers that his long experience as a member of the UCB Board of Directors is not of such a nature as to affect his independence as a Director.

Prince Lorenz of Belgium, Alan Blinken, Karel Boone, Jean-Louis Vanherweghem and Gerhard Mayr meet all the independence criteria stipulated by law, the Board of Directors and the Belgian Code on Corporate Governance.

The present composition of the Board of Directors is as follows:

	End of term of office	Independent Directors
Georges Jacobs, Chairman	2008	
Daniel Janssen, Vice Chairman	2006	
Roch Doliveux, Executive Director	2007	
Prince Lorenz of Belgium	2007	x
Alan Blinken	2006	x
Karel Boone	2006	x
Peter Fellner	2008	
Guy Keutgen	2008	x
Gerhard Mayr	2008	x
Evelyn du Monceau	2008	
Arnoud de Pret	2008	
Bridget van Rijckevorsel	2008	
Jean-Louis Vanherweghem	2008	x

The mandate of Daniel Janssen, Karel Boone and Alan Blinken will expire at the General Meeting of Shareholders of 13 June 2006. With the exception of the mandate for Daniel Janssen, who has reached the age limit, these will be submitted for renewal at this General Meeting.

At this meeting, the Board of Directors, as advised by the Remuneration and Nomination Committee, will recommend the appointment of Gaëtan van de Werve, General Secretary of the Belgian Petroleum Federation (FPB).

Gaëtan van de Werve will represent the main UCB shareholder, in place of Daniel Janssen, and consequently does not qualify as an Independent Director.

The curricula vitae of the Directors and directorship candidate can be found on the UCB website.

The Board of Directors has decided that, as from 13 June 2006, Evelyn du Monceau will replace Daniel Janssen as Vice Chairman of the Board of Directors.

The Board of Directors' Secretary is Michèle de Cannart, Vice President & General Secretary.

Functioning of the Board of Directors

In 2005, the Board of Directors met eight times, with an attendance rate of 97%. No individual Director has been absent more than once. Considering the high

attendance rate, the disclosure of individual attendances is not deemed relevant.

No transactions or any other contractual relationship between the Company including its related companies and a member of the Board of Directors, that could create a conflict of interest not covered by the legal provisions on conflicts of interests, occurred.

During 2005 and 2006, the Board of Directors ran an induction programme for its existing and new Directors. This covered the various areas of expertise required in a biopharmaceutical company, notably: research and development, commercial matters, management of intellectual property, acquisitions, production, finance, information processing, risk management, and finally, management and governance issues.

Board of Directors: assessment

At the beginning of 2006, the Board of Directors initiated – as in 2003 – an assessment of its contribution to the long-term success of the business. This sets out its strategic mission and aimed to optimise the composition and operation of the Board of Directors and its Committees, as well as its interaction with the CEO and the Executive Committee. It is being conducted by the Chairman of the Board of Directors and the Chairman of the Remuneration and Nomination Committee (see Charter on Corporate Governance, 3.5, for further information on the process).

The Non-Executive Directors did not organise any meetings in 2005 in the absence of the CEO, who is the only Executive Director. An assessment of their interaction with the Executive Management is being made in 2006 at the occasion of the Board of Directors self-assessment.

b) Board Committees

1) Audit Committee

Composition of the Audit Committee

Until the Shareholders' meeting held on 14 June 2005, the composition of the Audit Committee was as follows:

Eric Janssen, Chairman
Mark Eyskens
Guy Keutgen

The Board of Directors appointed two new members: Arnoud de Pret, Chairman, and Alan Blinken, who replaced Eric Janssen and Mark Eyskens on 14 June 2005.

The present composition of the Audit Committee is as follows:

	End of term of office	Independent Directors
Arnoud de Pret, Chairman	2008	
Alan Blinken	2006	x
Guy Keutgen	2008	x

(see also Charter on Corporate Governance, 4.2.2.)

The Audit Committee met four times in 2005 with an attendance rate of 100%, with three meetings held in the presence of the external auditors. The Audit Committee meetings were attended by Luc Missorten, Executive Vice President Finance, and by Hilde Sonck, Vice President Reporting and Consolidation. One meeting was attended by Bob Trainor, Executive Vice President & General Counsel and also Chairman of the Group's Risk Management Committee, and by André Khairallah, Vice President Operational Audit.

2) Remuneration and Nomination Committee

Composition of the Remuneration and Nomination Committee

Until the Shareholders' meeting held on 14 June 2005, the composition of the Remuneration and Nomination Committee was as follows:

Daniel Janssen, Chairman
Evelyn du Monceau
Georges Jacobs
Karel Boone

The Board of Directors appointed one new member, Gerhard Mayr, to replace Georges Jacobs as from 14 June 2005.

The present composition of the Remuneration and Nomination Committee is as follows:

	End of term of office	Independent Directors
Daniel Janssen, Chairman	2006	
Evelyn du Monceau	2008	
Karel Boone	2006	x
Gerhard Mayr	2008	x

(see also Charter on Corporate Governance, 4.3.2.)

The Remuneration and Nomination Committee met four times in 2005 with an attendance rate of 93.75%.

The Committee was also attended by Roch Doliveux, Chairman of the Executive Committee, except when discussing issues relating to himself and by Jean-Pierre Pradier, Executive Vice President Human Resources, who acts as Secretary.

As the term of office of Daniel Janssen, affected by the age limit, will end on 13 June 2006, the Board of Directors decided to appoint Gaëtan van de Werve as a new member of the Remuneration and Nomination Committee as from the same date, subject to his appointment as a Director by the General Shareholders' meeting to be held on that date. The Board of Directors also decided to appoint Evelyn du Monceau to replace Daniel Janssen as a Chairman of the Remuneration and Nomination Committee also on 13 June 2006.

An induction programme was provided for the existing and new Committee members in January 2006, giving them extensive information about the Committee's role and duties and on the Company's remuneration policies.

c) Remuneration of the Directors and of the Members of the Board Committees

Until the General Meeting held in June 2005, the annual emoluments of the Directors, fixed by the Shareholders' Meeting, were 31 000 euro, while the annual emoluments of the Chairman and Vice Chairman of the Board were 62 000 euro. No additional fees were paid to the Board Committees members.

In June 2005, the Board proposed to the Shareholders' meeting to review, as from 1 July 2005, the remuneration of the Board of Directors and Board Committees. The emoluments that have then been recommended were based on two benchmarks: the fixed and variable remuneration of Directors of listed Belgian companies; and the remuneration paid by European biopharmaceutical companies, taking into account the fact that the remuneration had not been reviewed for 7 years.

Approving this proposal, the General Shareholders Meeting fixed the annual emoluments of the Directors at 39 000 euro, and those of the Chairman of the Board of Directors at 78 000 euro.

In addition, the presence fees of the Directors were fixed at 1 000 euro per meeting and those of the Chairman of the Board of Directors fixed at 2 000 euro per meeting.

The General Meeting also fixed the annual additional remuneration of the members of the Board Committees at 5 000 euro and that of the Chairman of the Board Committees at 10 000 euro.

Some Non-Executive directors are Non-Executive directors of other companies in the UCB Group for which they may be entitled to compensation, remuneration or director's fee. In 2005, Alan Blinken was granted 30 000 U.S. dollar as compensation for his mandate as a Non-Executive Director of UCB Inc., an American subsidiary of the Group.

In application of these rules, the remuneration of Directors and Board Committees members for 2005 was as follows:

	Remuneration (EUR)
Georges Jacobs, Chairman	78 000
Daniel Janssen, Vice Chairman	79 000
Roch Doliveux, Executive Director (*)	39 000
Prince Lorenz of Belgium	38 000
Alan Blinken	65 654
Karel Boone	41 500
Mark Eyskens	15 500
Peter Fellner	23 500
Eric Janssen	15 500
Guy Keutgen	41 500
Gerhard Mayr	26 000
Evelyn du Monceau	41 500
Arnoud de Pret	28 500
Bridget van Rijckevorsel	39 000
Jean-Louis Vanherweghem	39 000

(*) The details of the remuneration of the Executive function of Roch Doliveux are given below under 2.

2. Executive Committee

Composition of the Executive Committee

From 1 January to 28 October 2005, the composition of the Executive Committee was as follows:

Roch Doliveux, CEO and Chairman of the Executive Committee
Melanie Lee, Executive Vice President R&D
Jean-Pierre Pradier, Executive Vice President Human Resources
Luc Missorten, Executive Vice President Finance

On 28 October 2005, two new members, William Robinson and Robert Trainor, were appointed by the Board of Directors. This broader composition of the Committee strengthens the range of skills and experience that the complexity of the Company's business requires. The present composition of the Committee is as follows:

Roch Doliveux, CEO and Chairman of the Executive Committee
Melanie Lee, Executive Vice President R&D
Jean-Pierre Pradier,
Executive Vice President Human Resources
Luc Missorten, Executive Vice President Finance
William Robinson, Executive Vice President Global Operations
Robert Trainor, Executive Vice President General Counsel

Only the Chairman is a member of the Board of Directors.

Functioning of the Executive Committee

Except in July and August, the Executive Committee has met twice a month in 2005.

There were no transactions or any other contractual relationship in 2005 between the Company including its related companies and a member of the Executive Committee that could create a conflict of interest.

Remuneration of the members of the Executive Committee

The remuneration policy for the members of the Executive Committee is extensively described in UCB's Charter of Corporate Governance under 5.4.1 available on UCB's website.

a) In addition to his Director's fees as a Board member of UCB S.A., the remuneration and other benefits granted directly or indirectly to the Chairman of the Executive Committee by the Company or any other affiliates belonging to the Group in 2005 amount to:

- Base salary: 760 000 euro
- Short-term incentive (bonus):
  - The bonus to be paid in 2006 and relating to the financial year 2005 amounts to: 470 914 euro
- Long-term incentive (number of UCB shares and options): see point c) below.
- Other components of the remuneration, such as the cost of pension, insurance coverage, monetary value of other fringe benefits, with an explanation and if appropriate, the amounts of the main components: Total amount: 615 073 euro of which:
  - retirement benefit (based on service cost): 549 143 euro

b) The remuneration and other benefits granted directly or indirectly on a global basis to all the other members of the Executive Committee[1] by the Company or any other affiliate belonging to the Group amount to:

- Base salaries: 1 341 927 euro
- Short-term incentive (bonus):
  - The bonuses to be paid in 2006 and relating to financial year 2005 amount to: 817 628 euro
- Other components of the remuneration, such as the cost of pension, insurance coverage, monetary value of other fringe benefits, with an explanation and if appropriate, the amounts of the main components: Total amount: 675 241 euro of which:
  - retirement benefit (based on service cost): 523 088 euro

1 2/12 for the two new members of the Executive Committee appointed on 28 October 2005.

c) Stock options and stock awards granted in 2005

	Stock options (*)	Stock awards (**)
Roch Doliveux	28 000	7 500
Melanie Lee	12 000	4 000
Jean-Pierre Pradier	12 000	4 000
Luc Missorten	10 200	3 400

(*) number of rights to acquire at a price of 37.33 euro one UCB share between 15 February 2009 and 31 March 2015.

(**) number of UCB shares to be received after a vesting period of three years if still employed by the Group.

The General Shareholders meeting held on 14 June 2005 approved the stock awards scheme under which the stock awards were granted.

d) The main contractual terms on hiring and termination arrangements for each member of the Executive Committee:

- The service contract for the CEO provides that in case of termination, he will be eligible to a lump sum equal to 24 months of actual base compensation increased by the actual average variable compensation relating to the three previous years. In case termination due to 'change of control', the lump sum will equal to 36 months.

  To complement his basic pension plan, the CEO is benefiting from a pension promise which evolves in line with his base compensation.

3. Private investment transactions and trading in Company's shares

In compliance with Directive 2003/6/EC on insider dealing and market manipulation, the Board of Directors has approved a Code on Private Investment Transactions to prevent insider trading offences and market abuse, particularly during the periods preceding the publication of results or information which is liable to considerably influence UCB's share price or the share price of the company targeted by a planned operation.

The Code on Private Investment Transactions establishes rules for all employees (Directors, Executive management and other employees) prohibiting dealing in the Company's shares or other financial instruments of the Company for a designated period preceding the announcement of its financial results (closed periods). It also establishes rules to set limitations in transactions by certain employees (Key employees). It further prohibits trading in the Company's shares during 'special closed periods' for certain employees who are, or will soon be in possession of insider information.

The Board has designated Michèle de Cannart, Vice President & General Secretary, as Compliance Officer whose duties and responsibilities are defined in the Code. The Code establishes the list of Key employees, who have to inform the Compliance Officer as from 1 January 2006 of the transactions on the Company's shares they intend to make for their own account and which will be disclosed in the Company's relevant annual report.

The Code is fully in compliance with Directive 2003/6 EC on Insider Dealing and Market Manipulation and Belgian Royal Decree 24 August 2005 in the same field.

The Code is posted on UCB website: http://www.ucb-group.com.

4. External Audit

The Auditors ('College of Commissaires') for the UCB Group and UCB S.A. are Daniel Goossens and Emmanuèle Attout. They are appointed for three years by the General Meeting of Shareholders, which sets their emoluments in accordance with the law, and their terms may be renewed. The mandate of Emmanuelle Attout, first appointed in 2003, will expire in 2006. Daniel Goossens' term was last renewed in 2004, and will expire in 2007. It will be proposed to the General Shareholders' Meeting of 2006 to renew the terms of both Auditors to align their terms of office.

Neither the Auditors, nor the companies with which they are associated, carry out any activities other than external auditing.

APPLICATION OF ARTICLE 523 OF THE COMPANY CODE

UCB S.A.
60 Allée de la Recherche
B-1070 Brussels
Company Register 0403 053 608

EXCERPT FROM THE MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS HELD ON 22 MARCH 2005

In Attendance:

Georges Jacobs, Chairman
Daniel Janssen, Vice-Chairman
Roch Doliveux, Director
Prince Lorenz of Belgium, Director
Alan Blinken, Director
Karel Boone, Director
Mark Eyskens, Director
Eric Janssen, Director
Guy Keutgen, Director
Evelyn du Monceau, Director
Bridget van Rijckevorsel, Director

Apologies:
Jean-Louis Vanherweghem, Director

In Attendance:
Michèle de Cannart, General Secretary

(...)

Prior to any discussion or decision by the Board of Directors concerning the following items on the agenda:

- ***Approval of the stock options plan rules 2005***
- ***Approval of the rules of the UCB stock award plan 2005***

Roch Doliveux, Director, has stated that he has a direct financial interest in the implementation of the said decisions. In accordance with Art. 523 of the Company Code, this Director has withdrawn from the meeting in order not to attend the discussion by the Board of Directors concerning these issues, nor to participate in the vote.

The Board of Directors has established that Art. 523 of the Company Code is applicable to these operations.

Therefore, in accordance with the provisions of this Article, and in view of the publication in the Management Report as stipulated in Art. 96, section 7 of the Company Code, the Board of Directors announced the following:

* * *

1. Approval of the stock options plan rules 2005

- The present operation is designed, as in the past, to promote shareholding by some 650 management-level employees and personnel performing equivalent roles within UCB (management members), and to financially encourage them by continuing to further involve them in the success of the Company and to make them aware of the value of UCB shares on the markets, whilst adhering to the rules governing insider information.

- That it would be unjustifiable to exclude the Director, who is a member of the Executive Committee of the Company, from these 650 management members of the Group for whom the issue is intended.

- That the limited financial consequences of the operation for the Company, which basically consist in the difference which might exist between the purchase price of own shares by the Company and the price of resale of these same shares to the staff concerned when exercising the options in accordance with the conditions stipulated in the plan rules, to be increased, if applicable, by the difference between this exercise price and the market value of the UCB shares at that moment.

a) Distribution

The Board of Directors approved the recommendations of the Remuneration and Nomination Committee concerning the rules of the option allocation on the basis of job category and level of responsibility. Thus a number of 930 000 options shall be allocated to some 650 management members.

b) Setting the exercise price

By law, the exercise price of these options can be set by two methods of calculation:

- either the average closing rate of 30 days preceding the offer (from 2-31 March 2005)
- or the closing rate of the day preceding the offer (31 March 2005).

Until now, the Board of Directors has expressed a preference for the first method of calculation (average rate of 30 days preceding the offer).

Given the fact that these stock option programmes are intended to provide an incentive to the staff concerned, as well as being an attractive part of their overall earnings, the Board of Directors has approved that, in the interest of the Company, the rule for setting the exercise price be modified in order to enable the staff to benefit from the most favourable price resulting from either one of the formulae.

c) Dispensation of prospectus

The Board of Directors subsequently decided on and approved the documentation to be issued to the beneficiaries of the offer, specifically the reasons and the terms of the offer as well as the information regarding the number and the nature of the securities offered to them. This documentation replaces the abridged version of the prospectus for which the Company obtained dispensation from the Belgian Banking, Finance & Insurance Commission (BFIC).

2. Approval of the rules of the UCB stock award plan 2005

- The present operation, reserved to the Senior Executives of the Group, and proposed by the Remuneration and Nomination Committee, approved in principle by the Board of Directors of 4 February 2005, is designed to promote shareholding among this category of personnel of the UCB Group within their company, and to financially encourage them by continuing to further involve them in the success of the Company and to make them aware of the value of UCB shares on the markets, whilst adhering to the rules governing insider information.

  As this is in line with the remuneration policy for staff and is intended to provide a long-term incentive, this free share grant is linked to the condition that staff remains employed within the Group for at least three years.

- That it would be unjustifiable to exclude the Director, who is a member of the Executive Committee of the Company, from the 40 Senior Executives of the Group for whom the share issue is intended.

- That the financial consequences of the operation for the Company basically consist in covering, and this by one or several companies of the Group, the obligations which result from these awards of free UCB shares, i.e. the purchase price and the cost of financing these shares, minus, if applicable, the dividends paid out during the period during which they are held.

a) Distribution

The Board of Directors approved the recommendations of the Remuneration and Nomination Committee concerning the rules of the free share grant on the basis of job category and level of responsibility. Thus a number of 76 000 shares shall be allocated to 40 Senior Executives or so within the Group.

b) Documentation

The Board of Directors subsequently decided on and approved the documentation to be issued to the beneficiaries of the offer, specifically the reasons and the terms of the offer, as well as the information regarding the number and the nature of the securities offered to them and the conditions of the offer.

3. Delegating powers

The Board of Directors decided to delegate all powers to the Chairman of the Executive Committee of the Company, currently Roch Doliveux, and to the General Secretary of the Company, currently Michèle de Cannart, acting individually with the right to delegate, in order to ensure the execution of the decisions taken and specifically to finalise the rules and regulations of the issues, the documentation for the beneficiaries and the stock option exercise forms.

(...)

Financially Connected
Table of contents

UCB Group

Management Report of the Board of Directors 47
1. Business Performance Review 47
2. Biopharmaceuticals: continuing operations 51
3. Surface Specialties: discontinued operations 63
4. Capital Expenditure 63
5. Balance Sheet 64
6. Cash Flow Statement 65
7. Outlook 2006 66

Consolidated Financial Statements 67
- Consolidated Income Statement 67
- Consolidated Balance Sheet 68
- Consolidated Cash Flow Statement 69
- Consolidated Statement of Changes in Equity 70

Notes to the Consolidated Financial Statements 71

Report of the Board of Auditors on the
Consolidated Financial Statements 120

UCB S.A.

Abbreviated Statutory Financial Statements 121
- Management Report of the Board of Directors on the
  Financial Statements of UCB S.A. 122
- Abbreviated Non-Consolidated Balance Sheet – UCB S.A. 125
- Abbreviated Non-Consolidated Income Statement – UCB S.A. 126

Summary of Significant Accounting Policies – UCB S.A. 127

Comments on the Statutory Annual Accounts 130

Glossary 132

Management Report of the Board of Directors

1. BUSINESS PERFORMANCE REVIEW[1]

UCB is pleased to report its performance for the year 2005, for the first time under IFRS, and its successful transformation into a pure biopharmaceutical company.

Key Highlights

- Profit for the year up by 130% to 755 million euro, including 475 million euro capital gain on the sale of Surface Specialties.
- Profit from continuing operations up by 37% to 270 million euro.
- Biopharmaceutical revenue increase by 24% to 2 341 million euro and by 10% on a Pro Forma basis.
- Keppra® net sales growing 34% to 560 million euro and expected to continue momentum thanks to flow of regulatory filings.
- Allergy franchise net sales increase by 6% to 688 million euro supported by extended growth in Xyzal®, sustained Zyrtec® performance in the U.S.A. and above-average pollen season in Japan, more than off-setting further losses in Zyrtec® sales in Europe.
- Net sales for other products of 795 million euro are 2% higher than in 2004 on a Pro Forma basis, driven by solid performance in Tussionex®, Metadate™ CD, Nootropil® or Atarax®.
- More savings from synergies, achieved faster than anticipated, were re-invested in Research & Development and Marketing & Selling.
- Recurring EBIT, i.e. operating profit before impairment charges, restructuring expenses and other income/expenses, up by 19% to 437 million euro on a Pro Forma basis.
- Growth in the reported profit from biopharmaceutical activities to 270 million euro more than off-setting the loss of contribution from the divested activities (253 million euro reported in 2004 for UCB, including Surface Specialties but excluding the capital gain on the sale of the Specialty Films activities).

1.1. Changes in scope

In 2005 UCB pursued its transformation towards a biopharmaceutical leader with the closing of the sale of the remaining Surface Specialties activities end of February 2005.

The following transactions significantly affected the scope of consolidation in 2004 and 2005:

- Specialty Films: the sale of the Specialty Films activities to a consortium was announced in July 2004 and closed on 30 September 2004 for an amount of 320 million euro. The results generated by the Specialty Films activities are incorporated in UCB's results for the first 9 months of 2004 and are presented under 'Discontinued Operations' and under the 'Surface Specialties' business segment.
- Specialty Chemicals: a final agreement for the sale of the Specialty Chemicals activities to Cytec Industries Inc. was signed on 1 October 2004 and closed on 28 February 2005 for a total consideration of 1 415 million euro, paid in cash and partially in shares of Cytec Industries Inc. The profits resulting from the Specialty Chemicals activities are therefore integrated for the full 12 months in 2004 and for 2 months in 2005 and are presented under 'Discontinued Operations' and under the 'Surface Specialties' business segment.
- Celltech Group plc: the acquisition of the Celltech Group's shares was successfully closed in July 2004. UCB's scope of consolidation includes Celltech as from 1 August 2004, i.e. 5 months in 2004 and 12 months in 2005.

1.2. Pro Forma

In view of the substantial changes in scope mentioned above and in order to enhance the comparability of the numbers, Pro Forma financials reflecting UCB as a pure biopharmaceutical company have been added, as if all Surface Specialties activities (presented under 'Discontinued Operations') had been divested as of 1 January 2004 and the Celltech activities had been acquired as of the same date.

1 Due to roundings, some financial data may not apparently add-up in the tables included in this Management Report of the Board of Directors.

The table below summarises the changes in scope and the constituents of the Reported and Pro Forma numbers:

	Reported			Pro Forma	
	2005	2004	Δ	2005	2004
UCB Pharma	12 months	12 months	-	12 months	12 months
Celltech Group	12 months	5 months	7 months	12 months	12 months
Specialty Chemicals	2 months	12 months	Discontinued	-	-
Specialty Films	-	9 months	Discontinued	-	-

1.3. Other 2005 key events

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

Agreements

- Collaboration agreement with Millenium: In January 2005, UCB and Millenium Pharmaceuticals Inc. have entered into a collaboration agreement to research, develop and commercialise two new antibody inflammation therapeutics.
- Discovery research agreement with ChemBridge: In March 2005, UCB and ChemBridge Corp. have entered into a discovery chemistry collaboration in the field of neurology.
- Strategic bio-manufacturing alliance with Lonza: In April 2005, UCB and Lonza A.G. have entered into a long-term supply partnership related to the manufacturing by Lonza of PEGylated antibody fragment based bulk actives for UCB.
- Zyrtec® in Japan: In April 2005, UCB and GlaxoSmithkline K.K. (GSK Japan) announced that GSK Japan has become the new co-distributor for UCB's Zyrtec® tablets on the Japanese market as of 1 July 2005. UCB Japan and Sumitomo Pharmaceuticals mutually agreed to terminate their Zyrtec® distribution agreement effective 30 June 2005. Daiichi and GSK Japan are now the two co-distributors of Zyrtec® in Japan.
- CDP 791 agreement with ImClone: In August 2005, UCB and ImClone Systems Inc. have entered into a worldwide strategic partnership for the development and commercialisation of CDP 791, a novel investigational antibody targeting the vascular endothelial growth factor receptor-2 (VEGFR-2), developed by UCB.
- Zavesca® License Agreement with Actelion: In December 2005, Actelion A.G. and UCB announced the replacement of an existing license agreement with immediate effect covering Zavesca® (miglustat), an orally active therapeutic medicine for the treatment of adult patients with mild to moderate Gaucher type 1 disease. Actelion made an upfront payment to UCB and will pay a progressive single-digit royalty rate on future Zavesca® sales.

Transactions

- Sale of Food Diagnostics: In July 2005, UCB sold its dairy antibiotic testing business to Neogen Corp. The transaction was closed in December 2005.
- Sale of Ashton contract manufacturing site: In August 2005, UCB sold to Inyx Inc. the shares of Celltech Manufacturing Services Ltd., in Ashton (U.K.), a UCB subsidiary which was carrying-out contract manufacturing activities.

Product launches

- Kentera®, a transdermal oxybutynin patch for the treatment of overactive bladder, has begun its phased European launch, starting with Germany in April 2005.
- Equasym™ XL, a treatment for attention deficit hyperactivity disorder (ADHD) was launched in February 2005 in the U.K., which will act as the Mutual Recognition Procedure Reference Member State for marketing approval across a number of European countries.
- Xyrem®, an oral solution for the treatment of cataplexy in adult patients with narcolepsy, was launched in Germany in December 2005.

Regulatory Approvals/Filings

- U.S. approval for Keppra® in childhood epilepsy: In June 2005, the Food and Drug Administration (FDA) approved the use of Keppra® as add-on therapy in the treatment of partial-onset seizures in children four years of age and older with epilepsy.
- Keppra® approval in Europe for adjunctive therapy in children: In September 2005, the European Commission approved the use of Keppra® as adjunctive therapy in children 4 years of age and older with partial-onset epilepsy seizures.
- Orphan designation for *brivaracetam* in Europe and the U.S.A.: In July 2005, UCB received a positive opinion from the European Authorities (EMEA) for the orphan medicinal product designation for *brivaracetam* in the treatment of progressive myoclonic epilepsies. In November 2005, UCB received FDA Orphan drug designation for *brivaracetam* in the treatment of symptomatic myoclonus.
- Zyrtec® dry syrup Japan: Japanese Regulatory Authority approved Zyrtec® dry syrup.

Pipeline progress

- Cimzia™ positive Phase III results in Crohn's disease: In July 2005, UCB announced that Cimzia™ has demonstrated significant positive results in its two pivotal Phase III Crohn's disease trials.
- Keppra® positive Phase III results in monotherapy: In September 2005, UCB announced that Keppra® met its primary end-point in the pivotal Phase III monotherapy clinical trial.
- Keppra® positive Phase III results in primary generalised tonic-clonic seizures: In October 2005, UCB announced positive clinical trial results for Keppra® as adjunctive therapy in the treatment of primary generalised tonic-clonic epilepsy seizures.
- Cimzia™ in psoriasis: UCB has started investigating the efficacy of Cimzia™ in the treatment of psoriasis with the start of a dose-ranging clinical trial.

1.4. Events after the balance sheet date

There have been other key events after the balance sheet date:

- Divestiture of the Bioproducts Manufacturing Division: On 17 January 2006, UCB announced the sale of its Bioproducts Manufacturing Division, located in Belgium, to Lonza A.G. for a cash consideration of 120 million euro. The transaction was closed on 28 February 2006.
- Keppra® Intravenous Administration: In February 2006, UCB received an EMEA positive opinion and a FDA approvable letter for Keppra® Injection/Intravenous administration for use as adjunctive therapy in the treatment of partial-onset seizures in adult patients with epilepsy.
- Licensing agreement of U.S. patent for antihistamine levocetirizine (Xyzal®): In February 2006, Sepracor Inc. has exclusively licensed to UCB all of Sepracor's patents and patent applications in the U.S.A. regarding levocetirizine and royalties will be payable to Sepracor on U.S. sales of levocetirizine products.
- BLA submission Cimzia™: On 2 March 2006, UCB announced the submission of a Biologics License Application (BLA) to the FDA (U.S.A.) for the approval of Cimzia™ for the treatment of patients with Crohn's disease.

1.5. Foreign currency impact

Given the global reach of UCB's activities, its financial results are sensitive to fluctuations in foreign currencies. The main currencies affecting the financial performance are the U.S. dollar (USD), Japanese yen (JPY), G.B. pound (GBP) and Swiss franc (CHF). The following table summarises the average rates used in converting UCB's revenue and expenses to euro:

Equivalent for 1 euro	Average exchange rate 2005	Average exchange rate 2004	Increase/ (Decrease)
U.S. dollar	1.242	1.243	+0.1%
G.B. pound	0.684	0.679	-0.8%
Swiss franc	1.548	1.544	-0.3%
Japanese yen	136.8	134.4	-1.8%

It is UCB's policy to continuously hedge the cash flows in the main invoicing currencies in order to limit the negative impact on results and cash flows from currency fluctuations. As part of the policy, UCB hedges 100% of all transactional operations forecast for the forthcoming 6 months and 50% for the following 6 months.

1.6. Segments

During 2005, UCB operated globally on the basis of two business segments: Biopharmaceuticals and Surface Specialties. Due to the divestiture of all activities of the Surface Specialties business segment in the course of 2004 (Specialty Films) and 2005 (Specialty Chemicals), their financial performance is presented under 'Discontinued Operations'.

UCB operates in four main geographical areas, namely the U.S.A., Europe, Japan and Rest of the World, which constitute the secondary reporting format.

1.7. Profit

On a reported basis, including only 5 months of Celltech contribution in 2004, net sales of 2 043 million euro increased by 22% or 369 million euro compared to 2004. Revenue rose by 24% to 2 341 million euro.

Driven by revenue growth, realised synergies as well as continued and increased re-investment in Research & Development and Marketing & Selling, recurring EBIT rose by 22% to 437 million euro (or +23% at constant exchange rates).

Including the impact of non-recurring items such as impairment charges, capital gains on the sale of other activities than Surface Specialties, restructuring expenses or one-time financial income, and in consideration of the lower effective tax rate, profit from continuing operations increased by 37% year-on-year to 270 million euro (or +38% at constant exchange rates).

Profit from discontinued operations reflected in 2005 two months of the divested Specialty Chemicals business, which contributed 10 million euro in addition to a 475 million euro capital gain realised on the sale of the business.

Profit amounted in 2005 to 755 million euro compared to 329 million euro in 2004, representing 130% year-on-year growth.

The 73 million euro growth in profit from continuing operations from 197 million euro to 270 million euro is thus more than off-setting the 56 million euro loss in contribution from Surface Specialties (excluding the 76 million euro capital gain realised on the sale of the Films activities).

million EUR	2005 Reported	2004 Reported	Δ Real Rates	Δ Constant Rates
Revenue	2 341	1 885	24%	24%
Net sales	*2 043*	*1 674*	*22%*	*22%*
Royalty income	*298*	*211*	*41%*	*42%*
Recurring EBITDA	529	424	25%	26%
Recurring EBITA[1]	475	381	25%	26%
Recurring EBIT[2]	437	359	22%	23%
EBIT (operating profit)	364	281	29%	31%
Profit from continuing operations	270	197	37%	38%
Profit from discontinued operations[3]	485	132	-	-
Profit	755	329	130%	130%

1 Operating profit before impairment charges, intangible assets amortisation expenses, restructuring expenses and other income/expenses
2 Operating profit before impairment charges, restructuring expenses and other income/expenses
3 Including capital gain on sale of Specialty Chemicals and Specialty Films as well as ongoing Surface Specialty activities

2. BIOPHARMACEUTICALS: CONTINUING OPERATIONS

2.1. Foreword

Pro Forma: Following the successful completion of Celltech's acquisition in July 2004, its financial performance has only been included in UCB's consolidated financial statements from August 2004 onwards. This section will attempt to reflect the Biopharmaceuticals activities as if Celltech had been acquired as of 1 January 2004. The Pro Forma financial statements will therefore incorporate the results of the first seven months of 2004 as well as the related amortisation and financial expenses and will be adjusted to exclude integration related expenses, as shown in section 2.2.

Roundings: Due to roundings, some financial data may not apparently add-up in the tables presented in this Management Report.

Recurring operating profit: In view of the many transactions and decisions of a one-time nature that are impacting UCB's biopharmaceuticals results, especially in 2004 and 2005, the impact of those non-recurring items will be shown separately. Besides EBIT (earnings before interest and taxes), a line for recurring EBIT (recurring operating profit), reflecting the ongoing profitability of the biopharmaceutical activities, has been 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 net profit: Under IFRS 3 (*Business Combinations*), the intangible assets related to the Celltech acquisition have to be accounted for on UCB's balance sheet, which gave rise to additional amortisation expenses of 28 million euro in 2005. In order to provide a comprehensive year-on-year analysis, in addition to after-tax adjustments for items of a one-time nature, core net profit is used to also adjust for after-tax intangible assets amortisation expenses (see section 2.10.).

2.2. Pro Forma results reconciliation (Biopharmaceuticals)

million EUR	2005 Reported	2004 Reported	Celltech Contribution	Amortisation/ Financial exp.	Integration Expenses	2004 Pro Forma
Revenue	2 341	1 885	239	-	-	2 124
Net sales	*2 043*	*1 674*	*173*	-	-	*1 847*
Royalty income	*298*	*211*	*66*	-	-	*277*
Recurring EBITDA	529	424	37	-	-	461
Depreciation	(54)	(43)	(12)	-	-	(55)
Recurring EBITA[1]	475	381	25	-	-	405
Recurring EBIT[2]	437	359	25	(17)	-	367
EBIT (Operating Profit)	364	281	17	(17)	78	359
Profit from continuing operations	270	197	12	(31)	55	234
Profit from discontinued operations	485	132	-	-	-	-
Profit	755	329	12	(31)	55	234

1 Operating profit before impairment charges, intangible assets amortisation expenses, restructuring expenses and other income/expenses

2 Operating profit before impairment charges, restructuring expenses and other income/expenses

The above table reconciles the difference between the 2004 Reported results and the 2004 Pro Forma results, which reflect:

i) seven months of Celltech contribution that were not consolidated in the 2004 reported financial statements (17 million euro before income taxes),
ii) the intangible assets amortisation expenses corresponding to these seven months (-17 million euro before income taxes),
iii) the additional financial expenses UCB would have incurred if it had acquired Celltech and divested Surface Specialties on 1 January 2004 (-27 million euro before income taxes), and
iv) an adjustment for the significant restructuring expenses recorded in 2004 for Celltech's integration (78 million euro before income taxes).

Pro Forma 2004 revenue amount to 2 124 million euro, Pro Forma recurring EBIT to 367 million and Pro Forma profit to 234 million euro.

2.3. Pro Forma results (Biopharmaceuticals)

million EUR	2005 Reported	2004 Pro Forma	Δ Real Rates	Δ Constant Rates
Revenue	2 341	2 124	10%	10%
Net sales	*2 043*	*1 847*	*11%*	*10%*
Royalty income	*298*	*277*	*8%*	*8%*
Recurring EBITDA	529	461	15%	16%
Recurring EBITA[1]	475	405	17%	18%
Recurring EBIT[2]	437	367	19%	20%
EBIT (operating profit)	364	359	1%	3%
Profit from continuing operations	270	234	16%	16%
Core net profit[3]	316	266	19%	19%

1 Operating profit before impairment charges, intangible assets amortisation expenses, restructuring expenses and other income/expenses and other income/expenses

2 Operating profit before impairment charges, restructuring expenses and other income/expenses

3 Profit from continued operations adjusted to exclude after-tax impairment related charges, restructuring expenses, other income/expenses, one-time financial income as well as intangible assets amortisation expenses

On a Pro Forma basis, net sales of 2 043 million euro increased by 196 million euro, representing a 11% growth compared to 2004 (or +10% at constant exchange rates). This reflects the strong performance of UCB's main products (at constant exchange rates): Keppra® (+34%), Xyzal® (+20%), Zyrtec® (+3%), Tussionex® (+32%), and of its four core geographies (at constant exchange rates): U.S.A. (+15%), Europe (+4%), Japan (+22%) and Rest of the World (+2%).

Royalty income on a Pro Forma basis increased by 21 million euro mainly as a result of Zyrtec®'s good performance in the U.S.A. adding to the royalty income received from Pfizer and as a result of higher third-party sales underlying the calculation of the Boss royalties.

Revenue increased to 2 341 million euro or by 10% both at real and constant exchange rates.

Reflecting the healthy revenue growth, the faster than expected synergies linked to Celltech's integration, and bearing in mind the continued and increased re-investment in Research & Development and Marketing & Selling, recurring EBIT increased by 19% on a Pro Forma basis to 437 million euro (or +20% at constant exchange rates). Recurring EBITDA (earnings before interest, taxes, depreciation and amortisation) and recurring EBITA rose respectively by 15% and 17% compared to 2004 Pro Forma (or respectively +16% and +18% at constant exchange rates).

Given the significant negative impact in 2005 of non-recurring restructuring expenses and impairment charges, although partly off-set by the realised capital gains, the EBIT (or operating profit) increased in 2005 only by 1% (or +3% at constant exchange rates) compared to 2004 Pro Forma, which did not include any significant non-recurring expenses.

Considering the impact of non-recurring items, which include impairment charges, non-Surface Specialties related capital gains, restructuring expenses or one-time financial income, and given the reduction in the effective tax rate, profit from continuing operations increased by 16% year-on-year to 270 million euro both at real and constant exchange rates.

In order to present the recurring profitability of the biopharmaceuticals activities, profit from continuing operations is adjusted to exclude the after-tax impact of items of a one-time nature (see section 2.9.) and of intangible assets amortisation expenses. Core net profit increased by 19% in 2005 compared to 2004 Pro Forma, at real and constant exchange rates.

2.4. Net sales by product (Biopharmaceuticals)

million EUR	2005 Reported (1)	2004 Reported (2)	2004 Pro Forma (3)	Δ Real Rates (1) vs. (3)	Δ Constant Rates (1) vs. (3)
Keppra®	560	417	417	34%	34%
Zyrtec® (including Zyrtec-D®/Cirrus®)	562	544	544	3%	3%
Xyzal®	126	104	104	21%	20%
Allergy franchise	*688*	*649*	*649*	*6%*	*6%*
Tussionex®	108	63	82	32%	32%
Nootropil®	103	103	103	0%	-2%
Metadate™ CD/Equasym™ XL	51	11	46	10%	10%
Atarax®	49	45	45	9%	7%
Peptides	46	39	39	17%	17%
Delsym®	31	14	29	8%	8%
BUP-4™	28	29	29	-3%	-1%
Lortab™	20	20	20	-3%	-3%
Other products	358	284	388	-8%	-8%
Net sales	2 043	1 674	1 847	11%	10%

Biopharmaceuticals net sales increased by 22% on a Reported basis (including only 5 months of Celltech contribution in 2004) and by 11% on a Pro Forma basis. The following products contributed to the Pro Forma 11% growth (or +10% at constant exchange rates):

- Keppra®: Net sales of Keppra® (levetiracetam) rose by 34% both at real and constant exchange rates from 417 million euro in 2004 to 560 million euro, driven by continued growth in the U.S.A. (+32% to 356 million euro), further penetration in Europe (+36% at constant exchange rates to 187 million euro) and Rest of the World (+64% at constant exchange rates to 16 million euro). Keppra® confirmed its U.S. leadership position in value in the new anti-epileptic market. In Europe, Keppra® is close to being market leader. New regulatory filings in 2005 and 2006 are expected to enhance its momentum.

- Zyrtec®: Net sales of Zyrtec® (cetirizine), including the decongestant form (Cirrus® or Zyrtec-D®), rose 3% from 544 million euro to 562 million euro, largely due to sustained growth in the U.S.A. and above-average pollen season in Japan more than off-setting losses suffered in Europe due to the increased competition of cetirizine generics and the voluntary shift to Xyzal®. The Zyrtec® net sales reported by UCB for the U.S.A. reflect UCB's portion of the gross profit realised by Pfizer and UCB as well as the sales of bulk cetirizine to Pfizer or 244 million euro in total for 2005. U.S. net sales of Zyrtec® and Zyrtec-D® increased by 6% from 1 287 million U.S. dollar to 1 362 million U.S. dollar. Zyrtec® has strengthened its U.S. market leadership as shown by a share of 32.2% for the year ending on 31 December 2005 (based on the number of treatment days). In Japan, the entire antihistamine market increased in 2005 supported by a severe pollen season. The combined Zyrtec® market share achieved by our co-distributors, Dai-Ichi and GSK Japan, reached 9.8% by the end of 2005 (on the basis of the number of treatment days) or slightly below the market leader. This resulted in a 42% increase of Zyrtec® net sales in Japan from 119 million euro to 166 million euro. The 47 million euro increase incorporated a 12 million euro shift of sales deductions to Marketing & Selling expenses, due to a contractual change, thus increasing net sales and gross profit by 12 million euro and increasing Marketing & Selling expenses by a corresponding amount.

- Xyzal®: Net sales of Xyzal® (levocetirizine) continued their growth in the antihistamine market from 104 million euro in 2004 to 126 million euro in 2005, or a 21% increase (+20% at constant exchange rates). The growth in Europe of 18% to 113 million euro reflects a lower than usual pollen season in most European countries. Xyzal® is now market leader in 7 European countries with, at the end of 2005, a combined share of the European antihistamine market in the main 5 European countries of 12% (based on the number of treatment days). Penetration in the Rest of the World improved with Xyzal® net sales increasing by 47% to 13 million euro.

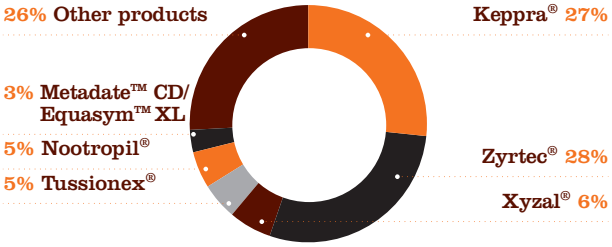
- **Allergy franchise:** Given the extended growth of Xyzal®, the sustained Zyrtec® performance in the U.S.A. and the above-average pollen season in Japan, and despite further losses of Zyrtec® in Europe and in Rest of the World, net sales for the total allergy franchise increased by 6% year-on-year from 649 million euro to 688 million euro. On the basis of the number of treatment days, the market share of UCB's allergy franchise at the end of 2005 amounted to 32.2% in the U.S.A., 18.5% in Europe and 9.8% in Japan.

- **Tussionex®:** Net sales of Tussionex®, an antitussive product sold in the U.S.A. only, reached 108 million euro in 2005, up by 26 million euro or +32% compared to 2004 on a Pro Forma basis, thanks to the higher combined promotion efforts and the relatively strong cough and cold season in the first quarter of 2005. The U.S. market share at the end of 2005 exceeded 30%.

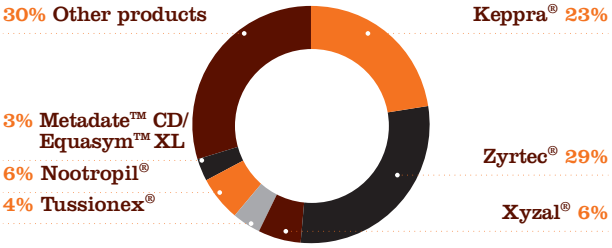
- **Metadate™ CD/Equasym™ XL:** Net sales of this attention deficit hyperactivity disorder (ADHD) treatment amounted to 51 million euro in 2005 up by 10% in comparison to 2004 Pro Forma. This product is sold under the trademark Metadate™ CD in the U.S.A. (49 million euro) and Equasym™ XL in Europe.

- **Other products:** Other main contributors to net sales include Nootropil® (piracetam), a cognitive enhancer, with stable net sales of 103 million euro, Atarax® (hydroxyzine), a tranquilizer with 49 million euro of sales growing year-on-year by 7%, Peptides (part of the Bioproducts Manufacturing Division, sold end of February 2006) showing 46 million euro of net sales up from 39 million euro in 2004, or Delsym® (antitussive) growing to 31 million euro. Mature products are holding-up, with Lortab™ (painkiller) net sales still at 20 million euro or BUP-4™ (urinary incontinence) at 28 million euro.

2005 Net sales
2 043 million euro



2004 Net sales Pro Forma
1 847 million euro



Keppra® net sales, at 560 million euro in 2005, represented a growing portion of total net sales with 27% compared to 23% in 2004 on a Pro Forma basis. Allergy franchise (including Zyrtec® and Xyzal®), with net sales of 688 million euro in 2005, accounted for 34% of total net sales, down from 35% in 2004 on a Pro Forma basis. All other products, accounting for 795 million euro of net sales, represented still 39% of total net sales in 2005 compared to 42% the year before on a Pro Forma basis.

2.5. Net sales by geographical area (Biopharmaceuticals)

All geographical areas contributed to the 11% growth in 2005 compared to 2004 Pro Forma (or +10% at constant exchange rates):

- **U.S.A.:** For the first time in its history, net sales reported by UCB on the U.S. market exceeded 1 billion U.S. dollar: they amounted to 895 million euro in 2005 (or 1 111 million U.S. dollar) up by 15% from the year before on a Pro Forma basis. Keppra® net sales continued their steady growth and accounted for 356 million euro (or 443 million U.S. dollar) in 2005, up by 32% year-on-year.

Allergy franchise sale for the U.S.A. reflect the share of the gross profit generated on Zyrtec® and Zyrtec-D® by the Pfizer/UCB co-promotion as well as the sales of cetirizine active ingredient to Pfizer. Given the net sales realised by Pfizer and UCB amounted to 1 362 million U.S. dollar in 2005 (or 1 097 million euro), UCB recorded its 25% share of the co-promotion gross profit or approximately 21% of net sales, i.e. 233 million euro, in addition to the 11 million sales of the bulk cetirizine, totaling 244 million euro for 2005, up by 3% compared to 2004. Increased promotion efforts and a relatively strong cough and cold season in early 2005 contributed to the growth of Tussionex® from 82 million euro in 2004 Pro Forma to 108 million euro in 2005, showing a 32% increase. The attention deficit hyperactive deficit drug Metadate™ CD benefited also from focused promotion with net sales growing 8% to 49 million euro on Pro Forma basis. The net sales of other products amounted to 138 million euro, 4% down in comparison to 2004 Pro Forma.

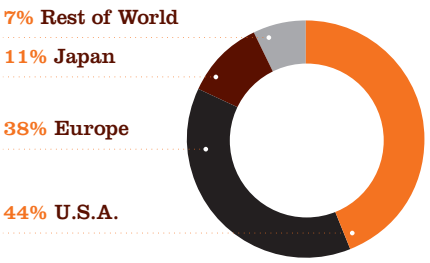
million EUR	2005 Reported (1)	2004 Reported (2)	2004 Pro Forma (3)	Δ Real Rates (1) vs. (3)	Δ Constant Rates (1) vs. (3)
U.S.A.					
Keppra®	356	270	270	32%	32%
Zyrtec® (including Zyrtec-D®)	244	236	236	4%	3%
Tussionex®	108	63	82	32%	32%
Metadate™ CD	49	8	46	8%	8%
Peptides	42	36	36	16%	15%
Delsym®	31	14	29	8%	8%
Lortab™	20	20	20	-3%	-3%
Other products	44	27	59	-26%	-26%
Net sales U.S.A.	895	674	777	15%	15%
Europe					
Keppra®	187	137	137	37%	36%
Zyrtec® (including Cirrus®)	110	142	142	-23%	-25%
Xyzal®	113	96	96	18%	18%
Allergy franchise	*223*	*238*	*238*	*-6%*	*-8%*
Atarax®	34	32	32	7%	6%
Nootropil®	78	78	78	-1%	-3%
Other products	264	198	264	0%	0%
Net sales Europe	786	683	750	5%	4%
Japan					
Zyrtec®	166	119	119	39%	42%
BUP-4™	28	29	29	-3%	-1%
Stogar®	15	15	15	0%	2%
Other products	21	29	29	-29%	-27%
Net sales Japan	230	192	192	20%	22%
Rest of World					
Keppra®	16	10	10	67%	64%
Zyrtec® (including Cirrus®)	42	47	47	-10%	-12%
Xyzal®	13	9	9	49%	47%
Allergy franchise	*55*	*55*	*55*	*-1%*	*-3%*
Nootropil®	25	25	25	1%	0%
Other products	35	34	37	-5%	-5%
Net sales Rest of World	132	124	127	4%	2%
Total net sales	2 043	1 674	1 847	11%	10%

- **Europe:** Net sales totaled 786 million euro in 2005 up by 5% compared to 2004 Pro Forma (or a +4% at constant exchange rates due to fluctuations in Eastern European currencies). Keppra® net sales represented 187 million euro, an increase of 37% over 2004 (or +36% at constant exchange rates). The 18% growth of Xyzal® from 96 million to 113 million was not sufficient to compensate for the decrease in Zyrtec® and Cirrus® net sales from 142 million euro to 110 million euro. Nevertheless Xyzal® now contributes more than Zyrtec® and Cirrus® in Europe. Nootropil® still accounted for 78 million euro of European net sales, almost flat compared to the year before. All other products contributed 298 million euro to European net sales, also unchanged versus Pro Forma 2004.

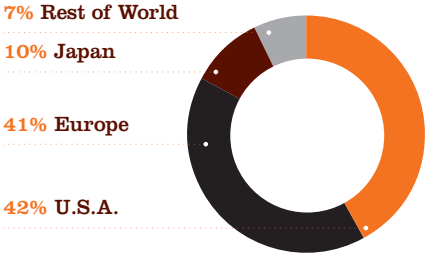
- **Japan:** In 2005, Japanese net sales went up from 192 million euro to 230 million euro or an increase of 20% (+22% at constant exchange rates). Thanks to the solid in-market performance of Zyrtec®, boosted by an above-average pollen season, a 35 million euro increase was achieved. A shift of sales deductions to commissions, reflecting the new co-distribution agreement with GSK Japan, resulted in a further increase of net sales of 12 million euro. Excluding the allergy franchise, accounting for 166 million euro of net sales, the remaining products (BUP-4™, Stogar® or Cinalong®) contributed for 64 million euro in 2005.

- **Rest of the World:** Net sales amounted to 132 million euro in 2005, an increase of 4% (or +2% at constant exchange rates). Whilst net sales gains in Xyzal® off-set losses in Zyrtec® net sales, leaving the allergy franchise at 55 million euro, Nootropil® net sales were stable at 25 million euro and Keppra® net sales, thanks to further penetration and new country launches, increased by 64% to reach 16 million euro.

2005 Net sales
2 043 million euro



2004 Net sales Pro Forma
1 847 million euro



The U.S. net sales of 895 million in 2005 represented 44% of total net sales up from 42% in 2004 Pro Forma. Europe, with 786 million euro of net sales, accounted for 38% of total net sales in 2005 down from 41% in 2004 Pro Forma. The net sales achieved in Japan increased from 10% to 11% in 2005 and in Rest of the World remained flat at 7%.

2.6. Royalty income and expenses (Biopharmaceuticals)

million EUR	2005 Reported (1)	2004 Reported (2)	2004 Pro Forma (3)	Δ Real Rates (1) vs. (3)	Δ Constant Rates (1) vs. (3)
Royalty income					
Zyrtec® US	135	131	131	3%	3%
Boss related	116	60	111	4%	4%
Other	47	20	35	35%	34%
Total royalty income	298	211	277	8%	8%
Royalty expenses					
Boss related	(47)	(20)	(31)	-49%	-51%
Other	(8)	(7)	(9)	4%	7%
Total royalty expenses	(55)	(27)	(40)	-38%	-38%
Net royalty income	243	184	237	3%	3%

The royalty income amounted to 298 million euro in 2005 up by 8% compared to a Pro Forma basis of 277 million euro. The royalty income generated on the U.S. Zyrtec® sales is equivalent to twelve percent of normalised net sales (assuming seven percent sales deductions). Given the fact that the net sales achieved by Pfizer/UCB increased from 1 287 million U.S. dollar in 2004 to 1 362 million U.S. dollar in 2005, royalty income improved by 3% to 135 million euro. The progress in sales of the underlying third-party products in 2005 more than compensated the reduced royalty rate received on the Boss related intellectual property. Royalty income from other sources (essentially on Asacol® and Pertactin®) also performed better than expected.

The Boss patent agreement not only foresees a decreasing rate for incoming royalties each quarter (ending in the first quarter of 2006) but also an increasing rate for outgoing royalties. In addition to having a higher rate for royalty expenses, the underlying third-party sales subject to the royalty expenses went up in 2005, causing royalty expenses related to Boss to increase from 31 million euro on a 2004 Pro Forma basis to 47 million euro in 2005.

As a result of the decreasing net royalty income from the Boss-related patent (69 million euro in 2005 versus 80 million euro in 2004 Pro Forma), compensated by the higher royalty income from Zyrtec® in the U.S.A. and the increased income on other royalty streams, the net royalty income reported by UCB improved by 3% from 237 million euro in 2004 Pro Forma to 243 million euro in 2005.

2.7. Gross profit (Biopharmaceuticals)

million EUR	2005 Reported	2004 Reported	Δ Real Rates	2004 Pro Forma	Δ Real Rates	Δ Constant Rates
Revenue	2 341	1 885	24%	2 124	10%	10%
Net sales	*2 043*	*1 674*	*22%*	*1 847*	*11%*	*10%*
Royalty income	*298*	*211*	*41%*	*277*	*8%*	*8%*
Cost of sales						
Cost of sales products & services	(466)	(385)	-21%	(418)	-12%	-10%
as a % of net sales	-22.8%	-23.0%		-22.6%		
Royalty expenses	(55)	(27)	-102%	(40)	-38%	-38%
Amortisation of intangible assets linked to sales	(29)	(12)	-144%	(28)	-1%	-2%
Gross profit	1 791	1 461	23%	1 637	9%	10%
as a % of revenue	76.5%	77.5%		77.1%		
of which						
Products & Services	*1 577*	*1 289*	*22%*	*1 429*	*10%*	*11%*
as a % of net sales	*77.2%*	*77.0%*		*77.4%*		
Net royalty income	*243*	*184*	*32%*	*237*	*3%*	*3%*
Amortisation of intangible assets linked to sales	*(29)*	*(12)*	*-144%*	*(28)*	*-1%*	*-2%*

Gross profit amounted to 1 791 million euro in 2005, which reflects an increase of 154 million euro from 2004 Pro Forma (or +10% at constant exchange rates). As a percentage of revenue, gross profit represented 76.5% in 2005, or 76.8% at constant exchange rates, compared to 77.1% in 2004 Pro Forma.

Cost of sales is composed of three main categories, namely the cost of sales for products and services, the royalty expenses as well as the intangible assets amortisation expenses linked to sales:

- Cost of sales products & services: On a Pro Forma basis, the cost of sales for products and services increased by 48 million euro from 418 million euro in 2004 to 466 million euro in 2005, whilst net sales increased by 196 million euro from 1 847 million euro to 2 043 million over the same period. Without the slightly negative impact of currency fluctuations on the cost of sales in 2005, the ratio of cost of sales/net sales (22.8% in 2005 or 22.5% at constant exchange rates) improved compared to 2004 Pro Forma, notwithstanding a small unfavourable mix effect, reflecting manufacturing enhancements.

- Royalty expenses: Royalties paid-out rose from 40 million euro in 2004 Pro Forma to 55 million euro in 2005 as a result of higher Boss patent-related royalty expenses, mainly caused by an increasing contractual rate each quarter on stronger underlying third-party sales.

- Intangible assets amortisation expenses linked to sales: Under IFRS 3 (*Business Combinations*), UCB has reflected a significant amount of intangible assets related to the Celltech acquisition (in-process Research & Development, manufacturing know-how, royalty streams, trade-names, etc.) on the balance sheet, which gave rise to additional amortisation expenses of 28 million euro in 2005, at the same level as 2004 Pro Forma.

2.8. Recurring EBIT and Recurring EBITA (Biopharmaceuticals)

million EUR	2005 Reported	2004 Reported	Δ Real Rates	2004 Pro Forma	Δ Real Rates	Δ Constant Rates
Revenue	2 341	1 885	24%	2 124	10%	10%
Net sales	*2 043*	*1 674*	*22%*	*1 847*	*11%*	*10%*
Royalty income	*298*	*211*	*41%*	*277*	*8%*	*8%*
Gross profit	1 791	1 461	23%	1 637	9%	10%
Marketing & Selling expenses	(653)	(551)	-19%	(603)	-8%	-8%
as a % of net sales	-32.0%	-32.9%		-32.7%		
Research & Development expenses	(511)	(361)	-41%	(451)	-13%	-13%
as a % of net sales	-25.0%	-21.6%		-24.4%		
General & Administrative expenses	(191)	(186)	-2%	(212)	10%	10%
as a % of net sales	-9.3%	-11.1%		-11.5%		
Other operating income/(expenses)	1	(4)		(5)		
Total operating expenses	(1 354)	(1 102)	-23%	(1 270)	-7%	-7%
Recurring EBIT (REBIT)	437	359	22%	367	19%	20%
as a % of net sales	21.4%	21.4%		19.9%		
as a % of revenue	18.7%	19.0%		17.3%		
+ Amortisation of intangible assets	38	22		38	0%	0%
Recurring EBITA (REBITA)	475	381	25%	405	17%	18%
as a % of net sales	23.3%	22.7%		21.9%		
as a % of revenue	20.3%	20.2%		19.1%		

Operating expenses encompassing Marketing & Selling expenses, Research & Development expenses, General & Administrative expenses and other operating income/expenses reached 1 354 million euro in 2005 compared to 1 270 million euro in 2004 on a Pro Forma basis, increasing by 7%:

- Synergies: As announced at the time of the Celltech acquisition, significant synergies have been achieved: larger and faster than originally expected. The synergies are reflected through higher sales made possible thanks to an enhanced share of voice, economies of scale and industrial improvements in manufacturing, savings in purchasing, reduction of manpower promotion expenses further to the merger of the two legacy sales forces, decreased Research & Development expenditure through the closure of the U.S. research facility (Cambridge, U.S.A.) and savings in administrative corporate functions.

- Marketing & Selling expenses: 653 million euro were spent in 2005 on Marketing & Selling expenses, mainly manpower and material promotion, an increase of 50 million euro over 2004 Pro Forma, reflecting:

  i) a shift in Japan of 19 million euro of sales deductions and other expenses to commissions, which are part of Marketing & Selling expenses, as a result of the new GSK Japan co-distribution contract,
  ii) product launches such as Equasym™ XL, Kentera® and Xyrem®,
  iii) preparation activities for the expected launch of Cimzia™,
  iv) a substantial reduction in manpower promotion expenses further to the integration of the two sales forces of UCB and Celltech in the second half of 2004.

  When adjusting for the above 19 million euro, Marketing & Selling expenses in 2005 would have amounted to 31.2% of net sales, a significant improvement compared to the 2004 Pro Forma ratio of 32.7%.

- **Research & Development expenses:** Research & Development expenses rose by 13% in 2005 to 511 million euro versus 451 million euro in 2004 Pro Forma. The increase was mainly driven by the accelerated programmes of Cimzia™ in Crohn's disease and rheumatoid arthritis and further investments in the Research & Development capabilities, not compensated by important savings achieved through the integration of the two legacy companies and the ensuing closure of the U.S. research facility. The total Research & Development spending, including Medical Affairs, reached 25% of net sales in 2005, versus 24.4% in 2004 Pro Forma.

- **General & Administrative expenses:** Compared to a 2004 Pro Forma level of 212 million euro, General & Administrative expenses decreased to 191 million euro in 2005, representing an improvement of 10%, thanks to major synergies in corporate functions.

- **Other operating income/expenses:** The improvement in other operating income/expenses of 6 million euro is almost entirely related to the 2005 portion of the deferred recognition of the GSK Japan license fee paid in 2005 as well as the shift to Marketing & Selling expenses of charges related to the Sumitomo co-distribution contract.

Recurring EBIT, or REBIT, corresponds to the line 'operating profit before impairment, restructuring and other income and expenses' presented in the consolidated financial statements, and excludes a number of elements of income and expenses of a non-recurring nature (see section 2.9.). REBIT reached 437 million euro in 2005, an increase of 19% compared to 2004 Pro Forma (or +20% at constant exchange rates). This implies that the growth in revenue and gross profit of +10% is higher than the 7% increase in operating expenses. As a percentage of revenue, REBIT improved from 17.3% in 2004 on a Pro Forma basis to 18.7% in 2005. When compared to net sales, REBIT increased from 19.9% in 2004 to 21.4% in 2005.

Recurring EBITA or REBITA (i.e. recurring EBIT before intangible assets amortisation expenses) amounted to 475 million euro in 2005, a growth of 17% compared to 2004 Pro Forma (or +18% at constant exchange rates). As a percentage of revenue, REBITA rose from 19.1% in 2004 on a Pro Forma basis to 20.3% in 2005. When compared to net sales, REBITA increased from 21.9% in 2004 to 23.3% in 2005.

2.9. Non-recurring items and non-operating items (Biopharmaceuticals)

million EUR	2005 Reported	2004 Reported	Δ Real Rates	2004 Pro Forma	Δ Real Rates	Δ Constant Rates
Recurring EBITA	475	381	25%	405	17%	18%
Amortisation of intangible assets	(38)	(22)		(38)		
Recurring EBIT	437	359	22%	367	19%	20%
Impairment charges	(67)	-		-		
Restructuring expenses	(39)	(78)		-		
Other income/(expenses)	33	-		(8)		
EBIT (operating profit)	364	281	29%	359	1%	3%
Financial expenses	(42)	(1)		(28)		
One-time financial income	40	-		-		
Profit before income taxes	362	280	29%	331	9%	9%
Income tax expenses	(92)	(83)	-10%	(97)	-6%	-7%
Profit from continuing operations	270	197	37%	234	16%	16%

Non-recurring items: In consideration of a number of elements of income and expenses which are of a non-recurring nature, and in order to ease the analysis of the underlying profitability of UCB's biopharmaceutical activities, the impact of the non-recurring items will be shown separately:

- **Impairment charges:** Under IFRS 3 (*Business Combinations*), UCB has reflected the intangible assets related to the Celltech acquisition at their fair value. As a result 787 million euro of intangible assets were initially recognised in the consolidated financial statements, namely for patented in-process Research & Development, manufacturing know-how, patented royalty streams and trade-names. These intangible assets are amortised once they become available for use, implying an amortisation expense for acquired Celltech-related intangible assets of 28 million euro in 2005. As part of the yearly review process, UCB recognised a 67 million euro impairment charge in 2005, reflecting a 60 million euro impairment charge on its inflammatory intangible asset and a 7 million euro impairment charge on trade-names and royalty streams related to patented products. The inflammatory impairment charge was essentially caused by the decision to stop further development of the CDP484 inflammation compound in view of the lack of evidence in the profile of the molecule to make it a successful, potent and safe drug.

- **Restructuring expenses:** Despite the fact that the integration with Celltech did lead to higher and faster synergies than initially expected, more savings opportunities have been identified, requiring restructuring measures amounting to 39 million euro, which were accounted for in 2005: mostly headcount related and some asset write-offs. The estimated recurring savings, slightly in excess of 20 million euro on an annual basis and pertaining to manpower promotion, manufacturing, Research & Development and administration, are expected to be fully re-allocated to preparation activities related to the expected launch of Cimzia™.

- **Other income/expenses:** Some transactions announced and closed in 2005 generated profits and capital gains of 34 million euro before income taxes:
  - Sale of Food Diagnostics: UCB announced in July 2005 the sale of its dairy antibiotic testing business, with annual sales of approximately 7 million euro, to Neogen Corp. The transaction was closed in December 2005. The capital gain recognised in 2005 on this transaction amounts to 8 million euro before income taxes.
  - Sale of Ashton contract manufacturing site: UCB announced in August 2005 the divestiture to Inyx Inc. of Celltech Manufacturing Services Ltd., in Ashton (U.K.), a UCB contract manufacturing subsidiary. This transaction gave rise to a 18 million euro capital gain before and after income taxes.
  - Zavesca® license agreement with Actelion: Swiss-based Actelion A.G. and UCB announced in December 2005 the replacement of an existing license agreement, with immediate effect, covering Zavesca® (miglustat), an orally active therapeutic medicine for the treatment of adult patients with mild to moderate Gaucher type 1 disease. Actelion made an upfront payment to UCB and will pay a progressive single-digit royalty rate on future Zavesca® sales. As a result an 8 million euro profit before income taxes was recognised in 2005.

Operating profit or EBIT: Taking the above non-recurring items into consideration, EBIT reached 364 million in 2005, which is not comparable to 2004 Pro Forma as the EBIT of 359 million euro for 2004 Pro Forma did not reflect any restructuring or impairment charges.

Non-operating items:

- **Financial expenses:** Although the reported financial expenses for 2005 amount to a negative 2 million euro, it is the combination of recurring financial expenses which were off-set by a one-time exchange gain. On a like-for-like basis, financial expenses increased from 28 million euro in 2004 Pro Forma (assuming Celltech acquired and Surface Specialties divested from 1 January 2004) to 42 million euro. The sale of the Specialty Chemicals business closed on 28 February 2005, which increased the interest expenses compared to 2004 Pro Forma financial expenses, since the cash portion was only received on 1 March 2005. Most of the 2005 financial expenses are interest expenses on long-term borrowings (around 1 billion euro), transactional expenses and hedging expenses.

- **One-time financial income:** As part of the Celltech acquisition, UCB inherited a series of corporate entities worldwide, which were the result of various transactions Celltech previously entered into (acquisitions of Medeva, Chirosciences or Oxford GlycoSciences). The funding of the legacy Celltech entities was mainly ensured by means of inter-company loan notes, denominated either in U.S. dollar or G.B. pound. It is UCB's policy to hedge the currency risk of such inter-company transactions and both the application of this policy to the legacy Celltech legal entities and the integration/restructuring of these companies within UCB throughout 2005 led to a one-time net exchange gain of 40 million euro in 2005. There is no reason to expect any positive or negative impact in 2006 on the financial expenses or income related to this integration/restructuring.

- **Income tax expenses:** The effective tax rate reflected in the 2005 accounts is slightly above 25%, down from 29% in 2004 on a Pro Forma basis. Excluding the tax exemption of a large portion of the capital gains realised in 2005, the effective tax rate would have been just under 27% for the year 2005.

Profit from continuing operations: From a Pro Forma level of 234 million euro in 2004, profit from continuing operations increased by 16% both at real and constant exchange rates. However the 2005 profit, contrary to 2004 Pro Forma, was impacted by significant non-recurring items as detailed above. Section 2.10. introduces core net profit.

2.10. Core net profit

The core net profit reflects the ongoing profitability of the biopharmaceutical activities, adjusted for the after-tax impact of intangible assets amortisation expenses and the following non-recurring items:

- **Impairment charges:** see section 2.9. on the 67 million euro pre-tax non-cash impairment charges recognised in the 2005 financial statements.

- **Restructuring expenses:** see section 2.9. on the 39 million pre-tax restructuring expenses accounted for in 2005.

- **Capital gains:** see section 2.9. on the pre-tax 34 million capital gains and profits realised in 2005 on the sale of the Food Diagnostics division and the Ashton manufacturing activities, as well as on the amended terms of the Zavesca® license agreement.

- **One-time financial income:** see section 2.9. on the pre-tax 40 million euro exchange gain recognised on the restructuring of legacy Celltech inter-company multi-currency loans.

The 2005 core net profit amounts to 316 million euro, a 50 million euro increase compared to the 2004 Pro Forma level of 266 million euro, representing a 19% improvement at real and constant exchange rates.

million EUR	2005 Reported	2004 Pro Forma	Δ Real Rates	Δ Constant Rates
Profit from continuing operations	270	234	16%	16%
Addback after-tax impact of				
Amortisation of intangible assets	28	27		
Impairment charges	49	-		
Restructuring expenses	29	-		
Other income/(expenses)	(1)	6		
Less after-tax impact of				
Capital gains	(29)	-		
One-time financial income	(29)	-		
Core net profit	316	266	19%	19%
Core EPS (non diluted)	2.20	1.84	19%	19%

3. SURFACE SPECIALTIES: DISCONTINUED OPERATIONS

Revenue of the divested Surface Specialties activities decreased substantially from 1 383 million euro in 2004 to 191 million euro in 2005, reflecting mainly the change in scope highlighted in section 1.1. of this Management Report. The sales in Specialty Chemicals continued in the first two months of 2005 to suffer from the impact of the increase in raw material prices, which had been partially passed on to customers, causing a slow-down of the demand for its products. On a like-for-like basis, volumes showed a year-on-year decrease of 6% for the first two months of the year, which were more than off-set by price increases imposed on customers. The net sales from the Specialty Chemicals activities accounted for 181 million euro in the first two months of 2004 and increased by 6% to 191 million euro, notwithstanding the weakening U.S. dollar.

million EUR	2005 2 months	2004 12 months	Specialty Chemicals 12 months 2004	Specialty Films 9 months 2004
Revenue	191	1 383	1 108	275
Recurring EBIT	18	105	94	11
Capital gain on sale of business	475	76		
Other income/(expenses)	(1)	-		
Financial expenses	(2)	(27)		
Income tax expenses	(4)	(21)		
Profit from discontinued operations	485	132		

Considering that the impact of the deteriorating raw material prices, combined with lower volumes, was compensated by selling price increases passed-on to customers, and considering that the operating expenses evolved in line with the prior year, the significant decrease in recurring EBIT from 105 million euro in 2004 to 18 million euro in 2005 is entirely related to the change in scope.

Profit for Surface Specialties amounted to 485 million euro, of which 475 million euro represents the capital gain realised on the sale of the Specialty Chemicals activities to Cytec Industries Inc. in 2005 for 1 415 million euro, in cash and Cytec shares.

The capital gain also reflects the mutually agreed upon resolution by both parties of various adjustments such as working capital, contingency payments and transfer of pension assets and liabilities, as well as the constitution of appropriate provisions for representations and warranties, including on environmental matters, which are customary for a transaction of this nature and size.

4. CAPITAL EXPENDITURE (BIOPHARMACEUTICALS)

The capital expenditure resulting from UCB's biopharmaceutical activities amounted to 86 million euro in 2005 compared to 82 million euro in 2004.

The 2005 investments reflect essentially the expansion of our research capabilities in Braine-l'Alleud (Belgium) and Slough (U.K.), the extension of our levetiracetam (active ingredient for Keppra®) production capacity as well as continued manufacturing improvements.

In addition, as foreseen in the agreement between UCB and Lonza for the manufacturing by Lonza of PEGylated antibody fragment based bulk actives, UCB will participate in the pre-financing of the related capital expenditure. An amount of 32 million euro has been accounted for in 2005 as a pre-payment and will be recognised as an expense in the income statement over the life of the contract from the time the assets will be in use.

5. BALANCE SHEET

million EUR	2005 Reported	2004 Reported
Non-current assets	3 414	3 531
Intangible assets	721	809
Goodwill	1 663	1 676
Other non-current assets	1 030	1 046
Current assets	1 303	1 720
Total Assets	4 717	5 251
Shareholders' equity[1]	2 409	1 645
Capital and reserves	1 654	1 316
Profit for the period	755	329
Non-current liabilities	1 601	866
Current liabilities	707	2 740
Total liabilities and shareholders' equity	4 717	5 251
Net debt	(591)	(1 723)
Liquid assets	464	575
Financial debt	(1 055)	(2 298)

1 Before profit distribution for the current year

The balance sheet as presented at 31 December 2005 shows a significant evolution compared to the balance sheet presented as at 31 December 2004:

- Intangible assets: The decrease reflects the amortisation expenses as well as the impairment charges accounted for in 2005.

- Other non-current assets: The relatively unchanged other non-current assets are the result of a decrease of the corresponding Surface Specialties assets which have left the scope of consolidation, compensated by the recognition of the 13% stake held in Cytec Industries Inc.

- Current assets: The reduction of current assets from 1 720 million euro to 1 303 million euro is largely driven by the change in scope but off-set by a small increase in trade receivables and inventories of the continuing business.

- Shareholders' equity: The steep equity reinforcement from 1 645 million euro at the end of 2004 to 2 409 million euro at the end of 2005 results from the profit from biopharmaceutical activities as well as the substantial capital gain realised on the sale of the Specialty Chemicals activities.

- Non-current liabilities: The increase in non-current liabilities from 866 million euro to 1 601 million euro is a reflection of the conversion of the bridge loan facility contracted upon for the acquisition of Celltech in 2004 into a long-term syndicated loan amounting to 900 million euro.

- Current liabilities: In addition to no longer reflecting the current liabilities of Surface Specialties which have left the scope of consolidation, the decrease of current liabilities from 2 740 million to 707 million euro also reflects the reimbursement of the bridge loan facility contracted in 2004, which was made possible thanks to the cash received from Cytec Industries Inc. and the conclusion of a 900 million euro syndicated loan arrangement.

- Net debt: Further to the receipt of cash proceeds from the sale of the Specialty Chemicals activities, the net debt decreased from (1 723) million euro at the end of 2004 to (591) million euro at the end of 2005, i.e. (1 055) million euro of financial debt and 464 million euro of liquid assets. In addition UCB owns a 13% stake in Cytec Industries Inc. which was worth 232 million euro at the end of 2005. The realised sale of the Bioproducts Peptides Manufacturing Division for 120 million euro in cash will further contribute to the decrease of the net debt in 2006.

Trade working capital analysis:

million EUR	2005 Reported at 31 December closing rates	2004 Reported at 31 December closing rates	2004 Pro Forma at 31 December closing rates
+ Trade and other receivables	514	711	485
+ Inventories	261	410	245
- Trade payables and other short-term liabilities	(497)	(597)	(442)
Working capital	278	523	289
Adjusted for non trade related items	41	23	32
Trade working capital	319	546	321
as a % of net sales	16%	20%	18%

The above table summarises the main components of the working capital:

- Pro Forma: The reported figures as at 31 December 2004 include the portion of the balance sheet related to Surface Specialties. In order to provide a meaningful comparison, a column with Pro Forma numbers, i.e. excluding Surface Specialties, is shown.

- Working capital: The working capital, as it results from the sum of 1) trade and other receivables, 2) inventories and 3) trade payables and other short-term liabilities, is relatively stable on a like-for-like basis decreasing from 289 million euro at 31 December 2004 on a Pro Forma basis to 278 million euro at 31 December 2005.

- Trade working capital: A few elements which are non-trade related are included in the reported working capital and should be excluded to make a relevant analysis. Adjusting for the non-trade related items, the trade working capital decreased from 321 million euro at 31 December 2004 on a Pro Forma basis to 319 million euro at 31 December 2005. Expressed as a percentage of net sales, the trade working capital represented 16% at the end of 2005 (17% at constant exchange rates) compared to 18% at the end of 2004 on a Pro Forma basis.

6. CASH FLOW STATEMENT

million EUR	2005 Reported	2004 Reported
Profit from continuing operations	270	197
Non-cash items	92	59
Change in working capital	(72)	110
Cash flow from operating activities	290	366
Cash flow from investing activities	(94)	(2 288)
of which tangible fixed assets purchase	*(86)*	*(82)*
of which Celltech acquisition	-	*(2 197)*
Free cash flow	196	(1 922)

The evolution of the cash flow generated by the biopharmaceuticals activities is driven by the following elements:

- Cash flow from operating activities: The increased profit from continuing operations underpins the 290 million euro cash flow from operating activities.

- Cash flow from investing activities: Reflecting the tangible fixed assets additions of 86 million euro, partially off-set by the capital gains on the sale of Food Diagnostics and Ashton manufacturing, cash flow from investing activities amounted to -94 million euro in 2005. The 2004 cash flow from investing activities was influenced by Celltech's acquisition (only -2 197 million euro are reflected out of the total cost of -2 388 million euro, which included the cash that was held by Celltech and the expenses related to the transaction).

- Free cash flow: defined as the sum of the cash flow from operating activities and cash flow from investing activities, the free cash flow amounted to 196 million euro in 2005 compared to -1 922 million euro in 2004, of which -2 197 million euro represented the cash impact of Celltech's acquisition.

7. OUTLOOK 2006

- Keppra® will continue its growth in the U.S.A., Europe and Rest of the World, sustained by additional regulatory approvals and positive clinical results.

- Allergy franchise:
  - the Zyrtec® U.S. sales reached a record last year of 1 362 million U.S. dollar, with uncertainties for 2006, given the U.S. antihistamine market dynamics;
  - the growth in Xyzal® net sales in Europe and Rest of the World is anticipated to off-set further Zyrtec® losses;
  - Japanese Zyrtec® sales will be under pressure due to the weak pollen season and the mandatory NHI price reduction of 6%, but a strengthened market share is expected through the increased combined share of voice of our two co-distributors.

- In view of the effective sale of the Bioproducts Peptides Manufacturing Division on 28 February 2006, its contribution will only be recognised for two months in 2006.

- Net royalty income from the Boss patent, due to expire in the first half of 2006, should decrease significantly, partially compensated by an increase in other royalty streams.

- Research & Development expenses as a percentage of net sales should not be materially different from 2005, as continued investments are made primarily for Cimzia™ and *brivaracetam/seletracetam*.

- Marketing & Selling expenses will be up compared to 2005, mainly as a result of the preparation activities for the expected launch of Cimzia™ in Crohn's disease and the launch activities related to Equasym™ XL (attention deficit hyperactivity disorders), Kentera® (urge incontinence) or Xyrem® (cataplexy).

- Based on the above, we expect profit from continuing operations in 2006 to be in line with 2005.

Consolidated Income Statement

For the year ended 31 December

million EUR	Note	2005	2004
Continuing operations			
Net sales		2 043	1 674
Royalty income		298	211
Revenue		2 341	1 885
Cost of sales		(550)	(424)
Gross profit		1 791	1 461
Marketing & Selling expenses		(653)	(551)
Research & Development expenses		(511)	(361)
General & Administrative expenses		(191)	(186)
Other operating income and expenses	9	1	(4)
Operating profit before impairment, restructuring and other income and expenses		437	359
Impairment of non-financial assets	10	(67)	-
Restructuring expenses	11	(39)	(78)
Other income and expenses	12	33	-
Operating profit		364	281
Net financing costs	14	(2)	(1)
Profit before income taxes		362	280
Income tax expense	15	(92)	(83)
Profit from continuing operations		270	197
Discontinued operations			
Profit from discontinued operations	6	485	132
Profit		755	329
Attributable to:			
Equity holders of UCB S.A.		755	327
Minority interest		-	2
Basic earnings per share (EUR)			
from continuing operations		1.88	1.36
from discontinued operations		3.38	0.91
Total basic earnings per share	16	5.26	2.27
Diluted earnings per share (EUR)			
from continuing operations		1.85	1.35
from discontinued operations		3.32	0.90
Total diluted earnings per share	16	5.17	2.25

Consolidated Balance Sheet

At 31 December

million EUR	Note	2005	2004
ASSETS			
Non-current assets			
Intangible assets	17	721	809
Goodwill	18	1 663	1 676
Property, plant and equipment	19	500	803
Deferred income tax assets	26	176	153
Employee benefits	27	17	12
Financial and other assets	20	337	78
Total non-current assets		3 414	3 531
Current assets			
Inventories	21	261	410
Trade and other receivables	22	514	711
Income tax receivables		53	21
Financial and other assets	20	51	44
Cash and cash equivalents	23	424	534
Total current assets		1 303	1 720
Total assets		4 717	5 251
EQUITY AND LIABILITIES			
Equity			
Capital and reserves attributable to UCB shareholders	24	2 409	1 640
Minority interest		-	5
Total equity		2 409	1 645
Non-current liabilities			
Interest-bearing loans and borrowings	25	1 024	278
Deferred income tax liabilities	26	291	291
Employee benefits	27	112	159
Other liabilities	30	53	6
Provisions	29	121	132
Total non-current liabilities		1 601	866
Current liabilities			
Interest-bearing loans and borrowings	25	31	2 020
Trade and other liabilities	30	525	605
Income tax payables		99	62
Provisions	29	52	53
Total current liabilities		707	2 740
Total liabilities		2 308	3 606
Total equity and liabilities		4 717	5 251

Consolidated Cash Flow Statement

For the year ended 31 December

million EUR	2005	2004
Profit from continuing operations	270	197
Depreciation of property, plant and equipment	54	45
Amortisation of intangible assets	38	29
Impairment of non-financial assets	67	(2)
Loss/(gain) on disposals of property, plant and equipment	-	(1)
Equity settled share-based payment expense	2	-
Profit from disposed operations, other than discontinued operations	(26)	-
Net interest (income)/expense	38	16
Impairment of financial assets	3	-
Net non-cash financing costs	(38)	(12)
Financial instruments – change in fair value	(2)	(3)
Dividend income	(2)	-
Income tax expense	92	83
Cash flow from operating activities before changes in working capital, provisions and employee benefits	496	352
Decrease/(increase) in inventories	(14)	17
Decrease/(increase) in trade & other receivables and other assets	(20)	14
Increase/(decrease) in trade & other payables	(38)	79
Net movement in provisions and employee benefits	11	35
Net cash generated from operating activities	435	497
Interest received	33	28
Interest paid	(57)	(43)
Income taxes paid	(121)	(116)
CASH FLOW FROM OPERATING ACTIVITIES	290	366
Acquisition of intangible assets	(40)	(20)
Acquisition of property, plant and equipment	(86)	(82)
Acquisition of subsidiaries, net of cash acquired	-	(2 197)
Acquisition of other investments	(4)	(1)
Proceeds from sale of property, plant and equipment	8	14
Proceeds from sale of subsidiaries, net of cash disposed	9	-
Proceeds from sale of businesses, net of cash disposed	12	-
Proceeds from sale of other investments	3	1
Proceeds from/(payments of) loans granted	2	(3)
Dividends received	2	-
CASH FLOW FROM INVESTING ACTIVITIES	(94)	(2 288)
Proceeds from borrowings	900	1 900
Repayment of borrowings	(2 100)	(50)
Payment of finance lease liabilities	(2)	(2)
Purchase of treasury shares	(10)	(43)
Dividend paid to UCB shareholders net of dividend paid on own shares	(123)	(121)
CASH FLOW FROM FINANCING ACTIVITIES	(1 335)	1 684
CASH FLOW FROM DISCONTINUED OPERATIONS	1 062	398
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(77)	160
Cash and cash equivalents less bank overdrafts at the beginning of the year	467	311
Effect of exchange rate fluctuations	5	(4)
CASH AND CASH EQUIVALENTS LESS BANK OVERDRAFTS AT THE END OF THE YEAR	395	467

Consolidated Statement of Changes in Equity

million EUR	Share capital & share premium	Treasury Shares	Retained earnings	Other reserves	Cumulative translation adjustments	Minority interest	Total Stockholders' equity
Balance at 1 January 2004	438	(42)	1 297	8	(21)	11	1 691
Cash flow hedges – net of tax	-	-	-	(3)	-	-	(3)
Currency translation adjustments	-	-	-	-	(203)	-	(203)
Net income/(expense) recognised directly in equity	-	-	-	(3)	(203)	-	(206)
Profit	-	-	327	-	-	2	329
Total recognised income/(expense)	-	-	327	(3)	(203)	2	123
Dividends	-	-	(119)	-	-	-	(119)
Share-based payments	-	-	1	-	-	-	1
Treasury shares	-	(43)	-	-	-	-	(43)
Change in scope	-	-	-	-	-	(8)	(8)
Balance at 31 December 2004	438	(85)	1 506	5	(224)	5	1 645

million EUR	Share capital & share premium	Treasury Shares	Retained earnings	Other reserves	Cumulative translation adjustments	Minority interest	Total Stockholders' equity
Balance at 1 January 2005	438	(85)	1 506	5	(224)	5	1 645
Available-for-sale financial assets – net of tax	-	-	-	12	-	-	12
Cash flow hedges – net of tax	-	-	-	(16)	-	-	(16)
Currency translation adjustments	-	-	-	-	149	-	149
Net income/(expense) recognised directly in equity	-	-	-	(4)	149	-	145
Profit	-	-	755	-	-	-	755
Total recognised income/(expense)	-	-	755	(4)	149	-	900
Dividends	-	-	(125)	-	-	-	(125)
Share-based payments	-	-	4	-	-	-	4
Treasury shares	-	(10)	-	-	-	-	(10)
Change in scope	-	-	-	-	-	(5)	(5)
Balance at 31 December 2005	438	(95)	2 140	1	(75)	-	2 409

Notes to the Consolidated Financial Statements
Table of contents

0. Introduction 72
1. Summary of significant accounting policies 72
2. Critical accounting estimates and judgments 81
3. Financial risk management and hedging activities 81
4. Segment reporting 82
5. Business combinations 84
6. Discontinued operations 84
7. Disposal of subsidiaries, other than discontinued operations 86
8. Operating expenses by nature 86
9. Other operating income and expenses 86
10. Impairment of non-financial assets 86
11. Restructuring expenses 87
12. Other income and expenses 87
13. Employee benefits expenses 87
14. Net financing costs 88
15. Income tax expense 88
16. Earnings per share 90
17. Intangible assets 91
18. Goodwill 92
19. Property, plant and equipment 93
20. Financial and other assets 94
21. Inventories 95
22. Trade and other receivables 95
23. Cash and cash equivalents 95
24. Capital and reserves 96
25. Interest-bearing loans and borrowings 96
26. Deferred tax assets and liabilities 98
27. Employee benefits 99
28. Share-based payment 102
29. Provisions 104
30. Trade and other liabilities 105
31. Derivative financial instruments 106
32. Commitments and contingencies 108
33. Related parties 109
34. Transition to IFRS 110
35. Events after the balance sheet date 114
36. UCB Companies 115

0. INTRODUCTION

UCB S.A. (UCB or the Company) and its subsidiaries (together the Group) is a global biopharmaceutical leader specialising in the therapeutical fields of central nervous system disorders, allergy and respiratory diseases, immune and inflammatory disorders and oncology.

The Group has production and packaging facilities in Belgium, Switzerland, U.S.A., Japan, Germany, India, Italy, Spain and South Korea (to be closed) and sells in more than 40 countries on all continents. During the year 2005 the Group disposed of the Surface Specialties business segment and transformed itself into a pure biopharmaceutical company.

UCB S.A., 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 S.A. is listed on Euronext Brussels.

These consolidated financial statements and the statutory financial statements of UCB S.A. have been approved for issue by the Board of Directors on 13 March 2006. These consolidated financial statements and statutory financial statements of UCB S.A. are made available to shareholders and others by 31 March 2006. The shareholders will be requested to approve the consolidated financial statements and the statutory financial statements of UCB S.A. at their annual meeting on 13 June 2006.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the European Union (EU). All IFRS issued by the International Accounting Standards Board (IASB) and effective at the time of preparing these consolidated financial statements have been adopted for use in the EU through the endorsement procedure established by the European Commission, with exception of the International Accounting Standard (IAS) 39 (*Financial Instruments: Recognition and Measurement*). Following the Accounting Regulatory Committee decision of October 2004, the European Commission adopted the Regulation 2086/2004 requiring the use of IAS 39, minus certain provisions on the full fair value option and portfolio hedging of core deposits, by all listed companies as from 1 January 2005.

These consolidated financial statements have been prepared using the historical cost convention, except that certain items including available-for-sale investments and derivative financial instruments are shown at fair value.

b) First-time adoption of IFRS

In accordance with Regulation 1606/2002 on the application of international accounting standards, UCB is presenting its consolidated financial statements in accordance with IFRS from 1 January 2005 onwards; therefore the date of transition is 1 January 2004. Until 31 December 2003, the Group's consolidated financial statements have been prepared in accordance with Belgian Generally Accepted Accounting Principles (Belgian GAAP). Belgian GAAP differs in some areas from IFRS. Note 34 presents the IFRS adjustments to the consolidated balance sheet and consolidated income statement.

IFRS 1 (*First Time Adoption of International Financial Reporting Standards*) has been applied in preparing these consolidated financial statements. IFRS 1 requires the consistent, retrospective application through all reporting periods of all IFRS that are effective at the reporting date for all disclosed closing dates. However, IFRS 1 allows some exemptions, of which the following have been applied:

- Business Combinations: The Group decided not to restate retrospectively the business combinations effected before the date of transition to IFRS (1 January 2004) in accordance with IFRS 3 (*Business Combinations*).
- Employee Benefits: All previously unrecognised actuarial gains and losses have been recognised in equity at the transition date. The Group will apply the corridor approach of IAS 19 (*Employee Benefits*) prospectively.
- Share-based Payment: The Group has applied IFRS 2 (*Share-Based Payment*) to all equity instruments granted after 7 November 2002 and that were not yet vested as of 1 January 2005.

Following IFRS 1 retrospective application of IFRS 5 (*Non-current Assets Held for Sale and Discontinued Operations*) has not been applied. The Group did therefore not restate its opening balance for the sale of the Films business to Innovia in 2004, but has presented the result under the item 'Profit from discontinued operations' for transparency reasons in the comparative period.

Furthermore, the Group has elected not to adopt the amendments to IAS 39 (*Financial Instruments: Recognition and Measurement – Amendment – Cash Flow Hedge Accounting of Forecast Intra-Group Transactions*) issued in April 2005 in advance of their effective date 1 January 2006.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRS 6 *Exploration for and Evaluation of Mineral Resources (applicable for accounting years beginning on or after 1 January 2006)*

- IFRS 7 *Financial Instruments: Disclosures (applicable for accounting years beginning on or after 1 January 2007)*
- IAS 1 *Presentation of Financial Statements – Amendment – Capital Disclosures (applicable for accounting years beginning on or after 1 January 2007)*
- IAS 19 *Employee Benefits – Amendment – Actuarial Gains and Losses, Group Plans and Disclosures (applicable for accounting years beginning on or after 1 January 2006)*
- IAS 39 *Financial Instruments: Recognition and Measurement – Amendment – The Fair Value Option (applicable for accounting years beginning on or after 1 January 2006)*
- IAS 39 *Financial Instruments: Recognition and Measurement – Amendment – Financial Guarantee Contracts (applicable for accounting years beginning on or after 1 January 2006)*
- IFRIC 4 *Determining whether an Arrangement contains a Lease (applicable for accounting years beginning on or after 1 January 2006)*
- IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (applicable for accounting years beginning on or after 1 January 2006)*
- IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (applicable for accounting years beginning on or after 1 December 2005)*
- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (applicable for accounting years beginning on or after 1 March 2006)*
- IFRIC 8 *Scope of IFRS 2 (applicable for accounting years beginning on or after 1 May 2006)*

With the exception of immediate recognition of actuarial gains and losses in equity if that option under IAS 19 Employee Benefits – Amendment – Actuarial Gains and Losses, Group Plans and Disclosures would be elected, the Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

c) Principles of consolidation

Subsidiaries

The consolidated financial statements include the financial statements of UCB and all the companies that are controlled by the Group. Control exists when UCB has the power to govern the financial and operating policies and obtains the benefits from the entities activities. Control is presumed to exist when UCB owns, directly or indirectly, more than 50% of an entity's voting rights or the share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another 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 purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the remaining difference after reassessment is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised 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.

Minority interest in the net assets of consolidated subsidiaries is identified separately from the Group's equity therein. Minority interest consists of the amount of this interest at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investment in associated companies

Associated companies are those companies in which the Group has, directly or indirectly, a significant influence but not the control to govern the financial and operating policies, which is presumed when the Group holds 20% or more of the voting rights. An investment in an associate is accounted for under the equity method.

The results and assets and liabilities of associated companies are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 (*Non-current Assets held for Sale and Discontinued Operations*). Under the equity method, investments in associated companies are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of

the associated company, less any impairment in the value of individual investments. Losses of an associated company in excess of the Group's interest in that associated company (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associated company identified at the date of acquisition is recognised as goodwill.
The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the income statement.

Where a group entity transacts with an associated company of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associated company.

Joint ventures
A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control. A joint venture is consolidated under the proportionate consolidation method.

d) Segment reporting

A business segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns that are different from those of other business segments. UCB has two business segments: Biopharmaceuticals and Surface Specialties, constituting the primary reporting format.

A geographical segment is one that is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments. UCB operates in four main geographical areas: Europe, U.S.A., Japan and Rest of the World, constituting the secondary reporting format.

e) Foreign currency translation

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in euro, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

Foreign currency transactions
Foreign currency transactions are recognised initially at exchange rates prevailing at the date of the transactions. Subsequently, at closing, monetary assets and liabilities denominated in foreign currencies are translated at the balance sheet currency rate. Gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement as a financial result. Exchange differences arising on the retranslation of non-monetary items carried at fair value are recognised in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity.

Foreign entities
In consolidation, the assets and liabilities of the Group companies, using a different functional currency than the euro, are expressed in euro using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified in equity and transferred to the Group's 'Cumulative translation reserve'. Such translation differences are recognised as income or as expenses in the period in which the entity is sold, disposed or liquidated. Exchange rates mentioned below have been used to consolidate foreign subsidiaries.

Exchange rates
The following most important exchange rates have been used in preparing the financial statements:

	Closing rate		Average rate	
1 euro = x foreign currency	2005	2004	2005	2004
U.S. dollar	1.183	1.364	1.242	1.243
G.B. pound	0.686	0.707	0.684	0.679
Swiss franc	1.555	1.544	1.548	1.544
Japanese yen	138.9	139.9	136.8	134.4

f) Revenue recognition

Revenue is recognised 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.

Revenue represent amounts received and receivable for goods supplied to customers after deducting trade discounts, cash discounts related to Medicaid in the U.S.A. and similar programmes in other countries, and volume rebates but excluding sales taxes.

Sale of goods
Revenue from sales of goods is recognised 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.

Sale of intellectual property
The principle rule of the sale of intellectual property is that the sale is recorded as income at the time of the sale. Where the Group assumes an obligation in connection with a sale of intellectual property, the income is recognised in accordance with the term of obligation. On the sale of the intellectual property when the final sale is conditional on future events, the amount is recorded as income at the occurrence of such future events. Revenue is measured at fair value of the consideration received or receivable.

Royalty income
Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement.

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

Dividend income
Dividends are recognised when the shareholder's right to receive the payment is established.

g) Cost of sales
Cost of sales includes primarily the direct production costs, related production overhead and the amortisation of the related intangible assets as well as services rendered. Start-up costs are expensed as incurred.

h) Research & Development
Internally-generated intangible assets – Research & Development expenditure
All internal Research & Development costs are expensed in the income statement as incurred. Due to the long development period and significant uncertainties relating to the development of new products, including risks regarding clinical trials and regulatory approval, it is concluded that the Group's internal development costs in general do not meet the capitalisation criteria in IAS 38 (*Intangible Assets*). Thus the technical feasibility criteria of IAS 38 are not considered fulfilled before regulatory approval is obtained.

Acquired intangible assets
For acquired in-process Research & Development projects the effect of probability to develop a successful drug is reflected in the cost of the asset and the probability recognition criteria are therefore always considered satisfied. As the cost of acquired in-process Research & Development projects can often be measured reliably, these projects fulfil the criteria for capitalisation (see j).

The intangible assets are amortised on a straight-line basis over their estimated useful life beginning from the moment when they are available for use.

i) Income taxes
The income tax charge is based on the results for the year and includes current and deferred income taxes. These charges are recorded in the income statement except when they relate to items directly recorded in equity, in which case they are directly recorded in equity.

Current income tax is the amount of the income tax to pay based on the taxable profit of the period, as well as any adjustments relating to previous years. It is calculated using local tax rates adopted or substantially enacted at the closing date.

Deferred income tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method.

Deferred income tax liabilities are generally recognised for all taxable temporary differences and deferred income tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting 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 realised. Deferred income tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and liabilities are off-set when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

j) Intangible assets

Patents, licenses, trademarks and other intangible assets are initially recorded at cost. Where these assets have been acquired through a business combination, the cost will be the fair value allocated in the purchase accounting. Where these have been acquired other than through a business combination, the initial fair value will be the purchase price.

Intangible assets are amortised 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 the lower of the contract life or the economic useful life. Trademarks are considered to have a definite economic useful life; therefore no intangible assets with an indefinite life have been identified.

Property, plant and equipment used for Research & Development purposes are capitalised and depreciated in accordance with the Group's depreciation policy.

k) Goodwill

Goodwill arises when the cost of a business combination at the date of acquisition is in excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill on acquisition of subsidiaries is presented on the face of the balance sheet, whereas the goodwill on acquisitions of associated companies is included in investments in associated companies.

Goodwill is allocated to cash-generating units 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.
An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

In case the fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess remaining after reassessment is recognised immediately in the income statement.

l) 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 the working condition for its intended use.

Land is not depreciated.

Depreciation is charged so as to write-off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method to their estimated residual value.
The depreciation is computed from the month the asset is ready to be used.

The residual value and the useful life of an asset is reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) are be 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

Subsequent costs are included in the asset's carrying amount or recognised 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 charged to the income statement during the financial period in which they are incurred.

Borrowing costs directly attributable to the acquisition, construction or production of an asset requiring a long preparation are not included in the cost of this asset but are expenses as incurred.

m) 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.

Finance leases

Assets held under finance leases are recognised 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 recognised 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.

Operating leases

Lease payments under an operating lease are recognised 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.

n) Inventories

Raw materials, consumables and goods purchased for resale are valued at the lower of their cost or their 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.

o) Impairment of tangible and intangible assets including goodwill

At each reporting date, the Group reviews the carrying amounts of its intangible assets, goodwill and property, plant and equipment 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, if any.

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 amortised.

An impairment loss is recognised 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.

In case of goodwill, a 20-year cash flow projection is used. For other intangible assets, the period used is the period of protection provided by the relevant patent or know-how. Estimated cash flows are discounted using an appropriate long-term market interest rate that reflects the best estimate of the time value of money, the risks specific to the asset or the CGU and the economic conditions in the geographical regions in which the business activity associated with the asset or the CGU is located.

An impairment loss is recognised directly in the income statement. The 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 recognised in the income statement. Impairment losses on goodwill are never reversed.

p) Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

q) Financial assets

Financial assets, mainly investments, are recognised and derecognised on a trade date basis where the purchase or sale requires delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs for the investments that are not classified at fair value through profit and loss.

Held-to-maturity investments

Debt securities for which the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been, had the impairment not been recognised.

Other financial assets

Investments other than held-to-maturity debt securities are classified as either financial assets at fair value through profit or loss or as available-for-sale financial assets, and are measured at subsequent reporting dates at fair value. Where securities are classified as financial assets at fair value through profit or loss, gains and losses arising from changes in fair value are included in the income statement for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss, previously recognised in equity or a portion thereof in case of an impairment, is included in the income statement for the period.

Impairment of financial assets

Impairment losses recognised in the income statement for equity investments classified as available-for-sale are not subsequently reversed via the income statement. Impairment losses recognised in the income statement for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

s) Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

t) Treasury Shares

When the Group purchases its own shares, the amount paid, including attributable direct costs is accounted for as a deduction of equity. The proceeds from sales of shares are directly included in net equity with no impact on the income statement.

u) Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

v) Provisions

Provisions are recognised in the balance sheet when:

(a) there is a present obligation (legal or constructive) as a result of a past event;
(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
(c) a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure to settle the present obligation at the balance sheet date.

A restructuring provision is recognised 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.

w) 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's policy is not to engage in speculative transactions.

Derivative financial instruments are initially recorded at fair value and re-measured to fair value at the subsequent reporting dates. 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 hedged items. The Group also documents its assessment, both at hedge inception and on an ongoing basis, as to whether the derivative financial instruments that are used in hedging transactions are highly effective in off-setting changes in fair values or cash flows of hedged items.

Cash flow hedge

Changes in fair value of derivative financial instruments that are designated as cash flow hedges are recognised immediately in equity. The ineffective portion is recognised in the income statement.

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 recognised, the associated gains or losses on the derivative financial instrument that had previously been recognised 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 recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement. However, it is expected that all or a portion of a loss recognised directly in equity will not be recovered in one or more future periods, the amount that is not expected to be recovered is reclassified into the income statement.

For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects the income statement.

Fair value hedge

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Net investment hedge

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 recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

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 instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

x) Non-current assets 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 represents a major separate line of business or geographical area of operations and is part of a single co-ordinated plan to dispose of; or is a subsidiary acquired exclusively with a view to resale.

Non-current assets or a disposal group are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. A disposal group is defined as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred. Immediately before classification as held for sale, the Company measures the carrying amount of the asset (or all the assets and liabilities in the disposal group) in accordance with the applicable accounting standard. Following the classification as held for sale, non-current assets and disposal groups are measured at the lower of the assets' previous carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale are included in the income statement. The same applies to gains and losses on subsequent re-measurement. Non-current assets classified as held for sale are no longer depreciated or amortised.

y) Employee benefit obligations

Pension obligations

The Group operates a number of defined benefit and defined contribution retirement benefit plans. Payments to defined contribution benefit plans are charged as an expense as they fall due.

The Group's commitments under defined benefits plans, and the related costs, are valued using the 'projected unit credit method' with actuarial valuations being carried out regularly, at each balance sheet date for the main plans. Actuarial gains and losses that exceed 10% of the greater of the present value of the Group's defined benefit obligation and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the lower of the amount determined and unrecognised actuarial loss and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Other long-term employee benefits

These benefits are accounted for on the same basis as post-employment benefits except that all actuarial gains and losses are recognised immediately and no 'corridor' is applied and all past service cost is recognised immediately.

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.

Profit-sharing and bonus plans

The Group recognises 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.

z) Share-based payments

The Group operates several equity-settled share-based compensation plans. In accordance with IFRS 1, IFRS2 (*Share-based Payment*) has been applied to all equity instruments granted after 7 November 2002 that were not yet vested as of 1 January 2005.

The services rendered by the employees as consideration for stock options are recognised as an expense. The expense corresponds to the fair value of the stock option plans and is charged to income on a straight line basis over the vesting period of the plan.

The fair value of the stock option plan is measured at the grant date using the Black & Scholes valuation model taking 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 become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

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.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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 believed to be 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 could differ from those estimates. Estimates are used in accounting for allowances for uncollectible receivables, inventory obsolescence, depreciation, employee benefits, taxes, restructuring provisions and contingencies. 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.

Significant estimates and judgements have been applied by the Group in order to prepare the consolidated financial statements with respect to the value-in-use of the intangible assets (Note 17) and goodwill (Note 18), the provisions (Note 29), the financial instruments (Note 31), the accounting treatment of certain co-operation contracts with third parties, the classification of leased property (Note 19), the employee benefit obligations (Note 27) and the share-based payments (Note 28).

3. FINANCIAL RISK MANAGEMENT AND HEDGING ACTIVITIES

The Group is exposed to various financial risks arising from its underlying operations and corporate finance activities. The Group's financial risk exposures are predominantly related to changes in foreign exchange rates, interest rates and the creditworthiness and the solvency of the Group's counterparties, and to a lower extent to equity prices.

Financial risk management within the Group is governed by policies and guidelines approved by senior management. These policies and guidelines cover foreign exchange risk, interest rate risk, market risk, credit risk and liquidity risk. Group policies and guidelines also cover areas such as cash management, investment of excess funds and the raising of short- and long-term debt. Compliance with the policies and guidelines is managed by segregated functions within the Group.

The objective of financial risk management is to contain, where deemed appropriate, exposures in the various types of financial risks mentioned above in order to limit any negative impact on the Group's results and financial position.

The Group actively measures, monitors and manages its financial risk exposures by various functions pursuant to segregation of duties principles.

In accordance with its financial risk policies, the Group manages its market risk exposures through the use of financial instruments such as derivative financial instruments, when deemed appropriate. It is the Group's policy and practice not to enter into derivative transactions for speculative purposes.

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 hedging commitments 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, G.B. pound, Japanese yen and Swiss franc, the currencies where the Group has its most important exposures. These arrangements are designed to address significant exchange exposures arising on a six month rolling basis, and a lower portion of the exposure arising up to one year beforehand. In limited circumstances, exposures arising more than one year beforehand could also be hedged with financial instruments.

Translation exposure arises from the consolidation of the foreign currency denominated financial statements of the Group's foreign subsidiaries. The effect on the Group's consolidated equity is shown as a currency translation adjustment.

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 floating rates, as described in note 31. The Group uses interest rate derivative financial instruments to manage its interest rate risk.

Market risk of financial assets
Changes in the market value of certain financial assets and derivative financial instruments can affect the net income or financial position of the Group. Financial long-term assets 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.

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, ongoing credit evaluation and account monitoring procedures. There are no significant concentrations within trade receivables of counterparty credit risk due to the Group's large number of customers and their wide geographical spread. For some credit exposures in critical countries, the Group has obtained credit insurance.

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. 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 financial instruments.

Liquidity risk
The Group maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements at all times.

In addition, the strong international creditworthiness of the Group gives it the ability to efficiently use international capital markets for financing purposes.

4. SEGMENT REPORTING

Primary reporting format – Business segments

During 2005 the UCB Group operated on a worldwide basis in two business segments, being:
- Biopharmaceuticals; and
- Surface Specialties.

There are no significant sales or other transactions between the business segments. Segment results, assets and liabilities include the ones directly attributable to a segment as well as the ones that can be allocated to a segment on a reasonable basis. The business segments are the same as those used for internal reporting, allowing a reliable assessment of risks and returns.

Biopharmaceuticals

This business segment includes research, development, manufacturing and marketing of products in the therapy fields of central nervous system disorders, allergy and respiratory diseases, immune and inflammatory disorders and oncology.

Surface Specialties

This business segment is composed of the business activities Specialty Chemicals and Specialty Films. Specialty Chemicals was involved in the research & development, manufacturing and marketing of a special range of resins and additives mainly for industrial uses. Specialty Films is active in the manufacturing of bi-oriented polypropylene films and cellulose films.

4. SEGMENT REPORTING (CONTINUED)

million EUR	Biopharmaceuticals 2005	Biopharmaceuticals 2004	Surface Specialties[1] 2005	Surface Specialties[1] 2004	Total 2005	Total 2004
Segment income and expenses						
Net sales	2 043	1 674	191	1 382	2 234	3 056
Royalty income	298	211		1	298	212
Total segment revenue	2 341	1 885	191	1 383	2 532	3 268
Segment Result/Operating profit	364	281	16	105	380	386
Net financing costs	-	-	-	-	(4)	(28)
Profit before income tax	-	-	-	-	376	358
Income tax expense	-	-	-	-	(96)	(105)
Profit before capital gain	-	-	-	-	280	253
Capital gain	-	-	-	-	475	76
Profit after capital gain	-	-	-	-	755	329
Segment Assets and Liabilities						
Segment assets	3 776	3 533	-	959	3 776	4 492
Non-segmented assets	-	-	-	-	941	759
Total assets	-	-	-	-	4 717	5 251
Segment liabilities	809	696	-	247	809	943
Non-segmented liabilities	-	-	-	-	3 908	4 308
Total liabilities	-	-	-	-	4 717	5 251
Segment expenses						
Research and Development expenses	(511)	(361)	(5)	(34)	(516)	(395)
Restructuring expenses	(39)	(78)	-	-	(39)	(78)
Other non-cash expenses	(14)	(36)	(51)	(21)	(65)	(57)
Amortisation and depreciation	(92)	(72)	(8)	(62)	(100)	(134)
Impairment of intangible assets and goodwill	(67)	-	-	-	(67)	-
Impairment of inventory	(9)	(8)	-	(3)	(9)	(11)
Other segment information						
Gross capital expenditure	(126)	(103)	(4)	(29)	(130)	(132)

Secondary reporting format – Geographical segments

The Group's two business segments operate in four main geographical areas. The Group's sales are mainly in countries within Europe, the U.S.A. and Japan, where also its main manufacturing facilities are situated. The net sales are presented below by location of the customer, the segment assets are presented by location of the assets.

million EUR	Europe 2005	Europe 2004	U.S.A. 2005	U.S.A. 2004	Japan 2005	Japan 2004	Rest of the World 2005	Rest of the World 2004	Inter segment 2005	Inter segment 2004	Total 2005	Total 2004
Revenue	914	1 551	1 226	1 155	240	230	152	332	-	-	2 532	3 268
Segment assets	2 281	2 776	1 521	1 593	85	100	50	164	(161)	(141)	3 776	4 492
Gross capital expenditure	(95)	(114)	(7)	(10)	(26)	(2)	(2)	(6)	-	-	(130)	(132)

1 The Surface Specialities business has been completely disposed of in February 2005. The profit realised by this segment during the first two months of 2005 is included in the profit from discontinued operations.

5. BUSINESS COMBINATIONS

In July 2004 the Group acquired 100% of the share capital of Celltech Group plc (Celltech), an important public quoted biotechnology company headquartered in Slough, U.K. Its main operations are situated in Europe and the U.S.A. The acquisition gave the Group access to the Research & Development pipeline of Celltech as well as to its existing product portfolio, the breaking discovery platform and technology to identify potential new drugs.

The total consideration paid in cash by the Group amounted to 2 388 million euro, which has been allocated in the Group's balance sheet at inception as follows:

million EUR	Fair value	Carrying amount prior to acquisition
Goodwill	1 655	379
In-process Research and Development	463	-
Patented products, trademarks and trade names	110	-
Core technology	214	75
Property, plant and equipment	115	130
Cash	191	191
Other net assets (liabilities)	(360)	(53)
	2 388	722

The goodwill also reflects the synergies that are being realised after the Group's acquisition of Celltech. Intangible assets for in-process Research & Development will be amortised over their useful lives on a straight-line basis beginning from the moment they are available for use. Intangible assets for core technology are amortised on a straight-line basis over 4 to 15 years as from 1 August 2004. The patented products, trademarks and trade names are amortised on a straight-line basis over the remaining patent protection period as from 1 August 2004. It has to be noted that the other net assets contain mainly the adjustments for employee benefit obligations (increase of 47 million euro) and the deferred tax liabilities on the fair value adjustment (260 million euro).

Subsequent to the acquisition, Celltech contributed an operating profit before integration expenses of 3 million euro to the Biopharmaceuticals division in 2004. If the acquisition of Celltech had occurred on 1 January 2004, the revenue of the Group would have been 239 million euro higher and the Group's profit for the year would have been decreased by an additional 19 million euro compared to the 2004 reported profit.

There were no significant acquisitions for the year ending on 31 December 2005.

6. DISCONTINUED OPERATIONS

The Group adopted IFRS 5 as from 1 January 2005 prospectively in accordance with the standard's provisions. The disposal groups, being the Specialty Films sold to Innovia plc. on 30 September 2004 for a total consideration of 320 million euro and the Specialty Chemicals sold on 28 February 2005 to Cytec Industries Inc. for a total consideration of 1 415 million euro, were previously neither classified nor presented as current assets or liabilities. These disposal groups were not previously measured differently from other assets and liabilities. The impact of the divestiture of the Surface Specialties on the segment reporting is mentioned in note 4.

In order to enhance the readability of the annual accounts, the Group has classified the profit and capital gains realised on the divestitures under the heading 'profit from discontinued operations'.

6. DISCONTINUED OPERATIONS (CONTINUED)

The profit for the period from discontinued operations is as follows:

million EUR	Specialty Chemicals 2005	Specialty Chemicals 2004	Specialty Films 2004	Total 2004
Revenue	192	1 108	275	1 383
Expenses	(178)	(1 038)	(267)	(1 305)
Profit before tax of discontinued operations	14	70	8	78
Income tax expense	(4)	(22)	-	(22)
Profit after tax of discontinued operations	10	48	8	56
Capital gain, net after income tax	475	-	76	76
Profit from discontinued operations	485	48	84	132

The net assets at the date of disposal and per 31 December 2004 were as follows:

million EUR	Specialty Chemicals 2005 at 28 February	Specialty Chemicals 2004 at 31 December	Specialty Films 2004 at 30 September
Goodwill	169	169	-
Property, plant and equipment	340	338	123
Inventories	168	165	66
Other non-current assets	113	113	2
Current assets	266	278	104
Total assets	1 056	1 063	295
Provisions and non-current liabilities	134	164	9
Trade payables	174	104	45
Other current liabilities	45	102	7
Total liabilities	353	370	61
Gain on disposal	625	-	76
Provisions, accruals and expenses	(150)	-	-
Net gain on disposal	475	-	76
Total consideration	1 415	-	310
Initial price adjustment	(37)	-	-
Cash adjustments following completion of deal	(50)	-	-
Total net consideration	1 328	-	310
Satisfied by:			
Cash	1 108	-	320
Deferred consideration	220	-	(10)
Net cash inflow arising on disposal	1 108	-	296
Cash consideration received	1 093	-	310
Cash, cash equivalents and bankoverdrafts disposed of	15	-	(14)

The deferred consideration for an amount of 220 million euro received for the divestiture of Specialty Chemicals concerns the 5 772 857 shares of Cytec Industries Inc. The deferred consideration for an amount of 10 million euro for the divestiture of Specialty Films relates to a liability assumption by Innovia plc.

During the year, the Surface Specialties business segment (i.e. Specialty Chemicals) contributed negatively 42 million euro (in 2004: Surface Specialties business segment including Specialty Chemicals for 12 months and Specialty Films for 9 months: 129 million euro) to the Group's net operating cash flow, paid 4 million euro (2004: 26 million euro) in respect of investing activities and was neutral (2004: 1 million euro) with respect to financing activities.

7. DISPOSAL OF SUBSIDIARIES, OTHER THAN DISCONTINUED OPERATIONS

In August 2005 UCB announced the divestiture of Celltech Manufacturing Services Ltd. located in Ashton (U.K.) to Inyx Inc. The net assets of Celltech Manufacturing Services Ltd. at the date of disposal and at 31 December 2004 were as follows:

million EUR	2005 at 31 August	2004 at 31 December
Property, plant and equipment	6	2
Inventories	9	7
Current assets	2	2
Total assets	17	11
Trade payables	-	3
Other current liabilities	11	10
Total liabilities	11	13
Gain on disposal	22	-
Provisions, accruals, liabilities and curtailment gain remaining at UCB	(4)	-
Net gain on disposal	18	-
Total consideration	28	-
Satisfied by		
Cash payment:	20	-
Deferred consideration	8	-
Net cash inflow arising from disposal	9	-
Cash consideration received	20	-
Cash, cash equivalents and bank overdrafts disposed of	(11)	-

8. OPERATING EXPENSES BY NATURE

Depreciation, amortisation and impairment losses are included in the consolidated income statement for the year 2005:

million EUR	Depreciation and impairment on property, plant and equipment	Amortisation and impairment on intangible assets and goodwill
Cost of sales	(34)	(29)
Research and Development expenses	(10)	-
General and Administrative expenses	(9)	(5)
Other operating income/(expenses)	(1)	(4)
Other income/(expenses)	-	(67)
Total operating expenses by nature	(54)	(105)

9. OTHER OPERATING INCOME AND EXPENSES

The other operating income relates mainly to the license fee income from GlaxoSmithKline K.K. Japan (GSK) for the co-distribution of Zyrtec® in Japan. This co-distribution agreement came into effect as from 1 July 2005. The revenue associated with this new distribution agreement is recognised on an accrual basis over the period of the agreement.

10. IMPAIRMENT OF NON-FINANCIAL ASSETS

A review of the carrying amounts of the Company's assets resulted in the recognition of impairment charges amounting to 67 million euro. These impairment charges are entirely related to the intangible assets recognised at the moment of the acquisition of the Celltech Group plc. Impairment charges amounting to 60 million euro have been recognised on CDP Inflammatory (Note 17) and amounting to 2 million euro on marketed patented products. The trademarks were impaired for an amount of 5 million euro.

11. RESTRUCTURING EXPENSES

Following the acquisition of Celltech Group plc in 2004 and the divestitures of Specialty Films in 2004 and Specialty Chemicals in 2005, UCB materially changed its scope of business. The restructuring expenses totalling 39 million euro, comprise mainly employee-related charges (28 million euro), the asset write-down related to the closure of UCB Boston's research department (4 million euro) and the termination of the research project in France (2 million euro).

12. OTHER INCOME AND EXPENSES

The 33 million euro other income is mainly the result of the pursued transformation of UCB from a diversified group into a biopharmaceutical company triggering a number of disposals and divestitures within the product portfolio of the Group and a rationalisation of the production facilities.

In July 2005 UCB announced the sale of Food Diagnostics to Neogen Corp. The transaction was closed in December 2005, resulting in a disposal gain of 8 million euro.

UCB announced in August 2005 the divestiture of Celltech Manufacturing Services Ltd. located in Ashton (U.K.) to Inyx Inc. resulting in a capital gain of 18 million euro.

In December 2005 UCB reached an agreement with Actelion A.G. replacing its existing license agreement with immediate effect for the product Zavesca®, resulting in the recognition of an upfront payment of 8 million euro.

13. EMPLOYEE BENEFITS EXPENSES

million EUR	2005	2004
Wages and salaries	399	357
Social security expenses	86	73
Other employee expenses	6	1
Pension costs – defined contribution plans	7	6
Pension costs – defined benefit plans	5	8
Share-based payment expenses	4	1
Total employee benefits expenses	507	446

The charges for employee benefits are included in the relevant expenditure line by function, except when they relate to discontinued operations, where they are recorded in the result of discontinued operations. Other employee expenses consist mainly of life insurance schemes and certain other insurance schemes providing medical coverage and other long-term and short-term disability benefits.

For further detail about employee benefit plans and share-based payments costs, refer to notes 27 and 28, respectively.

Headcount at 31 December	2005	2004
Hourly Paid	1 127	1 280
Monthly Paid	4 783	4 862
Management	2 615	2 456
Total	8 525	8 598

14. NET FINANCING COSTS

million EUR	2005	2004
Interest income	42	23
Interest expense	(80)	(39)
Net foreign exchange gains/(losses)	(2)	14
Net revaluation to fair value of derivative financial instruments	2	3
One-time financial income	40	-
Dividend income	2	-
Interest rate swaps: cash flow hedges, transfer from equity	1	-
Impairment on financial assets	(3)	-
Other	(4)	(2)
Total net financing costs	(2)	(1)

One-time financial income: As part of the Celltech acquisition, UCB inherited a series of corporate entities worldwide, which were the result of various transactions Celltech previously entered into (acquisitions of Medeva, Chirosciences or Oxford GlycoSciences). The funding of the legacy Celltech entities was mainly ensured by means of inter-company loan notes, denominated either in U.S. dollar or GB pound. It is UCB's policy to hedge the currency risk of such inter-company transactions and both the application of this policy to the legacy Celltech legal entities and the integration/restructuring of these companies within UCB throughout 2005 led to a one-time net exchange gain of 40 million euro in 2005.

15. INCOME TAX EXPENSE

million EUR	2005	2004
Current income taxes	(145)	(112)
Deferred income taxes	53	29
Total income tax expense	(92)	(83)

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 differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies.

15. INCOME TAX EXPENSE (CONTINUED)

Income taxes recognised in the income statement can be detailed as follows:

million EUR	2005	2004
Profit before income taxes	362	280
Tax calculated at domestic tax rates applicable in the respective countries	(108)	(93)
Theoretical income tax rate	29.8%	33.2%
Reported current income tax	(145)	(112)
Reported deferred income taxes	53	29
Total reported tax charge	(92)	(83)
Effective income tax rate	25.4%	29.6%
Difference between theoretical tax and reported tax	16	10
Expenses non-deductible for tax purposes	(107)	(92)
Non-taxable income	115	80
Tax credits	5	4
Variation in tax rates	1	-
Other tax rate effects	38	28
Current tax adjustments related to prior years	(1)	-
Deferred tax adjustments related to prior years	-	(2)
Write-down of previously recognised deferred tax assets	(17)	(8)
Withholding tax impact on intercompany dividends	(12)	-
Other taxes	(6)	-
Difference between theoretical and reported tax	16	10

The change in the effective tax rate from 29.6% in 2004 to 25.4% in 2005 is mainly the result of the amortisation and impairment charges related to the intangible assets that were re-measured at fair value as part of the Celltech Group plc acquisition. Deferred taxes arising on these amortisation and impairment charges are calculated at a higher average effective tax rate than that arising on income excluding these expenses.

Furthermore, the change in the effective tax rate results from the fact that a large portion of the capital gains realised in 2005 was tax free.

Income taxes were directly recognised in equity as follows:

million EUR	2005	2004
Effective portion of changes in fair value of cash flow hedges	8	2
Income taxes directly recognised in equity	8	2

16. EARNINGS PER SHARE

Basic earnings per share

EUR	2005	2004
From continuing operations	1.88	1.36
From discontinued operations	3.38	0.91
Total	5.26	2.27

Basic earnings per share is calculated by dividing the profit attributable to equity holders 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.

Diluted earnings per share

EUR	2005	2004
From continuing operations	1.85	1.35
From discontinued operations	3.32	0.90
Total	5.17	2.25

Diluted earnings per share are calculated adjusting the weighted average number of ordinary shares outstanding to assume exercise of all-in-the-money share options not covered by treasury shares, and re-issue of all treasury shares.

The numerators used are the same as those detailed above for both earnings per share from continuing and discontinued operations.

For the shares options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares).

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:

Earnings

million EUR	2005	2004
Profit from continuing operations	270	197
Profit from discontinued operations	485	132
Profit attributable to equity holders	755	329

Number of shares

In thousand shares	2005	2004
Weighted average number of ordinary shares for the purpose of basic earnings per share	143 512	144 447
Dilution effect if all in-the-money options are exercised	190	-
Dilution effect of treasury shares	2 421	1 486
Weighted average number of ordinary shares for the purpose of diluted earnings per share	146 123	145 933

On 10 June 2003, the Group issued a loan note with warrants which could result, if exercised, in the creation of 30 million additional shares. The exercise of those warrants is restricted by specific conditions which were not met at 31 December 2005. Therefore, those contingently issuable shares have not been taken into account for the calculation of the diluted earnings per share.

17. INTANGIBLE ASSETS

million EUR	Trademarks, patents and licenses	2004 Other[1]	Total
Gross carrying amount at 1 January 2004	141	48	189
Acquisition through business combinations	324	463	787
Additions	19	3	22
Disposals	(5)	(5)	(10)
Transfer from one heading to another	(4)	4	-
Other	(2)	-	(2)
Disposal through sale of businesses	(33)	(8)	(41)
Currency translation adjustments	(27)	(29)	(56)
Gross carrying amount at 31 December 2004	413	476	889
Accumulated amortisation and impairment losses at 1 January 2004	(70)	(20)	(90)
Additions	(32)	(6)	(38)
Disposals	4	6	10
Transfer from one heading to another	2	(2)	-
Disposal through sale of businesses	30	7	37
Currency translation adjustments	1	-	1
Accumulated amortisation and impairment losses at 31 December 2004	(65)	(15)	(80)
Net carrying amount at 31 December 2004	348	461	809

million EUR	Trademarks, patents and licenses	2005 Other[1]	Total
Gross carrying amount at 1 January 2005	413	476	889
Additions	29	11	40
Disposals	(1)	-	(1)
Transfer from one heading to another	8	(8)	-
Currency translation adjustments	27	14	41
Disposals through sale of businesses	(68)	(20)	(88)
Gross carrying amount at 31 December 2005	408	473	881
Accumulated amortisation and impairment losses at 1 January 2005	(65)	(15)	(80)
Additions	(37)	(3)	(40)
Disposals	1	-	1
Currency translation adjustments	(2)	-	(2)
Impairment losses recognised in the income statement	(7)	(60)	(67)
Disposals through sale of businesses	20	8	28
Accumulated amortisation and impairment losses at 31 December 2005	(90)	(70)	(160)
Net carrying amount at 31 December 2005	318	403	721

The majority of the Group's intangible assets result from the acquisitions made by the Group. The patents, licenses and trademarks are recorded at fair value in the purchase accounting and are subsequently amortised over their useful life which is mainly determined by the expiry date of those patents, trademarks and licenses.

1 Other intangibles include acquired intangible assets not yet available for use.

17. INTANGIBLE ASSETS (CONTINUED)

Furthermore the Group recognised intangible assets that are not yet available for use. These intangible assets are accounted for at fair value at the moment of the business combination and are tested for impairment on an annual basis. With respect to the impairment test, the calculations use cash flow projections based on financial budgets approved by the management covering the period until the estimated expiry date of the patent. The discount rate is the average for all geographical areas in which the Group is active.

The Group has currently no internally generated intangible assets from development as the criteria for recognition under IFRS are not met.

In 2005 the Group has recognised an impairment charge of 60 million euro related to CDP Inflammatory. The Inflammatory impairment charge is essentially caused by the decision to stop further development of the CDP 484 inflammation compound in view of the lack of confidence in the profile of the molecule to make it a successful, potent and safe drug.

The Group has recognised an impairment charge of 7 million euro on the trademarks and royalty streams related to patented products.

These impairment charges have been accounted for in the income statement as impairment of non-financial assets.

18. GOODWILL

The goodwill movements can be detailed as follows:

million EUR	
At 1 January 2004	178
Additions through business combinations	1 655
Currency translation adjustments	(156)
Disposals through sale of businesses	(1)
At 31 December 2004	1 676
At 1 January 2005	1 676
Additions through business combinations	-
Currency translation adjustments	156
Disposals through sale of businesses	(169)
At 31 December 2005	1 663

Goodwill is allocated to the Group's cash-generating units (CGU's) identified. In 2004, the goodwill is allocated, following the acquisition of Celltech, to the biopharmaceutical business segment.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a 20-year period. The perpetual growth rate is an average rate by business segment and geographical area. The discount rate is the average for all geographical areas.

The goodwill decreased by 169 million euro in 2005 due to the disposal of Surface Specialties.

19. PROPERTY, PLANT AND EQUIPMENT

million EUR	Land and buildings	Plant and machinery	2004 Office, computer equipment, vehicles & other	Assets under construction	Total
Gross carrying amount at 1 January 2004	479	905	117	22	1 523
Additions through business combinations	85	135	35	-	255
Additions	30	46	16	18	110
Disposals	(5)	(43)	(11)	(1)	(60)
Currency translation adjustments	(12)	(14)	(5)	(1)	(32)
Transfers from one heading to another	7	(3)	-	(4)	-
Disposals through sale of businesses	(46)	(242)	(6)	(4)	(298)
Other movements	1	1	-	(4)	(2)
Gross carrying amount at 31 December 2004	539	785	146	26	1 496
Accumulated depreciations at 1 January 2004	(125)	(463)	(75)	-	(663)
Additions through business combinations	(34)	(83)	(23)	-	(140)
Additions	(19)	(66)	(12)	-	(97)
Disposals	1	28	10	-	39
Currency translation adjustments	3	8	3	-	14
Disposals through sale of businesses	19	126	5	-	150
Other movements	-	4	-	-	4
Accumulated depreciation at 31 December 2004	(155)	(446)	(92)	-	(693)
Net carrying amount at 31 December 2004	384	339	54	26	803

million EUR	Land and buildings	Plant and machinery	2005 Office, computer equipment, vehicles & other	Assets under construction	Total
Gross carrying amount at 1 January 2005	539	785	146	26	1 496
Additions	26	48	10	6	90
Disposals	(6)	(16)	(15)	-	(37)
Currency translation adjustments	14	16	7	1	38
Transfers from one heading to another	1	11	2	(14)	-
Disposals through sale of businesses	(191)	(433)	(31)	(11)	(666)
Gross carrying amount at 31 December 2005	383	411	119	8	921
Accumulated depreciation at 1 January 2005	(155)	(446)	(92)	-	(693)
Additions	(14)	(31)	(15)	-	(60)
Disposals	6	11	12	-	29
Currency translation adjustments	(3)	(9)	(4)	-	(16)
Disposals through sale of businesses	54	250	15	-	319
Accumulated depreciation at 31 December 2005	(112)	(225)	(84)	-	(421)
Net carrying amount at 31 December 2005	271	186	35	8	500

There is no property, plant and equipment subject to restrictions on title. No property, plant and equipment is pledged as security for liabilities.

Leased assets

UCB leases buildings and office equipment under a number of finance lease agreements. The net carrying amount of leased buildings was 60 million euro (2004: 60 million euro) and leased office equipment was 3 million euro (2004: 5 million euro).

20. FINANCIAL AND OTHER ASSETS

Non-current

million EUR	2005	2004
Available-for-sale investments	246	14
Long-term trade receivables	19	20
Cash deposits	4	5
Derivative financial instruments	10	5
Reimbursement rights for defined benefit plans in Germany	20	16
Other financial assets	38	18
Total financial and other assets	337	78

Current

million EUR	2005	2004
Clinical trial material	32	31
Derivative financial instruments	19	12
Other	-	1
Total financial and other assets	51	44

Available-for-sale financial assets include the following:

million EUR	2005	2004
Shares of Cytec Industries Inc.	232	-
Debt securities listed on an active market	14	14
Total available-for-sale financial assets	246	14

million EUR	2005		2004
	Debt securities	Shares of Cytec Industries Inc.	Debt securities
At 1 January	14	-	13
Acquisition	4	220	1
Disposal	(3)	-	(1)
Revaluation through equity	-	12	1
Gain or loss removed from equity and reported in financial income or expense	(1)	-	-
At 31 December	14	232	14

As part of the consideration for the sale of Surface Specialties business in February 2005, the Group has received 5 772 857 shares of Cytec Industries Inc. The shares are classified as available-for-sale and revalued to fair value through equity. The value of these shares dropped from 50.5 U.S. dollar initially to 47.6 U.S. dollar at 31 December 2005 offset by the movement in the U.S. dollar rate. The agreement between UCB and Cytec Industries Inc. stipulates that UCB cannot divest the shares before March 2007. The 2 million euro dividend paid by Cytec Industries Inc. in 2005 has been recognised in financial income.

The Group has invested in a portfolio of fixed rate bonds, mainly issued by European governments as well as by some financial institutions. The bonds have been classified as available-for-sale and are revalued to fair value through equity until disposal. The fair value of these bonds varies in function of the level of market interest rates for instruments with similar maturities and credit risks.

There were no impairment charges on available-for-sale financial assets in 2005 or 2004.

21. INVENTORIES

million EUR	2005	2004
Raw materials and consumables	105	111
Work in progress	18	43
Finished goods	132	201
Goods purchased for resale	6	55
Inventories	261	410

Net inventories decreased by 149 million euro, primarily due to the disposal of Surface Specialties (165 million euro).

The write-downs on inventories amount to 9 million euro in 2005 (11 million euro in 2004).

There are no inventories pledged for security, neither is there any inventory stated at net realisable value. The cost of inventories recognised as an expense in 2005 amounts to 382 million euro (2004: 215 million euro), included in cost of sales.

22. TRADE AND OTHER RECEIVABLES

million EUR	2005	2004
Trade receivables	379	576
Recoverable VAT	25	27
Interest receivables	11	2
Prepaid expenses	39	37
Accrued income	25	14
Other receivables	35	55
Trade and other receivables	514	711

The carrying amount of trade and other receivables approximates their fair values.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of internationally dispersed customers.

23. CASH AND CASH EQUIVALENTS

million EUR	2005	2004
Short-term bank deposits	325	299
Cash at bank and on hand	99	235
Cash and cash equivalents	424	534
Bank overdrafts (note 25)	(29)	(67)
Cash and cash equivalents, less bank overdrafts	395	467

Cash and cash equivalents decreased by 110 million euro, of which 46 million euro was due to the disposal of Surface Specialties and the remainder invested in short-term bank deposits and the reimbursement of borrowings.

24. CAPITAL AND RESERVES

Share capital and share premium

The issued capital of the Company amounts to 438 million euro at 31 December 2005, represented by 145 933 000 shares. The Company's shares are without par value. At 31 December 2005, 53 905 598 shares were registered and 92 027 402 were bearer shares. The holders of UCB shares are entitled to receive dividends as declared and to one vote per share at Shareholders' meeting of the Company. There is no authorised, unissued capital.

At 31 December 2005 the Company has no share premium reserves.

Treasury shares

UCB Fipar, an indirect affiliate of the Company, acquired during 2005 370 000 shares through the purchase on the Euronext Stock Exchange. The total amount paid to acquire the shares amounted to 10 million euro (2004: 1 064 200 shares for a total amount of 43 million euro). The Group retained 2 457 000 shares in auto-control at 31 December 2005. These treasury shares have been acquired in order to honour the exercise of stock options granted to the Board of Directors and certain categories of employees. UCB Fipar has the right to re-sell these shares at a later date.

Other reserves

Other reserves contain the fair value reserve and the hedging reserve.
The fair value reserve represents the cumulative net change in fair value of available-for-sale financial assets until the asset is sold, impaired or otherwise disposed of. During 2005 an amount of 12 million euro has been recognised in equity for the change of the fair value of the available-for-sale investments (shares Cytec Industries Inc.).

The hedging reserve represents the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet been occurred. During 2005 an amount of 24 million euro has been recognised in equity for the change of the fair value on derivative financial instruments mainly on the expected U.S. dollar cash inflows once the Cytec Industries Inc. shares are disposed of (12 million euro), and the interest rate swap hedging the floating rate debt (10 million euro). The related tax charge amounts to 8 million euro.

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 euro.

25. INTEREST-BEARING LOANS AND BORROWINGS

Non-current

million EUR	2005	2004
Unsubordinated loans	94	82
Bank loans	900	164
Finance lease	30	32
Non-current interest-bearing loans and borrowings	1 024	278

Current

million EUR	2005	2004
Bank overdrafts	29	67
Current portion of long-term bank loans	-	51
Bank facilities	-	1 900
Finance lease	2	2
Current interest-bearing loans and borrowings	31	2 020

25. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

Maturity of Group indebtedness

million EUR	2005	2004
1 year or less	-	1 950
1–2 years	-	50
2–5 years	394	137
More than 5 years	600	60
	994	2 197
Bank overdrafts	29	67
Finance lease	32	34
Total interest-bearing loans and borrowings	1 055	2 298

Analysis of total financial debt by currency

million EUR	2005	2004
EUR	900	2 100
USD	94	83
Other	-	14
	994	2 197
Bank overdrafts	29	67
Finance lease	32	34
Total interest-bearing loans and borrowings	1 055	2 298
Average interest rate paid:		
- Fixed	3.50	4.30
- Variable	-	2.52

Finance lease

million EUR	Minimum lease payments 2005	2004
Amounts payable under finance leases:		
1 year or less	2	2
2–5 years	10	11
More than 5 years	20	21
Present value of lease obligations	32	34
Less: amount due for settlement within 12 months	2	2
Amount due for settlement after 12 months	30	32

26. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

million EUR	2005	2004
Intangible assets	(114)	(138)
Property, plant and equipment	(9)	(42)
Inventories	29	18
Trade and other receivables	14	10
Employee benefits	18	21
Provisions	24	35
Other short-term liabilities	(59)	(44)
Unused tax losses	23	31
Unused tax credits	8	6
Write-down of previously recognised deferred income tax assets	(49)	(35)
Total	(115)	(138)

Unused tax losses

million EUR	2005	2004
1 year or less	-	2
1–2 years	-	1
2–3 years	2	2
3–4 years	7	7
More than 4 years	18	19
Without expiring	45	62
Unused tax losses	72	93

Temporary differences for which no deferred tax liability is recognised

No deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries. The unrecognised deferred tax liabilities amount to approximately 13 million euro.

Temporary differences for which no deferred tax asset is recognised

Deferred tax assets are recognised on tax losses carried-forward that represent income likely to be realised in the foreseeable future. Deferred tax assets amounting to 729 million euro (2004: 384 million euro) have not been recognised in view of the uncertain character of the recovery.

27. 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.

Defined contribution plans

The assets of the schemes are held separately from those of the Group in funds under the control of trustees. When employees leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The expense recognised is shown in note 13.

Defined benefit plans

The Group operates several defined benefit plans. The benefits granted include mainly pension indemnities, jubilee premiums and termination indemnities. The benefits are granted according to local market practice and regulations.

These plans can be either unfunded or funded via outside pension funds or insurance companies. For (partially) funded plans, the assets of the plans are held separately from those of the Group in funds under the control of 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's 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's balance sheet. All main plans are assessed annually by independent actuaries.

Expenses recognised in the consolidated income statement

million EUR	2005	2004
Current service cost	21	28
Interest cost	28	28
Expected return on plan assets	(28)	(27)
Actuarial (gain)/loss recognised	2	-
Past service cost recognised	9	4
Adjustment for limit on net asset	1	-
Curtailment (gain)/loss recognised	(29)	(27)
Settlement (gain)/loss recognised	1	2
Total expense recognised in income statement	5	8

The employee benefit expenses are included in the appropriate lines in the operating profit of the income statement, except for the portion relating to discontinued operations (2005: 12 million euro income; 2004: 24 million euro income).

Of the total charge (17 million euro in 2005; 32 million euro in 2004), 6 million euro (2004: 12 million euro) was included in 'Cost of Sales'; 5 million euro (2004: 8 million euro) in 'General & Administrative expenses'; and 6 million euro (2004: 12 million euro) in 'Research & Development expenses'.

27. EMPLOYEE BENEFITS (CONTINUED)

The net curtailment gain recognised in 2005 can be further detailed as follows:

million EUR	2005
Sale of Surface Specialties	12
Conversion of existing defined benefit plan into defined contribution plan in the U.S.A.	16
Sale of Ashton	2
Other curtailments	(1)
Total	29

Following the sale of the Surface Specialties business, the Group recognised a net curtailment gain of 12 million euro, recorded in the result on discontinued operations. Most of the curtailment gain recognised in 2004 relates to the sale of the films activities to Innovia.

The Group decided to convert its defined benefit plan in the United States into a defined contribution plan with effect 31 December 2005, and recorded the curtailment effect accordingly.

Liability recognised in the balance sheet

The amounts recognised in the balance sheet are determined as follows:

million EUR	2005	2004
Present value of funded obligations	494	561
Fair value of plan assets	(438)	(484)
Deficit (surplus) for funded plans	56	77
Present value of unfunded obligations	46	86
Unrecognised actuarial gains/(losses)	(9)	(16)
Adjustment for asset ceiling	2	-
Net liability/(asset) recognised in balance sheet	95	147
Of which:		
Recognised in the non-current liabilities	112	159
Recognised in the non-current assets	(17)	(12)

The largest pension plans are in Germany, Belgium and United Kingdom.

27. EMPLOYEE BENEFITS (CONTINUED)

The regional split of the total present value of the funded and unfunded obligations can be presented as follows:

Post-employment benefit obligations by country in % of liability recognised	2005	2004
Germany	38.7%	39.6%
Belgium	29.7%	17.3%
U.K.	15.5%	13.1%
U.S.A.	1.6%	13.0%
Rest of the World	14.5%	17.0%
Total	100.0%	100.0%

The fair value of plan assets amounts to 438 million euro, representing 81.1% of the benefits accrued to members for both funded and unfunded plans. The shortfall of 102 million euro is to be cleared over the estimated remaining average service period of the current membership.

Actuarial differences are amortised over the expected average remaining service life of the beneficiaries, to the extent the total of actuarial differences accumulate to the higher of 10% of the present value of the retirement benefit obligation, and 10% of the fair value of the external plan assets at balance sheet closing date.

The assets held in the funds do not contain any direct investment in UCB 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.

In Germany, UCB GmbH and Celltech Pharma GmbH have reinsurance contracts with insurance companies which have not been considered as plan assets as these assets will be transited via the companies in case of claims. The fair value of these contracts, 20 million euro, is recorded separately on the balance sheet under the Financial and other non-current assets.

The movements in net recognised liability can be summarised as follows:

million EUR	2005	2004
At 1 January	147	178
Pension expense	5	8
Employer contributions made	(22)	(29)
Benefits paid directly by Group companies	(5)	(6)
Net transfers following the sale of Surface Specialties	(35)	-
Exchange rate (gain)/loss	5	(4)
At 31 December	95	147

The level of contributions is determined by local actuarial valuations. When employees leave the plans prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

Principal actuarial assumptions at balance sheet date

	2005	2004
Weighted average assumptions to determine benefit obligations		
Discount rate	4.75%	5.04%
Rate of compensation increase	3.93%	3.92%
Inflation rate	2.52%	2.37%
Expected long-term rate of return on plan assets	6.45%	5.86%

28. SHARE-BASED PAYMENT

The Group operates a stock option plan and a share award plan to compensate employees for services rendered. Both types of plans are equity-settled.

Expenses for equity compensation plans

The expense recognised as at 31 December 2005 for both stock options and share award plans amounts to 4 million euro, and is included in the relevant functional lines in the income statement:

million EUR	2005	2004
Marketing & Selling expenses	1	-
General & Administrative expenses	1	1
Discontinuing operations	2	-
Total expense	4	1
Of which:		
Stock option plans	3	1
Share award plan	1	-

Stock options plan

The Remuneration Committee granted options on UCB shares to the members of UCB's Global Leadership Team and those performing equivalent roles. The exercise price of the granted options in 2005 is equal to the lowest of the following two values: (i) the average of the closing price of the UCB shares on Euronext Brussels, during the 30 days preceding the offer or (ii) the closing price of the UCB shares on Euronext Brussels the day before the grant. The options become exercisable after a vesting period of about three years. If the employee leaves the Group, his/her options lapse upon expiry of a period of six months, except if taxes have been prepaid. In case of death the options lapse upon expiry of a period of 12 months. The Group has no obligation to repurchase or settle the options in cash. There are no reload features, the options are not transferable (except in case of death).

As part of the sale of the Surface Specialties business to Cytec Industries Inc. in February 2005, former employees of the Surface Specialties division were definitively entitled to their UCB options. These options represent 58.36% of the 345 100 options fully vested as at 31 December 2005. The cost corresponding to this accelerated vesting amounts to 2 million euro, and is included in the result of discontinued operations. Although fully vested, these options will only become exercisable at the end of the initially agreed vesting period.

The movements in the number of share options outstanding and their related weighted average exercise prices:

	2005			2004		
	Fair value in EUR	Weighted average exercise price, in EUR	Number of share options	Fair value in EUR	Weighted average exercise price, in EUR	Number of share options
Outstanding at 1 January	7.04	33.95	814 260	3.81	26.79	348 400
+ New Options granted	6.75	37.33	782 900	9.24	39.63	484 260
(-) Options forfeited	7.71	35.78	99 915	3.78	26.94	18 400
(-) Options exercised	-	-	-	-	-	-
(-) Options expired	-	-	-	-	-	-
Outstanding at 31 December	6.84	35.80	1 497 245	7.04	33.95	814 260
Number of options fully vested:						
At 1 January			40 000			40 000
At 31 December			345 100			40 000

The expense at 31 December 2005 of the 782 900 options granted in April 2005 at an average exercise price of 37.33 euro is included for seven months in the 31 December 2005 income statement.

28. SHARE-BASED PAYMENT (CONTINUED)

The share options outstanding at 31 December 2005 have the following expiry dates and exercise prices:

Expiry date	Range of exercise prices in EUR	Number of share options
1 June 2013	[26.58 – 27.94]	316 700
22 April 2013	19.94	3 743
6 April 2014	31.28	10 302
1 September 2014	[40.1 – 40.2]	425 100
1 April 2015	[37.33 – 37.60]	741 400
Total outstanding		1 497 245

The weighted average fair value of options granted in April 2005, determined using the Black-Scholes valuation model, was 6.75 euro.

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last 360 days. 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 options granted in May 2005 are:

Weighted average share price	EUR	37.13
Exercise price	EUR	37.33
Expected volatility	%	21.77
Expected option life	years	5.00
Expected dividend yield	%	2.12
Risk free interest rate	%	2.71
Expected annual forfeiture rate	%	9.00

Options granted before 7 November 2002

According to the transition provisions included in IFRS 2, the options granted before 7 November 2002 and not yet vested at 1 January 2005 are not amortised through the income statement. The table below describes the movement in the number of such share options outstanding.

In 1999 and 2000 respectively, UCB issued 145 200 and 236 700 subscription rights (warrants) to subscribe for one ordinary share. Out of these rights, 299 000 may still be exercised. These warrants expire progressively between 2009 and 2013.

The movement in the number of options and warrants not accounted for under IFRS 2 can be described as follows:

	2005		2004	
	Weighted average exercise price, in EUR	Number of share options	Weighted average exercise price, in EUR	Number of share options
Outstanding at 1 January	39.61	1 170 208	39.46	1 312 312
Options forfeited	39.84	(82 152)	38.26	(141 604)
Options exercised	38.14	(92 804)	38.21	(500)
Outstanding at 31 December	39.72	995 252	39.61	1 170 208

28. SHARE-BASED PAYMENT (CONTINUED)

Share award plan

The Company granted in April 2005 share awards to the members of the Leadership Team of the Group, conditional to a vesting period of 3 years. 76 600 rights were granted, at a fair value of 37.13 euro per share. The cost is spread over the vesting period. The beneficiaries are not entitled to dividends during the vesting period.

	2005
Outstanding at 1 January	-
+ New rights granted	76 600
(-) Rights forfeited	(1 500)
(-) Rights exercised	-
(-) Rights expired	-
Outstanding at 31 December	75 100
Number of rights fully vested:	
At 1 January	-
At 31 December	-

29. PROVISIONS

million EUR	Environment	Restructuring	Other	Total
At 1 January 2005	49	46	90	185
Provisions made	53	23	7	83
Provisions used	(11)	(26)	(16)	(53)
Provisions reversed	-	(3)	(15)	(18)
Discounted unwinding	1	-	-	1
Currency translation adjustments	-	3	1	4
Sale of businesses	(21)	(5)	(3)	(29)
At 31 December 2005	71	38	64	173
Non-current portion	69	8	44	121
Current portion	2	30	20	52

Environmental provisions

Due to the divestiture of Specialty Chemicals in the course of 2005 and Specialty Films in the course of 2004, the environmental provisions accounted for before 1 January 2005 have been deconsolidated.

On the other hand, due to the divestiture of Surface Specialties, UCB has retained certain liabilities with respect to the environment. The latter is the case of the divested sites on which UCB has retained full responsibility in accordance with the contractual terms agreed upon with Cytec Industries Inc. Furthermore, new provisions have been accounted for following the review of existing environmental issues. The provisions have been discounted at a rate of 3.5%.

During the year, an amount of 11 million euro has been used, mainly due to the final settlement with Innovia for an amount of 10 million euro related to environmental issues.

Restructuring provisions

Following the new focus only on biopharmaceutical drug Research & Development, a vast restructuring programme has been entered into. This has lead to the announcement of the reorientation of the sales forces, the integration of the different administrative departments and staffing, and the closure of the production facility in South Korea.

29. PROVISIONS (CONTINUED)

Other provisions

Other provisions relate mainly to tax risks, product liability and litigations. Provisions for tax risks are recorded if UCB considers that the tax authorities might challenge a tax position taken by the Group or a subsidiary. Provisions for litigation comprises mainly provisions for litigations where UCB or a subsidiary is or might be a defendant against claims of previous employees. Product liability provisions relate to the risks related to the normal course of business and for which the Group might be liable by selling these kinds of drugs.

An assessment is performed with respect to the above-mentioned risks together with the Group's legal advisers and experts in the different domains.

30. TRADE AND OTHER LIABILITIES

Non-current

million EUR	2005	2004
Derivative financial instruments	16	-
GSK/Sumitomo	37	-
Pfizer payable	-	6
Total non-current trade and other liabilities	53	6

Current

million EUR	2005	2004
Derivative financial instruments	27	5
Trade payables	234	373
Taxes payable, other than income tax	23	19
Payroll and social security liabilities	68	81
Pfizer payable	5	-
Other payables	25	41
Deferred income	8	4
Royalties payable	11	2
Rebates/discount payable	34	28
Accrued interest	27	6
Other accrued expenses	63	46
Total current trade and other liabilities	525	605

31. DERIVATIVE FINANCIAL INSTRUMENTS

Foreign currency derivatives

The Group's policy to use financial derivative contracts is described above in note 3 'Financial Risk Management and Hedging Activities'. Derivative financial instruments are carried at fair value.

The amounts recognised on the balance sheet are:

	Assets		Liabilities	
million EUR	2005	2004	2005	2004
Forward exchange contracts	14	12	24	3
Currency swaps	15	2	12	2
Total foreign currency derivatives	29	14	36	5
Of which:				
Non-current	10	2	9	-
Current	19	12	27	5

The fair values in function of the currency of the contracts are:

	Assets		Liabilities	
million EUR	2005	2004	2005	2004
USD	1	10	26	-
GBP	17	-	-	-
EUR	1	-	9	3
JPY	10	3	-	2
Other currencies	-	1	1	-
Total foreign currency derivatives	29	14	36	5

Many of these transactions can be considered as hedges in economic terms. However, the application of hedge accounting rules is limited to the contracts and circumstances described below.

As a general rule, the hedging instrument and the hedged item are reported independently as if there was no hedging relationship, which means that all derivatives are reported at fair value, with changes in fair value included in financial income or expense. The Group expects that any gain or loss in value of these derivative instruments generally would be off-set by changes in the value of hedged transactions.

As explained in the Financial Risk Management section, most of the Group's foreign currency derivatives are entered into to hedge commercial flows, including foreign currency Sales and Royalty streams. The Group also entered into foreign exchange forward contracts to hedge future commercial exposures after 31 December 2005, for a total notional amount of 322 million euro.

The fair values recognised in function of the maturity of the contracts are:

million EUR	2005
Net asset/(liability)	
1 year or less	(9)
1–5 years	(5)
Beyond 5 years	7
Total foreign currency derivatives	(7)

31. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The following table shows the split of foreign currency financial derivatives by currency of denomination (currencies sold view).

million EUR

Notional amounts	USD	GBP	EUR	JPY	Other currencies	Total
Forward contracts	586	610	807	42	11	2 056
Currency swaps	571	567	0	92	23	1 253
Total	1 157	1 177	807	134	34	3 309

Interest rate derivatives

The Group uses interest rate swaps (IRSs) to manage its exposure to interest rate movement on its variable rate borrowings. Contracts with nominal values of 900 million euro have fixed interest payments at an average rate of 3.22% plus a margin of 25 basis points for periods up to 2012 and have floating interest receipts at EURIBOR 6 months. The re-pricing dates and amortisation characteristics are aligned with those of the 900 million euro floating rate syndicated loan recorded in the non-current interest-bearing loans and borrowings.

million EUR	Fair value 2005	2004
Derivative financial assets	-	3
Derivative financial liabilities	7	-

The variations of the reference rate on the received floating legs of the swaps are off-set by the variations in the floating rate payments on the 900 million euro syndicated loan.

Derivatives designated as cash flow hedges

Some of the outstanding currency derivatives have been designated as hedging instruments, as they hedge the Group against the volatility of exchange rates or interest rates, which may affect its future cash flows. IAS 39 allows applying specific hedge accounting rules to such transactions when the relationship proves to be effective, both at inception of the hedge and afterwards.

For cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and released when the underlying transactions are recognised and affect the income statement.

million EUR	2005			2004		
Gains and losses on hedging instruments recognised in equity	Currency risk	Interest rate risk	Total	Currency risk	Interest rate risk	Total
At 1 January	4	3	7	11	1	12
Recognised in equity	(13)	(10)	(23)	(7)	2	(5)
Removed from equity and included in income statement	-	(1)	(1)	-	-	-
At 31 December	(9)	(8)	(17)	4	3	7

The interest rate swaps are effective hedging instruments for the exposure to fluctuations in the reference interest rate of the 900 million euro syndicated loan, and have been re-valued through equity.

The Group has entered into foreign currency forward contracts to hedge the exposure to variations of the U.S. dollar on its investment in Cytec Industries Inc. for a total notional amount of 210 million U.S. dollar, or 76% of the investment at 31 December 2005. These contracts are designated as cash flow hedges, and mature in 2007.

The Group also entered into foreign currency forward contracts to hedge a portion of highly probable future sales and royalty income, expected to occur in 2006.

32. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The non-cancellable operating lease rentals have the following expiration:

million EUR	2005	2004
Less than one year	11	10
Between one and five years	12	10
More than five years	-	-
Total	23	20

The Group has a number of non-cancellable operating leases primarily related to company cars and office equipment. The leases are for an initial period of 3 to 5 years.

Lease payments are increased annually to reflect market rentals. None of the leases include contingent rentals. In 2005, 13 million euro (2004: 12 million euro) was recognised as an expense in the income statement in respect of operating leases.

Purchase obligations

The purchase obligations primarily relate to contractual obligations to investments in property, plant and equipment (2005: 12 million euro; 2004: 24 million euro).

Other guarantees

The Company has provided guarantees to:
- XL Insurance company Ltd. in respect of reinsurance liabilities (6 million U.S. dollar);
- Ovam in respect of environmental liabilities (13 million euro);
- Sandoz in respect of manufacturing capacity arrangements (8 million euro).

Contingent assets

On 26 April 2005 UCB and Lonza A.G. announced they had entered into a strategic biomanufacturing alliance. UCB and Lonza have signed a long-term supply agreement, under which Lonza will manufacture PEGylated antibody fragment based bulk actives for UCB. Lonza is currently building a commercial scale biopharmaceutical manufacturing facility that is co-financed by UCB. Based on the terms and conditions of the agreement related to the manufacturing facility, the agreement will be accounted for as an operating lease in the consolidated financial statements of UCB once the facility is available for use. Nevertheless, the agreement stipulates that 50% of the joint assets are owned by UCB, which means that:
- the facility excluding the land on which it is built,
- the technology used by Lonza,
- all the capital items acquired, created or developed by Lonza during the term of the agreement, and
- all other assets that are acquired, created or developed by or on behalf of Lonza and where it has been wholly or partially funded by UCB, will belong to UCB, not taking into account any improvements made by Lonza.

33. RELATED PARTIES

The Group is controlled by Société Financière de Tubize S.A., which owns 40.33% of the Company shares and 3.03 % is held by EuroPacific Growth Fund. The remaining 56.64% shares are listed on Euronext and widely held.

Sale of services

Following the divestiture in February 2005 of the remaining activities of Surface Specialties, UCB transitionally continued to provide certain services to Cytec Industries Inc. All the service-level agreements negotiated with Cytec Industries Inc. can be regarded as arm's length transactions. The majority of these agreements expired before year-end.

Key management compensation

Key management compensation disclosed in the following table comprises amounts recognised 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 EUR	2005	2004
Salaries and other short-term employee benefits	4	4
Termination benefits	-	1
Post-employment benefits	1	1
Total expense	5	6

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 amortisation over the vesting period of the fair value of equity instruments granted, and comprises stock options and share awards as further explained in note 28.

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.

Loans to related parties

The Group has granted in 1997 a loan to its reference shareholder, Société Financière de Tubize S.A., maturing in July 2006, at a rate of 4%. The following table summarises the movements related to this loan:

million EUR	2005	2004
At 1 January	12	17
Loan repayments received	(6)	(5)
Interest charged	-	1
Interest received	(1)	(1)
At 31 December	5	12

The outstanding balance of this loan is included in the balance sheet in the financial and other assets.

On the other hand, the Société Financière de Tubize S.A. has granted a roll-over loan facility to UCB S.A. at market conditions. At the last fixing date, the interest rate charged was 2.37%.

34. TRANSITION TO IFRS

1. Reconciliation of the income statement from Belgian GAAP to IFRS for the period ended at 31 December 2004

million EUR	Belgian GAAP	IFRS adjustments	IFRS
Operating profit	502	(40)	462[1]
Impact of revenue translation at spot rate		(8)	
Reversal of Research & Development expenses capitalised under Belgian GAAP during 2004 and expensed under IFRS as these were not meeting the criteria set by IAS 38		(51)	
Reversal of goodwill amortisation recorded in Belgian GAAP		29	
Increase of cost of sales resulting from the fact that Celltech inventories were accounted for in IFRS at fair value at acquisition date while accounted for at cost under Belgian GAAP		(26)	
Decrease of pension costs mainly as a result of the curtailment realised in connection with the disposal of the Films activities		19	
Additional amortisation expense on intangibles assets (mainly resulting from the recognition of Celltech intangibles assets at fair value at acquisition date in accordance with IFRS 3)		(15)	
Decrease of depreciation expense on tangible assets as a result of the change of useful lives adopted in IFRS compared to those used under Belgian GAAP		11	
Additional capital gain on the disposal of the Films division		4	
Provisions reversed during 2004 under Belgian GAAP while already reversed in the opening balance sheet under IFRS		(3)	
Net reversal of impairment losses recorded in Belgian GAAP in 2004 while already reflected in the IFRS opening balance sheet		3	
Other (net)		(3)	
Net financing cost	(10)	(18)	(28)
Net financial loss resulting from the application of IAS 39 relating to financial instruments (mainly swap and forward contracts)		(8)	
Impact of the change of translation method of group companies (monetary/non-monetary method not compliant under IFRS)		(7)	
Other (net)		(3)	
Income tax expense	(129)	24	(105)
Tax impact on the above adjustments		24	
(The decrease of the effective tax rate from 26.3% under Belgian GAAP to 24.1% under IFRS is mainly explained by the fact that the reversal of goodwill depreciation is tax exempted)			
Profit	363	(34)	329

1 Including 76 million euro capital gain on the sale of Specialty Films, presented under discontinued operations on the face of the income statement.

34. TRANSITION TO IFRS (CONTINUED)

2. Total equity reconciliation between Belgian GAAP and IFRS as per 1 January 2004

million EUR	
Net equity in accordance with Belgian GAAP	1 784
Research and development expenses	(253)
Deferred income taxes	63
Treasury shares	(34)[1]
Employee benefits	(76)
Property, plant and equipment	108
Intangible assets	23
Goodwill	(17)
Measurements of financial instruments at fair value	17
Impairment of assets	(43)
Dividends	119
Net equity in accordance with IFRS	1 691

1 Under Belgian GAAP, treasury shares were accounted for at market value. As a consequence an impairment of 8 million euro was already included in the net equity as per Belgian GAAP, explaining the difference between the (34) million euro above, and the (42) million treasury shares as per 1 January 2004 in the consolidated statement of changes in equity.

34. TRANSITION TO IFRS (CONTINUED)

3. Reconciliation of the balance sheet from Belgian GAAP to IFRS at 31 December 2004

million EUR		Belgian GAAP	Effects of transition to IFRS	IFRS
ASSETS				
Non-current assets				
Intangible assets	(1)	595	214	809
Goodwill	(2)	2 155	(479)	1 676
Property, plant and equipment	(3)	700	103	803
Deferred income tax assets	(4)	92	61	153
Employee benefits	(5)	6	6	12
Financial and other assets	(6)	43	35	78
Total non-current assets		3 591	(60)	3 531
Current assets				
Inventories	(7)	439	(29)	410
Trade and other receivables		718	(7)	711
Income tax receivables		-	21	21
Financial and other assets	(6)	-	44	44
Cash and cash equivalents	(8)	626	(92)	534
Total current assets		1 783	(63)	1 720
Total assets		5 374	(123)	5 251
EQUITY AND LIABILITIES				
Equity				
Capital and reserves attributable to UCB shareholders		1 960	(320)	1 640
Minority interest		5	-	5
Total equity		1 965	(320)	1 645
Non-current liabilities				
Interest-bearing loans and borrowings	(9)	247	31	278
Deferred income tax liabilities	(4)	132	159	291
Employee benefits	(5)	55	104	159
Other liabilities		5	1	6
Provisions	(10)	178	(46)	132
Total non-current liabilities		617	249	866
Current liabilities				
Interest-bearing loans and borrowings	(9)	2 023	(3)	2 020
Trade and other current liabilities	(11)	769	(164)	605
Income tax payables		-	62	62
Provisions	(10)	-	53	53
Total current liabilities		2 792	(52)	2 740
Total liabilities		3 409	197	3 606
Total equity and liabilities		5 374	(123)	5 251

34. TRANSITION TO IFRS (CONTINUED)

3. Reconciliation of the balance sheet from Belgian GAAP to IFRS at 31 December 2004 (continued)

(1): Intangible assets

million EUR	
Intangible assets in accordance with Belgian GAAP	595
Intangible assets resulting from the Celltech acquisition accounted for at fair value	682
Impact of translation Celltech intangibles at closing rate	(66)
Customer contracts obtained through the acquisition from Solutia in 2003 have been accounted at fair value	19
The reversal of research and development expenses capitalised under Belgian GAAP but expensed under IFS as not meeting all the criteria set by IAS 38	(302)
Reclassification of goodwill presented under intangible assets in Belgian GAAP while separately presented under IFRS	(112)
Additional amortisation on intangible assets recognised on Celltech	(11)
Other	4
Intangible assets in accordance with IRFS	809

(2): Goodwill

million EUR	
Goodwill in accordance with Belgian GAAP	2 155
Application of the purchase accounting upon Celltech's acquisition	(480)
Impact of translation of goodwill at closing exchange rate	(100)
Reclassification of goodwill presented as intangible assets under Belgian GAAP	112
Presentation of Solutia's customer contracts as intangible assets while presented as goodwill under Belgian GAAP	(17)
Impairment recorded on various acquisition goodwill as of 31 December 2003	(25)
Reversal of the amortisation of the year	29
Other	2
Goodwill in accordance with IRFS	1 676

(3): Property, plant and equipment

The increase of the net book value of tangible assets of 72 million euro, results mainly from the harmonisation of the useful lives of equipment. The single depreciation period of 7 years under Belgian GAAP has been broken down in multiple periods based on more detailed analysis of useful lives. These periods range from 7 to 15 years under IFRS. Additionally, several lease contracts qualify as financial leases under IFRS while presented as operating lease under Belgian GAAP. At 31 December 2004, the net book value of those contracts amounted up to 31 million euro.

(4): Deferred taxes

The difference between the net deferred tax liability position under IFRS (98 million euro) and Belgian GAAP (40 million euro) mainly results from the deferred tax impact of the IFRS adjustments (-95 million euro), from the deferred tax impact of the difference in Celltech's purchase accounting between Belgian GAAP and IFRS (+202 million euro) and the reclassification of a provision for tax litigation for (9) million euro accounted for under IFRS provisions.

(5): Employee benefits

The variance between Belgian GAAP and IFRS is due to the recognition of additional provisions in connection with defined benefit plans.

(6): Financial and other assets

The major difference is explained by the fair value adjustment relating to financial instruments (non-current and current) and the reclassification of bonds.

(7): Inventories

The major difference is explained by the reclassification of clinical trial material amounting to 31 million euro from inventories to other current assets under IFRS.

34. TRANSITION TO IFRS (CONTINUED)

3. Reconciliation of the balance sheet from Belgian GAAP to IFRS at 31 December 2004 (continued)

(8): Cash and cash equivalents

Treasury shares held by the Group are deducted from equity for 77 million euro. The bonds (13 million euro) and the long-term securities held by the Group (3 million euro) have been reclassified to non-current financial and other assets.

(9): Interest-bearing loans and borrowings (non-current and current)

Lease obligations meeting the definition of financial lease under IAS 17 have been capitalised. The additional leasing debt amounts to 32 million euro.

(10): Provisions (non-current and current)

Additional environmental provisions (16 million euro) have been partially off-set by the reversal of provisions which do not fulfil the criteria of IAS 37 (13 million euro). The remaining difference is explained by reclassifications for a provision for tax litigation from deferred tax liabilities (9 million euro) and an accrual for (10) million euro to trade and other payables.

(11): Trade and other current liabilities/Income tax payables

Dividends are only shown as a payable when approved by the Shareholders' meeting. Under IFRS, the proposed dividend payable of 126 million euro is still included in the reserves.

4. Total equity reconciliation between Belgian GAAP and IFRS as per 31 December 2004

million EUR	
Net equity in accordance with Belgian GAAP	1 965
Research and development expenses	(302)
Deferred income taxes	95
Treasury shares	(77)[1]
Employee benefits	(74)
Property, plant and equipment	69
Intangible assets	9
Goodwill	12
Measurements of financial instruments at fair value	11
Impairment of assets	(27)
Provisions	(3)
CTA	(154)
Dividends	126
Other	(5)
Net equity in accordance with IFRS	1 645

1 Under Belgian GAAP, treasury shares were accounted for at market value. As a consequence an impairment of 8 million euro was already included in the net equity as per Belgian GAAP, explaining the difference between the (77) million euro above, and the (85) million treasury shares as per 1 January 2004 in the consolidated statement of changes in equity.

35. EVENTS AFTER THE BALANCE SHEET DATE

Dividend proposal

The Board of Directors proposes a gross dividend of 0.88 euro per share or 128 million euro for the business year 2005. This dividend proposal is subject to approval by the UCB shareholders on their annual meeting on 13 June 2006, and has not been recorded in the 2005 financial statements.

Divestiture of Bioproducts Manufacturing Division

On 17 January 2006 UCB announced the sale of its Bioproducts Manufacturing Division, located in Belgium, to Lonza Group A.G. This division, active in chemical peptide manufacturing, employing approximately 300 people and with net assets of about 41 million euro was acquired by Lonza for a total cash consideration of 120 million euro. Management expects the gain realised on this divestiture, after provisions and expenses, will amount between 30 and 40 million euro, net of income taxes.

36. UCB COMPANIES

List of UCB companies, accounted for by the full consolidation method

Name and office	% of shareholding (economic interest)
Australia	
UCB Australia Pty Ltd. – Level 1, 1155 Malvern Road – 3144 Malvern Victoria	100.00
Austria	
UCB Pharma GmbH – Brünnerstrasse 73/5 – 1210 Wien	100.00
Belgium	
UCB S.A. – Allée de la Recherche 60 – 1070 Brussels	100.00
UCB Fipar S.A. – Allée de la Recherche 60 – 1070 Brussels	100.00
UCB Actias S.A. – Allée de la Recherche 60 – 1070 Brussels	100.00
Fin UCB S.A. – Allée de la Recherche 60 – 1070 Brussels	100.00
GIC S.A. – Allée de la Recherche 60 – 1070 Brussels	100.00
Mio Zwijnaarde N.V. – Allée de la Recherche 60 – 1070 Brussels	100.00
UCB Pharma S.A. (Belgium) – Route de Lennik 437 – 1070 Brussels	100.00
Sifar Belgium S.A. – Allée de la Recherche 60 – 1070 Brussels	100.00
Celltech Pharma S.A. (Belgium) – Allée de la Recherche 60 – 1070 Brussels	100.00
Czech Republic	
UCB Pharma SRO (Czech Republic) – Budova Raiffeisen Stavebni Sporitelny Konenvova 99 – 13000 Praha 3	100.00
Denmark	
UCB Denmark A/S in liquidation – Östmarken 3 – 2860 Soborg	100.00
UCB Nordic APS – Arme Jacobsen Alle 15 – 2300 Copenhagen	100.00
Finland	
UCB Pharma OY (Finland) – Melminkaari 5 – 00700 Helsinki	100.00
France	
UCB France S.A. – 21 Rue de Neuilly – 92003 Nanterre	100.00
UCB Pharma S.A. (France) – 21 Rue de Neuilly – 92003 Nanterre	100.00
UCB Healthcare SNC – 3-5 Rue Diderot – 92003 Nanterre	100.00
Vedim Pharma SNC (France) – 7 Rue Diderot – 92003 Nanterre	100.00
Celltech France SAS – 21 Rue de Neuilly – 92003 Nanterre	100.00
Celltech Pharma S.A. (France) – 21 Rue de Neuilly – 92003 Nanterre	100.00
Germany	
Vedim Pharma GmbH – Hüttenstrasse 205 PF 1340 – 50170 Kerpen-Sindorf	100.00
UCB Healthcare GmbH – Hüttenstrasse 205 PF 1340 – 50170 Kerpen-Sindorf	100.00
Rodleben Pharma GmbH – Postfach 205 – 06855 Rosslau	100.00
UCB GmbH – Hüttenstrasse 205 PF 1340 – 50170 Kerpen-Sindorf	100.00
Celltech Pharma GmbH & Co Kg – Bamlerstrasse 1B – 45141 Essen	100.00
Celltech Pharma Deutschland GmbH & Co KG – Bamlerstrasse 1B – 45141 Essen	100.00
Celltech Pharma Beteiligungs GmbH – Bamlerstrasse 1B – 45141 Essen	100.00
Greece	
Ilika Epikalipseon Hellas EPE (in liquidation) – 39-42 Grigoriou Lambraki and Ulof Palme Str 2 – 14123 Likovrissi Attika	100.00
UCB AE – 580 Vouliagmenis Avenue – 16452 Argyroupolis Athens	100.00
Hong Kong	
UCB Pharma Ltd. – Unit 1002-03, 10/F Guangdong Finance Bldg, 88 Connaught Road West Hong Kong	100.00

36. UCB COMPANIES (CONTINUED)

Name and office	% of shareholding (economic interest)
Hungary	
UCB Hungary Ltd. – Huvösvölgyi U. 54 Bldg II – 1021 Budapest	100.00
India	
UCB India Private Ltd. – 504 Peninsula Towers, Peninsula Corporate Park, Ganpatrao Kadam Marg, Lower Parel – 400013 Mumbai	100.00
Uni Mediflex Private Ltd. – G-6 Venus Apartments RG Thandani Marg Worli – 400018 Mumbai	99.99
Ireland	
UCB Pharma Ireland Ltd. – United Drug House Magna Drive, Magna Business Park, City West Road – Dublin 24	100.00
Celltech Pharma Ireland – United Drug House Belgard Road – Tallaght – Dublin 24	100.00
Celltech Reinsurance Ltd. – 4nd fl St. James House 25-29 Adelaide Road Dublin 2	100.00
Celltech Insurance Ltd. – 4bd fl St. James House 25-29 Adelaide Road Dublin 2	100.00
Italy	
UCB Films Italia SRL (in liquidation) – Via Marconi 10 – 28100 Novara	100.00
UCB Pharma SpA – Via Praglia 15 – 10044 Pianezzo TO	100.00
Japan	
UCB Japan Co Ltd. – Ochanomizu Kyoun Bldg 2-2, Kanda-Surugadai – 101-0062 Chiyoda-Ku	100.00
Korea	
Korea UCB Co Ltd. – 5F Buwoon B/D 807/2 Bangbaedong Seochogu – 13760 Seoul	100.00
Luxembourg	
Société Financière UCB Holding SAH – 40 Blvd Joseph II – 1840 Luxembourg	100.00
UCB Lux S.A. – 30 Blvd Joseph II – 1840 Luxembourg	100.00
Malaysia	
UCB Pharma Asia Pacific SDN – Level 10 Menara Lien Hoe 8 Persiaran Tropicana – 47410 Petaling Jaya	100.00
Mexico	
UCB de Mexico SA de CV – Homero#440 7fl Col. Chapultepec Morales – 11570 Mexico D.F.	100.00
Vedim SA de CV – Homero#440 7fl Col. Chapultepec Morales – 11570 Mexico D.F.	100.00
Netherlands	
UCB Finance N.V. – Lage Mosten 33 – 4822 NK Breda	100.00
Pabelfima B.V. – Lage Mosten 33 – 4822 NK Breda	100.00
UCB Pharma B.V. (Nederland) – Lage Mosten 33 – 4822 NK Breda	100.00
Medeva Holdings B.V. – Lage Mosten 33 – 4822 NK Breda	100.00
Medeva B.V. (Nederland) – Lage Mosten 33 – 4822 NK Breda	100.00
Celltech B.V. (in liquidation) – Churchill-laan 223 – 1078 ED Amsterdam	100.00
Norway	
UCB Pharma AS – Brynsveien 96 – 1352 Kolsas Baerum	100.00
Philippines	
UCB Philippines Inc. – 9th fl Salcedo Towers 169 HV de la Costa St. Salcedo Village – 1227 Makati City	100.00
Poland	
Vedim S p.z.o.o. – Ul. Przyokopowa 43 – 01-208 Warszawa	100.00
UCB Pharma S p.z.o.o. (Poland) – Ul. Przyokopowa 43 – 01-208 Warszawa	100.00

36. UCB COMPANIES (CONTINUED)

Name and office	% of shareholding (economic interest)
Portugal	
UCB Pharma (Produtos Farmaceuticos) Lda – Rua Gregorio Lopes, Lote 1597-1° – 1400-195 Lisboa	100.00
Vedim Pharma (Prod. Quimicos e Farma) Lda – Rua Carlos Calisto 4B – 1400-043 Lisboa	100.00
Singapore	
UCB Singapore Private Ltd. – c/o Asia Pacific SDN BHD – Suite 3.08 Wisma Academy 3rd fl n° 4A Jalan 19/1 – 43600 Petaling Jaya Selangor	100.00
South Africa	
UCB S.A. Proprietary Ltd. – 3rd fl Park Terrace – 33 Princess of Wales Terrace – 2193 Parktown Johannesburg	100.00
Spain	
UCB España S.A. – Plaza Marqués de Salamanca n° 11 – 28006 Madrid	100.00
UCB Pharma S.A. – Avenida de Barcelona 239 – 08750 Molins de Rei Barcelona	100.00
Vedim Pharma S.A. – Avenida de Barcelona 239 – 08750 Molins de Rei Barcelona	100.00
Sifar Spain S.A. – Calle Santiago Ramon y Cajal 6 – Molins de Rei Barcelona	100.00
Celltech Pharma S.A. – Avenida de Barcelona 239 – 08750 Molins de Rei Barcelona	100.00
Sweden	
UCB Pharma AB – Murmansgatan 126 – 21225 Malmo	100.00
Switzerland	
UCB Farchim S.A. – ZI de Planchy Chemin de Croix Blanche 10 – 1630 Bulle	100.00
UCB Investissements S.A. – ZI de Planchy Chemin de Croix Blanche 10 – 1630 Bulle	100.00
Doutors Réassurance S.A. – ZI de Planchy Chemin de Croix Blanche 10 – 1630 Bulle	100.00
Cogefina S.A. – ZI de Planchy Chemin de Croix Blanche 10 – 1630 Bulle	100.00
UCB Pharma A.G. – ZI de Planchy Chemin de Croix Blanche 10 – 1630 Bulle	100.00
IMS Overseas S.A. – 14 Avenue Industrielle – 1227 Carouge	100.00
Medeva Pharma Schweiz A.G. – Gestadeckplatz 2 – 4410 Liestal	100.00
Taiwan	
UCB Taiwan Ltd. – 12F n° 35 Lane 11 Kwang Fu North Road – Taipei	100.00
Thailand	
Fipar Ltd. – c/o UCB Pharma Thailand 27th fl, Panjathanee Tower 127/32 Nonsee Road Chongnonsee Yannawa – 10120 Bangkok	100.00
UCB Pharma (Thailand) Ltd. – 27th fl, Panjathanee Tower 127/32 Nonsee Road Chongnonsee Yannawa – 10120 Bangkok	99.98
Turkey	
UCB Pharma AS – Cemil Topuzlu Cad Is Bankasi Bloklari D Blok, Kat 4 Daire 7, Fenerbahce – 81030 Istanbul	100.00

36. UCB COMPANIES (CONTINUED)

Name and office	% of shareholding (economic interest)
U.K.	
UCB (Investments) Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
UCB T&R Graham Ltd. – c/o HLB Breckenridge House 274 Sauchiehall Street – G2 3EH Glasgow	100.00
UCB Services Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
The Viking Trading Co Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
Vedim Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
UCB Watford Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
Celltech Group Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
Celltech Research & Development Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
Celltech Pensions Trustees Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
Celltech Japan Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
Celltech Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
Chiroscience Group Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
Chiroscience Research & Development Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
Darwin Discovery Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
Medeva Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
UCB Pharma Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
Evans Healthcare – 208 Bath Road – S14 3WE Slough Berkshire	100.00
Celltech Manufacturing Services Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
Medeva International Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
Medevale Pharmaservices Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
Celltech Pharma Europe Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
International Medication Systems (UK) Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
Oxford GlycoSciences Ltd. – The Forum 86 Milton Park – OX14 4RY Abingdon Oxon	100.00
OGS UK Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
Oxford Glyco Therapeutics Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
Confirmant Ltd. – 208 Bath Road – S14 3WE Slough Berkshire	100.00
Medeva Group Research Ltd.	100.00
Fipar Ltd., – 208 Bath Road – SL1 3WE Slough Berkshire	100.00
UCB Fipar Ltd., – 208 Bath Road – SL1 3WE Slough Berkshire	100.00
Fipar UK Ltd., – 208 Bath Road – SL1 3WE Slough Berkshire	100.00

36. UCB COMPANIES (CONTINUED)

Name and office	% of shareholding (economic interest)
U.S.A.	
Cistron Biotechnology Inc.- 10 Bloomfield Ave Pine Brook – 07058 New Jersey	100.00
UCB Holding Inc. – 2000 Lake Park Drive – 30080 Smyrna Georgia	100.00
Fipar US LLC, – 1950 Lake Park Drive – 30080 Atlanta Georgia	100.00
UCB Pharma Inc. – 1950 Lake Park Drive – 30080 Atlanta Georgia	100.00
UCB Research Inc. – 1950 Lake Park Drive – 30080 Atlanta Georgia	100.00
UCB Phip Inc. – 300 Delaware Avenue Suite 1297 – 19801 Wilmington Delaware	100.00
UCB Bioproducts Inc. – 1950 Lake Park Drive – 30080 Atlanta Georgia	100.00
UCB Pharco Inc. – 300 Delaware Avenue Suite 1297 – 19801 Wilmington Delaware	100.00
UCB Coprom Ltd. – 1950 Lake Park Drive – 30080 Atlanta Georgia	100.00
UCB Chemfar Inc. – 300 Delaware Avenue Suite 1297 – 19801 Wilmington Delaware	100.00
Darwin Molecular Corp – 755 Jefferson Road – 14623 Rochester New York	100.00
OGS Inc. – The Corporation Trust Company – Corporation Trust Center – 1209 Orange Street – 19801 Wilmington Delaware	100.00
Celltech US Inc.	100.00
Celltech US LLC – The Corporation Trust Company – Corporation Trust Center – 1209 Orange Street – 19801 Wilmington Delaware	100.00
Celltech Holdings Inc. (incorporated in UCB Pharma Inc.)	100.00
Celltech Americas Inc. (incorporated in UCB Pharma Inc.)	100.00
Celltech Manufacturing CA Inc. – 3130 South Harbor Blvd – 92704 Sta Anna California	100.00
Celltech Pharmaceuticals Inc. – 755 Jefferson Road – 14623 Rochester New York	100.00
Celltech Manufacturing Inc. – 755 Jefferson Road – 14623 Rochester New York	100.00
Celltech Technologies Inc. – 755 Jefferson Road – 14623 Rochester New York	100.00
Upstate Pharma LLC – 755 Jefferson Road – 14623 Rochester New York	100.00

Report of the Board of Auditors on the Consolidated Financial Statements

For the year ended 31 December 2005 to the shareholders of the Company UCB S.A./N.V.

In accordance with legal and statutory requirements, we are pleased to report to you on the performance of the audit mandate which you have entrusted to us.

We have audited the consolidated financial statements as of and for the year ended 31 December 2005, prepared in accordance with IFRSs as adopted by the EU, showing a balance sheet total of EUR 4.717 million and a consolidated profit for the year of EUR 755 million. The annual accounts of certain subsidiaries included in the consolidation have been audited by other external auditors. We based our audit on their audit opinions and we have carried out specific additional audit procedures in the context of the consolidation. We have also examined the directors' consolidated management report.

It is the responsibility of the company's Board of Directors to prepare the consolidated financial statements and to determine what information is to be included in their consolidated management report. It is our responsibility to examine those documents in accordance with Belgian generally accepted auditing standards, as issued by the 'Institut des Reviseurs d'Entreprises/Instituut der Bedrijfsrevisoren'.

Unqualified audit opinion on the consolidated financial statements

The aforementioned standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, taking into account the legal and regulatory requirements applicable to consolidated financial statements of the listed companies in Belgium.

In accordance with those standards, we considered the group's administrative and accounting organisation, as well as its internal control procedures. We have obtained all explanations and information required for our audit. We examined, on a test basis, evidence supporting the amounts in the consolidated financial statements. We assessed the accounting principles used, the basis of consolidation and significant estimates made by the company, as well as the overall presentation of the consolidated financial statements. We believe that our audit and the work of the other auditors who have audited the accounts of certain subsidiaries, provides a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of other auditors, the consolidated financial statements present fairly the company's consolidated net worth and financial position as of 31 December 2005 and its consolidated results of operations and cash flows for the year then ended, in accordance with IFRSs as adopted by the EU and with the legal and regulatory requirements applicable to quoted companies in Belgium.

The management report of the Board of Directors deals with the information required by the law and is consistent with the consolidated financial statements. However, we are not in a position to express an opinion on the description of the principal risks and uncertainties facing the company, or of its state of affairs, its forecast development or the significant influence of certain events on its future development. Nevertheless, we can confirm that the information provided is not patently in contradiction with the information we have acquired in our role as statutory auditors.

Brussels, 13 March 2006

The Board of Auditors

E. Attout

D. Goossens

Abbreviated Statutory Financial Statements of UCB S.A.

The following documents are extracts of the statutory financial statements of UCB S.A. prepared under Belgian Generally Accepted Accounting Principles (BGAAP).

The annual accounts have been drawn up in accordance with the provisions of the Royal Decree of 30 January 2001, covering the application of the Companies Code. The balance sheet is, therefore, presented after profit distribution in accordance with legal requirements. In accordance with the legislation, the management report of the Board of Directors to the general assembly of shareholders and the annual accounts of UCB S.A., as well as the auditors' report will be filed at the National Bank of Belgium within the statutory periods. These documents are available on request, addressed to: UCB S.A. – Corporate Communications – Allée de la Recherche 60 – B-1070 Brussels. The notes which follow the accounts reflect the financial situation of the Company, as shown on the balance sheet. The results are also commented on in the text of the Management Report which precedes it.

In accordance with Article 105 of the Company Code, the Board of Directors deemed it appropriate to publish only an abbreviated version of the non-consolidated financial statements as at and for the year ending on 31 December 2005, namely:

- Management Report of the Board of Directors;
- abbreviated balance sheet;
- abbreviated income statement;
- summary of valuation rules;
- state of capital;
- comments on the statutory annual accounts

The College of Statutory Auditors have issued an unqualified audit opinion and certify that the non-consolidated financial statements of UCB S.A. for the year ending on 31 December 2005 give a true and fair view of the financial position and results of UCB S.A. in accordance with all legal and regulatory dispositions.

Management Report of the Board of Directors on the Financial Statements of UCB S.A.

for the year ending on 31 December 2005

UCB S.A., which is the Group's parent Company, holds shareholdings directly or indirectly in the subsidiaries. Its profit after tax and transfer to exempt reserves, amounted to 583 million euro in 2005. After taking into account the profit brought forward from the previous year of 135 million euro, the balance available for distribution amounts to 718 million euro. The Board of Directors proposes to distribute a gross dividend of 128 million euro or 0.88 eurocent per share.

With regards to the use of the authorised capital reserved for the members of the Global Leadership Team of the UCB Group and those performing equivalent roles, the Board of Directors approved an option plan on new shares within the framework of the Belgian legislation of 1999. Each option entitles its beneficiary to one new UCB share. All options become exercisable in the fourth calendar year following the year of the grant and (except when indicated in the table below) lapse on their tenth anniversary.

In the frame of this plan, you will find in the table below an overview of the issued options, of the exercises and of the options which are still exercisable:

	Number of beneficiaries	Number of stock options offered	Excericse price EUR	Number of stock options exercised in 2005	Number of stock options still exercisable
1999	270	145 200	43.19	1 200	122 400
					(of which 74 600 expire in 2012)
2000	480	236 700	38.21	13 300	176 600
			40.00		(of which 99 100 expire in 2013)
2001	490	346 800	35.55	51 800	238 200
			34.98		(of which 123 100 expire in 2014)
2002	560	450 000	41.68	-	264 520
			41.04		(of which 144 720 expire in 2015)
2003	580	450 000	26.58	-	316 700
			27.46		
			27.94		
2004	890	650 000	40.10	-	425 100
			40.20		
2005	685	930 000	37.33	-	741 400
			37.60		

The exercises in 2005 (first exercises in the frame of this plan) have led on 1 March 2006 to a capital increase of an amount of 43 500 euro by the creation of 14 500 new UCB shares.

Since 2001, it has been decided to no longer make use of the authorised capital to issue subscription rights to the personnel, but to create an option plan on existing shares to be purchased by the Company or by one of its subsidiaries. The Company has decided not to make use of the authorisation granted to it in 2001, 2003 and 2005 by the General Meeting of Shareholders to purchase its own shares to cover the share option plan set up for the members of the Global Leadership Team of the UCB Group and those performing equivalent roles. UCB Fipar, an indirect subsidiary of UCB S.A., has by mutual agreement taken over all UCB's obligations in this matter.

Each UCB option as well as the options issued by Celltech which were rolled over into UCB options, entitle their beneficiaries to one existing UCB share. All options become exercisable in the fourth calendar year following the year of the grant (except (i) the rolled over Celltech options which become exercisable on the third anniversary of the grant and (ii) the UCB options granted to optionees residing in France which become exercisable on the fourth calendar year of the grant). All options lapse on their tenth anniversary (except when otherwise indicated in the table below).

In the table below, you will find an overview of the Celltech options which were rolled over into UCB options in 2004 further to the acquisition of Celltech by UCB:

	Number of beneficiaries	Number of stock options rolled over in 2004	Excericse price EUR	Number of stock options exercised in 2005	Number of stock options still exercisable
2001	3	3 541	61.86	-	1 448
2002	690	289 220	42.74	26 204	192 084
2003	20	6 001	19.94	2 258	3 743
2004	20	12 359	31.28	1 843	10 302

In 2005, the Board of Directors proposed and the General Meeting of Shareholders approved a stock award plan. Shares are awarded to the members of the Leadership Team (~40 people), in accordance with allocation criteria linked to the level of responsibility of those concerned. The vesting of the awards is conditional on the beneficiaries, remaining in post within the Group for a period of three years. In 2005 an amount of 76 600 shares was awarded to 40 beneficiaries.

In 2005, the Executive Committee proposed and the Remuneration & Nomination Committee approved to allocate an award, in the form of stock, as an exceptional reward for and recognition of the contribution of some people to either the Cimzia™ or the Keppra® development and for research partnerships. The vesting of the awards is conditional on the beneficiaries remaining on the payroll within the Group for a period of one year. In 2005 an amount of 3 400 shares were awarded to 20 beneficiaries.

Results of UCB S.A. and proposed distribution

The operations of UCB S.A. generated in 2005 a net profit of 583 918 943 euro after tax. This profit includes an exceptional profit of 219 667 225 euro. After taking account of the profit brought forward from the previous year of 135 million euro the balance available for distribution amounts to 718 041 859 euro.

The Board of Directors proposes to you the following distribution (all amounts in euro):

1. Distribution to shareholders of a gross dividend of	128 421 040
2. Transfer to legal reserves	-
3. Transfer to distributable reserves	445 000 000
4. Carried forward	144 620 819
	718 041 859

In accordance with the legal requirements, the balance sheet submitted for your approval has been drawn up on the basis of this distribution.

If you approve the above proposal, the net dividend will be 0.66 euro per share, against the submission of coupon No.8, compared with 0.645 euro last year. This amount takes into account a withholding tax of 25%. Coupon No. 8 will be payable as from 16 June 2006 at the branches and agencies of Fortis Bank.

The Board of Directors wishes to thank its Vice–Chairman Daniel Janssen, who has reached the age limit. Main representative of UCB's reference shareholder, Daniel Janssen has been with UCB for 44 years with full-time executive functions until 1984. He is a member of the Board of Directors since 1967 of which he became Vice–Chairman in 1988. His commitment to UCB, his strategic vision, competence and entrepreneurship have been precious assets to help the Board of Directors accomplish its mission. In appreciation, the Board of Directors has decided to confer on him the title of Honorary Vice-Chairman of the Board of Directors.

The appointments of Karel Boone and Alan Blinken expire at the end of the shareholders meeting of 13 June 2006. Being eligible, the Board of Directors proposes that they be re-elected, both as independent Directors as defined in Article 524 of the Companies Code. They meet with the independence criteria set by the Board of Directors, by the law and the Belgian Code of Corporate Governance.

It is also proposed to you to nominate, Gaëtan van de Werve d'Immerseel as a new Director. Gaëtan van de Werve d'Immerseel will be one of UCB's main shareholders representatives, to replace Daniel Janssen.

On 28 October 2005 the Board of Directors appointed two new members of the Executive Committee, William Robinson: Executive Vice President Global Operations and Robert Trainor: Executive Vice President General Counsel. This broader composition of the Committee strengthens the range of skills and experience that the complexity of the Company's business requires.

The Board of Directors expresses its warmest thanks to all employees around the world for their collective energy and drive to ensure UCB's growth, within a demanding economic and competitive context.

Brussels, 13 March 2006
The Board of Directors

Abbreviated Non-Consolidated Balance Sheet – UCB S.A.

million EUR	2005	2004
ASSETS		
Fixed assets	5 908	4 430
Intangible assets	1 199	266
Tangible fixed assets	227	146
Financial fixed assets	4 482	4 018
Current assets	476	1 150
Receivables of more than one year	19	20
Inventories and contracts in progress	121	108
Receivables of one year or less	287	1 005
Cash at bank and in hand	14	2
Deferred charges and accrued income	35	15
Total assets	6 384	5 580

million EUR	2005	2004
LIABILITIES		
Equity	2 070	1 616
Capital	438	438
Reserves	1 486	1 042
Profit brought forward	145	135
Investment grants	1	1
Provisions and deferred taxation	146	48
Provisions	142	44
Deferred taxation	4	4
Current liabilities	4 168	3 916
Amounts payable in more than one year	3 344	430
Amounts payable in one year or less	738	3475
Accrued charges and deferred income	86	11
Total liabilities	6 384	5 580

Abbreviated Non-Consolidated Income Statement – UCB S.A.

million EUR	2005	2004
Operating income		
Turnover	600	466
Increase(+); decrease(-) in inventories of finished goods, work in progress	15	(20)
Own construction capitalised	344	192
Other operating income	346	255
Total operating income	1 305	893
Operating charges		
Raw materials, consumables and goods for resale		
1. Purchases	167	118
2. Increase (-); decrease (+) in inventories	-	(15)
Services and other goods	536	283
Remuneration, social security costs and pensions	191	168
Depreciation of and other amounts written off formation expenses, intangible and tangible fixed assets	406	217
Increase (+); decrease (-) in amounts written off on inventories, contracts in progress and trade debtors	1	1
Increase (+); decrease (-) in provisions	(3)	(19)
Other operating charges	2	4
Total operating charges	1 300	757
Operating profit	5	136
Financial income	581	413
Financial charges	(188)	(104)
Ordinary profit before tax	398	445
Extraordinary income	452	68
Extraordinary charges	(232)	(35)
Profit before tax	618	478
Income taxes	(35)	(34)
Profit	583	444
Transfer to tax exempt reserves	-	-
Net result for the year available for appropriation	583	444

Summary of Significant Accounting Policies – UCB S.A.

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:

Intangible assets
Research & Development costs have been transferred to intangible assets at their purchase or cost price. They have been wholly depreciated as a charge against current profits 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 in the exceptional profits.
A straight-line depreciation rate of 33$^{1}/_{3}$% 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'.

Tangible fixed assets
Tangible fixed assets purchased from third parties have been included in the assets on the balance sheet at purchase price; assets manufactured by the Company itself have been valued at their cost price. The purchase or cost price has been depreciated on a straight-line basis considering 'pro rata temporis'. The depreciation rates have been has follows:

- Administrative buildings 3%
- Industrial buildings 5%
- Tools 15%
- Furniture and office machinery 15%
- Vehicles 20%
- Computer equipment & office machines 33$^{1}/_{3}$%
- Prototype equipment 33$^{1}/_{3}$%

Financial fixed 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.

Inventories
Bought-in items, both raw materials and supplies, have been valued at cost or market price, whichever is the lower.
The purchase price includes the value of the purchases increased by import duties or excise taxes, transport costs and tax not recoverable and, where appropriate, unloading costs. Write-offs are made annually on slow-moving spares in order to achieve on a cumulative basis the same percentage write-offs as depreciation on the net corresponding tangible fixed assets.

Work in progress and finished goods have been valued at industrial cost that is excluding general charges other than factory overheads, depreciation and financial charges. This value has been reduced to likely selling prices, less related sales costs, if these are lower than the carrying amount.

Merchanted goods have been valued at their cost price or at market price at the end of the year, whichever is the lower.
The purchase price of major raw materials and consumable stores, including those incorporated in work in progress and finished goods, has been fixed in accordance with the LIFO method. The purchase price of other inventories has been fixed in accordance with the FIFO method.

Receivable and liabilities
They are shown at their book value. Receivables have been written down if their repayment, when due, is wholly or partly uncertain or doubtful.

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 fixed assets, stocks, 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 exchange differences on foreign currency transactions are recognised in the income statement, as are non-realised exchanges losses, whilst non-realised exchange profits are included under accrued charges and deferred income in the balance sheet.

Provisions

All the risks borne 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 nominal value.

STATE OF CAPITAL

Capital	million EUR	Number of shares
Issued capital		
At the end of the previous year	437.8	145 933 000
Changes during the year	-	-
	437.8	145 933 000
Capital representation		
Share without par value	437.8	145 933 000
Registered shares	N/A	53 905 598
Bearer shares	N/A	92 027 402

Commitments to issue shares	million EUR	Number of shares
Pursuant to subscription rights		
Number of subscription rights outstanding	N/A	299 000
Amount of capital to subscribe	0.9	N/A
Maximum number of corresponding shares to be issued	N/A	299 000

The 299 000 number of shares is after the exercise of the 14 500 options, which has led to a capital increase of 43 500 euro on 1 March 2006.

SHAREHOLDERS' STRUCTURE

1. Shares declared in accordance with the law of 2 March 1989 relating to the publication of significant shareholdings in companies quoted on the stock exchange.

   Since 31 March 1999 the capital of UCB S.A. amounts to 437 799 000 euro since, divided in 145 933 000 (a) ordinary shares with no nominal value.

   Shares issued with rights outstanding on 31 December 2005, to subscribe for ordinary share capital:

   In 1999 and 2000 respectively, UCB issued 145 200 and 236 700 subscription rights (warrants):

   - The 145 200 warrants issued in 1999 each confer the right to subscribe for one ordinary share: following the annulment and exercise of part of these warrants 48 400 warrants may still be exercised between 1 January 2005 and 31 May 2009, and 75 200 warrants may be exercised between 1 January 2005 and 31 May 2012.

   - The 236 700 warrants issued in 2000 each confer the right to subscribe one ordinary share: following the annulment and exercise of part of these warrants 84 500 warrants may be exercised between 1 January 2005 and 28 February 2010, and 105 400 warrants may be exercised between 1 January 2005 and 28 February 2013.

   It follows from the above that, if all the rights attached to these warrants were exercised, UCB capital would be 438 739 500 euro and the number of shares issued by UCB would be 146 246 500 (b).

SHAREHOLDERS' STRUCTURE (CONTINUED)

In accordance with the statements of transparency made in compliance with the law of 2 March 1989, the structure of UCB shareholders is today as follows:

	Number of shares	(a) With regard to 145 933 000 shares	(b) With regard to 146 246 500 shares
Financière de Tubize S.A. (*), Allée de la Recherche 60, 1070 Brussels	58 860 000	40.33%	40.25%
EuroPacific Growth Fund, 333 South Hope Street Los Angeles, CA 90071 – U.S.A.	4 416 518	3.03%	3.02%

(*) Financière de Tubize S.A: On 23 May 2005, Financière de Tubize S.A. has merged into Financière d'Obourg S.A. and the latter has changed its name into Financière de Tubize S.A.

The column (a) sets out the holdings of shareholders, with the number of current Company shares – 145 933 000 shares. The second column (b) sets out the holdings which shareholders would have in the Company if all subscription rights issued within the framework of stock option plans in 1999 and 2000 were exercised.

2. UCB's main shareholder (reference shareholder) is Financière de Tubize S.A., a company listed on Euronext Brussels, which holds 58 860 000 shares, or 40.33% of the Company share capital.

   Financière de Tubize S.A. has made statements of transparency in compliance with the law of 2 March 1989 in relation to declarations of major shareholdings in companies quoted on the stock exchange and regulations for takeover bids.

   Following the latest statement dated 23 May 2005, 51.81% of Financière de Tubize S.A. is held by the members of the Janssen family.

3. In application of Article 631 § 2 of the Companies Code, UCB Fipar S.A., a subsidiary indirectly controlled by UCB, communicated to UCB S.A. that it acquired in 2002 746 800 UCB shares, in 2003 372 904 UCB shares, in 2004 1 064 200 UCB shares and in 2005 370 000 UCB shares. On 31 December 2005 it holds 2 457 299 UCB shares – these shares represent 1.68% of the total number of shares issued by UCB S.A.

SHAREHOLDERS' ARRANGEMENTS

1. Issue of a loan stock with warrants
   Defensive warrants have also been issued following a decision by the General Meeting of Shareholders in 2003, excluding preferential rights. The loan of 600 000 euro represented by 30 000 loan stock units with a nominal value of 20 euro, each having 1 000 warrants attached, conferring the right to the joint subscription of 30 000 000 ordinary shares, was subscribed by Financière d'Obourg S.A., the UCB reference shareholder whose name has been modified to Financière de Tubize on 23 May 2005.

   An ad hoc Committee was created at the same General Meeting of Shareholders, and the Meeting also appointed the members of this Committee. This Committee is entitled, in pre-defined circumstances, to implement such defensive measure and approve the transfer of all such warrants. The holders of warrants enter into an agreement with UCB to comply with the conditions of issue and exercise of the warrants. The duration of the warrants and the agreements is 5 years.

   Shares arising from exercise of these warrants will be issued with reference to the market price over a period prior to the share issue.

2. Legal limit concerning the distribution of dividends (Art. 617)
   In accordance with the exceptional case provided for under Article 617 of the Belgian Company Code, the net assets of UCB S.A. include the undepreciated Research & Development costs. The Board of Directors believes that these costs linked to Research & Development in the pharmaceutical field are incurred annually, with the objective of developing new original medical products, which will ensure the growth of the Company in such a way that the balance of these Research & Development costs not yet depreciated constitutes a basic element of its net assets.

Comments on the Statutory Annual Accounts

COMMENTS ON THE BALANCE SHEET

ASSETS

Intangible assets

The intangible assets have significantly increased by 933 million euro as a result of acquisition of licenses and similar rights from Celltech Research & Development Ltd. and the increase of the capitalised Research & Development expenses.
As in previous years, the gross intangible assets of the year mainly covered Research & Development costs, together with certain intangible investments, eligible for subsidy, other than Research & Development costs (cost of commercial studies, of organisation, etc).

In 2005 Research & Development costs amounted to 344 million euro, compared to 192 million euro in 2004, the increase is mainly due to the activities of the new branch in U.K.

Depreciation rates on Research & Development costs have been applied to these costs at rates not exceeding those required for reducing depreciation based on a life of four years, being in practice 50% in the first year and 25% in the second and third years.

Since 1990, these costs have been depreciated on a straight-line basis over a life of three years.

Since 2003, costs of new acquisitions have been depreciated on a 'pro rata temporis' basis.

Tangible fixed assets

The increase in tangible fixed assets is due to the construction of a new building in Braine and to the acquisition of additional equipment in the production buildings, in addition to the acquisitions from Celltech Research & Development Ltd. related to the newly created branch in U.K.

Financial fixed assets

The increase of the financial fixed assets can mainly be explained by the following transactions:

- Increase of the capital of FIN UCB S.A. 400 million euro
- Acquisition of Cytec Industries Inc. shares 232 million euro
- Sale of Surface Specialties S.A. (156) million euro

Inventories

The total inventories of UCB S.A. rose by 13 million euro as a result of inventory building of Keppra® in view of a plant shutdown which occurred in November and December 2005.

Receivables due within one year, cash at bank, deferred charges and accrued income

Other amounts receivable decreased by 731 million euro due to the reimbursement of loan notes received from Surface Specialties affiliates.

LIABILITIES

Capital and reserves

The net increase in capital and reserves is due to the result of the year and to the payment of the 2004 dividend. The Capital and share premium account where unchanged compared to the previous balance sheet.

Provisions and deferred tax

The increase in provisions for risks and charges is mainly due to the constitution of provisions resulting from the obligations related to the sale of various businesses.

Amounts payable in more than one year

Due to the Celltech acquisition, the sale of Surface Specialties and the increase of its investments, UCB S.A. has modified the source of its resources. The increase of the amounts payable over one year is partially off-set by the decrease of the financial debts.

Amounts payable within one year

The decrease is mainly due to conversion of the short-term financial loans into long-term liabilities combined with the decrease of the current portion of long-term financial debts.

COMMENTS ON THE INCOME STATEMENT

The result of the year is a profit after taxes of 583 million euro, versus a profit after taxes of 444 million euro in 2004. The increase in operating income amounting to 411 million euro is mainly the result of the growth of Keppra® sales and of the royalty income collected by the branch in U.K. The increase of the operating expenses is the result of the increase in depreciation and write-down on intangible and tangible assets and of the growth of overheads mainly due to the creation of the branch in U.K. The increase of the financial result is due to the higher dividends received from affiliated companies of 524 million euro compared to 352 million euro in 2004.

EVENTS AFTER THE BALANCE SHEET DATE

We refer to note 35 (Events after the balance sheet date) of the Consolidated Financial Statements.

RESEARCH & DEVELOPMENT

In 2005, UCB S.A. invested 344 million euro compared to 192 million euro in 2004. The increase is mainly due to the Research & Development activity of the new branch of UCB S.A. in U.K. The main Research & Development expenses were related to Cimzia™ (74 million euro) and to Keppra® (58 million euro).

BRANCHES

In April 2005, UCB S.A. created a branch in U.K., whose main activity consists of Research & Development.

FINANCIAL RISKS

We refer to note 3 of the Consolidated Financial Statements.

AUDITORS FEES AND FEES PAID TO RELATED COMPANIES

(Art. 134 § 2 and 4 of the Company code)

Base fees for auditing the annual financial statements of UCB are determined by the General Meeting of Shareholders after review and approval by the Board of Directors. UCB S.A. paid to the College of Commissaires in 2005 supplementary fees for special work relating to audit related services and consulting and tax services. The additional fee should not influence the independence of the College. The total amount of audit and other fees for 2005 amounted to 701 075 euro and is detailed below:

	Audit	Audit related	Due diligence	Total
D. Goossens	64 500	69 600	4 150	138 250
E. Attout/PricewaterhouseCoopers	64 500	111 824	303 824	480 148
PricewaterhouseCoopers	80 965	1 712	-	82 677
Total	209 965	183 136	307 974	701 075

DISCHARGE OF THE DIRECTORS AND THE AUDITORS

We recommend the approval of the financial statements as presented to you and, by special vote, the discharge of the Directors and the auditors in respect of the execution of their mandate during the past fiscal year.

APPROPRIATION OF RESULTS

The Board of Directors proposes to pay a gross dividend of 0.88 euro per share, or a total dividend distribution of 128 421 040 euro.

If approved, the net dividend of 0.66 euro per share will be payable as of 16 June 2006 against delivery of Coupon N°. 8, attached to the Company's new bearer shares.

Glossary

Core net profit: Profit from continued operations adjusted to exclude after-tax impairment related charges, restructuring expenses, other income and expenses, exceptional financial income and intangible assets amortisation expenses

EBIT: Operating profit as mentioned in the consolidated financial statements

Free cash flow: Cash flow from operating activities plus cash flow from investing activities of the continuing operations

Gross capital expenditure: Acquisition of property, plant and equipment and of intangible assets

Net debt: Non-current and current interest-bearing loans and borrowings and bank overdrafts minus debt securities, cash and cash equivalents

Non-recurring items: Items of income or expense which do not occur regularly as part of the normal activities of the company

Recurring EBITDA: Operating profit adjusted for amortisation, depreciation, impairment charges, restructuring expenses and other income and expenses

Recurring EBITA: Operating profit adjusted for amortisation, impairment charges, restructuring expenses and other income and expenses

Recurring EBIT: Operating profit adjusted for impairment charges, restructuring expenses, and other income and expenses

Working capital: Includes inventories, trade and other receivables and trade and other payables, both current and non-current

Connecting to Investors

The number of issued shares on 31 December 2005 was 145 933 000. The permanent stable shareholding of Financière de Tubize S.A. represented 40.33% of UCB's capital. UCB's shares are quoted on Euronext Brussels (Ticker: UCB). On 31 December 2005, UCB market capitalisation reached 5.8 billion euro, representing 3.27% of the BEL20 index and 0.33% of the Euronext 100 index.

in billion EUR	2005 Reported	2004 Reported	2004 Pro Forma
Market capitalisation	5.8	5.5	5.5
in EUR per UCB Share			
Earnings per shares[1]	1.88	1.36	1.62
Core earnings per share[2]	2.20	-	1.84
Gross dividend per share	0.88	0.86	0.86
Net dividend per share	0.66	0.645	0.645
High of the year	47.00	44.08	44.08
Low of the year	34.60	28.72	28.72
Year-end share price	39.68	37.57	37.57
Average daily trading volume (shares)	272 459	264 026	264 026
Number of shares outstanding	145 933 000	145,933 000	145 933 000
Free float	56.7%	56.7%	56.7%
P/E ratio (using EPS based on profit from continuing operations)	21.11	27.63	23.19
P/E ratio (using EPS based on core net profit)	18.04	-	20.42

1 Basic earnings per share calculated by dividing the profit attribuable to equity holders 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 treasury shares.
2 Core net profit per share

Financial Calendar

Tuesday, 14 March 2006
Full-Year 2005 Financial Results

Tuesday, 13 June 2006
Annual General Meeting of Shareholders

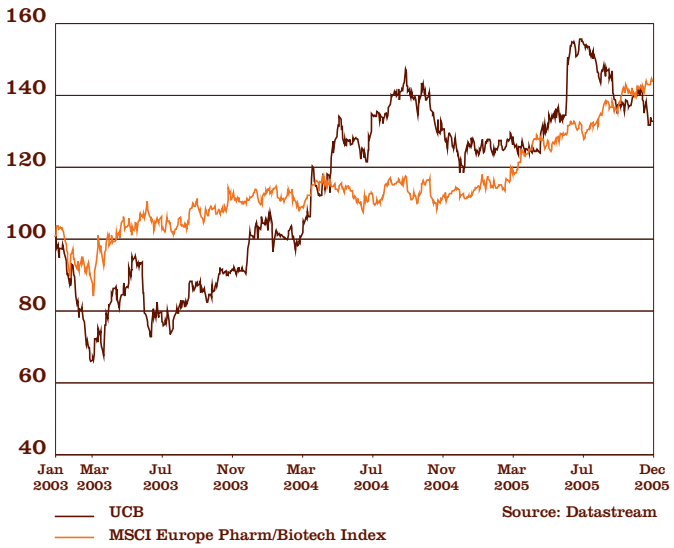
Friday, 16 June 2006
Dividend payable (Coupon No. 8)

Thursday, 27 July 2006
Half-Year 2006 Financial Results

Wednesday, 28 February 2007
Full-Year 2006 Financial Results

UCB share evolution (2003-2005)

(index = 100, 1 January 2003)



Disclaimer
Language of this Annual Report

Pursuant to Belgian Law, UCB is required to prepare its Annual Report in French and Dutch. UCB has also made an English language translation of this Annual Report. In case of differences in interpretation between the English, French and Dutch versions of the Annual Report, the original Dutch version shall prevail.

Availability of the Annual Report

The Annual Report is available to the public free of charge upon request to:

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1070 Brussels, Belgium
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Fax +32 2 559 9571
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An electronic version of the Annual Report is also available, for information purposes only, via the Internet on the Website of UCB (address: www.ucb-group.com)

Only the printed Annual Report published in Belgium in accordance with the applicable rules and legislation is legally valid, and UCB takes no responsibility for the accuracy or correctness of the Annual Report available via the Internet. Other information on the Website of UCB or on any other Website, does not form part of this Annual Report.

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. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors 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. 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, or circumstances on which any such statement is based, unless such statement is required pursuant to applicable laws and regulations.

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