Galápagos

# Stepping up

## Annual Report 2015

# Contents

# The Galapagos Group

## An overview of Galapagos, its strategy and portfolio in 2015

> The year 2015 has been stellar for Galapagos, as we stepped up to the next level towards a commercially based biotech company.

**Onno van de Stolpe**
CEO of Galapagos

# Letter from the management

Dear shareholder,

We have come a long way.

17 years ago I started Galapagos with two scientists. Now there are over 440 of us, we have developed a broad pipeline of promising molecules, the Company is listed on Euronext and NASDAQ, and we are nearing what we were aiming to do from the beginning: deliver novel drugs that will improve the quality of patients' lives.

On our journey, we experienced setbacks as well: molecules that – despite promising data – had no effect in patients, alliances with pharma that did not work out, and programs that were handed back to us. We've had to rise to the occasion and come up with solutions that kept us on track, kept our focus on the bigger picture. We trusted our scientists and our technology, and we empowered our people, in order for them to go where no one has gone before: to discover and develop novel molecules that have the potential to be of benefit for so many people. We learned from mistakes and moved on while putting this additional experience and knowledge to use and in practice. The progress we make every day as a company and in our programs has made this trip such an exciting adventure. And now we are reaching a new era for our company.

The year 2015 has been stellar for Galapagos, as we truly stepped up to the next level in our development towards becoming a commercially based biotech company. We achieved a number of remarkable milestones in 2015: delivery of best-in-class efficacy and safety Phase 2 data with our selective JAK1 inhibitor filgotinib in rheumatoid arthritis and Crohn's disease, a NASDAQ listing, and a licensing deal with Gilead that will help transform our company. In our cystic fibrosis program, we completed the discovery phase for a potential triple combination therapy that is expected to address 90% of patients with CF, and we advanced several of our novel mode-of-action programs to later stages. All of these were important stepping stones in our ongoing efforts to deliver novel medications to patients.

Each consecutive day for the past 17 years we have built on what we were and where we were at that point in time. As we enter 2016, we are about to become a Phase 3 company with filgotinib, and see a maturing pipeline of Phase 2 and Phase 1 programs. We have come a long way, but we are not there yet. Our endeavor to discover and develop novel medications that will improve the quality of life is an ongoing quest. This company was built step by step, and we will keep on building. What an exciting journey this is.

We present our Annual Report 2015, reflecting the important progress made last year.

# 2015: Building on our success in R&D

## R&D

### In the field of inflammation:

- Reported potential best-in-class efficacy and safety with filgotinib in both DARWIN 1 and DARWIN 2 studies at 12 and 24 weeks
- Received termination notice for the agreement with AbbVie for filgotinib
- Reported excellent efficacy and safety with filgotinib at 10 weeks in the FITZROY Phase 2 study in Crohn's disease
- Signed a global agreement with Gilead for the further development and commercialization of filgotinib in inflammatory diseases
- Conducted a proof-of-concept study with GLPG1205 in patients with ulcerative colitis

### In cystic fibrosis:

- Disclosed the strategy to develop lead and follow-on compounds for potentiator, C1, and C2 corrector positions in a triple combination therapy for Class II mutation patients
- Reported up to 6-fold better CFTR restoration in pre-clinical evaluations of Galapagos' potential triple combination therapy compounds for class II mutation, compared to Orkambi®[1]
- Reported favorable safety and tolerability in a Phase 1 study with potentiator GLPG1837, initiated a Phase 2 program in Class III mutation patients in Q1 2016
- Initiated a Phase 1 study start with C1 corrector GLPG2222
- Nominated the first pre-clinical candidate C2 corrector GLPG2665, completing the first potential triple combination therapy

### In osteoarthritis:

- Initiated a Phase 1 study with candidate GLPG1972 in the alliance with Servier

### In pulmonary disease:

- Reported good safety, drug like properties, and target engagement with GLPG1690 in a Phase 1 study
- Janssen Pharmaceutica NV returned the full rights for GLPG1690 to Galapagos
- Filed an exploratory Phase 2 study with GLPG1690 in idiopathic pulmonary fibrosis patients

### Grants and other:

- €2.5 million IWT grant for antibiotic research
- €1.6 million IWT grant for hepatitis B program

## Corporate

- Raised $317 million gross proceeds in a global offering with concurrent listing on NASDAQ
- Raised additional €12 million from warrant exercises
- Licensed organoid technology from the HUB Foundation
- Christine Mummery joined the Galapagos Board of Directors

# 2015: Details of the financial results

## Revenues

Galapagos' revenues and other income for 2015 amounted to €60.6 million, compared to €90.0 million in 2014. Revenues were lower due to a decrease in revenue recognition of upfront payments and reduced milestone payments from collaboration partners, reflecting the increasingly proprietary nature of our pipeline programs.

[1] Orkambi® is a prescription medicine marketed by Vertex Pharmaceuticals, used for the treatment of cystic fibrosis (CF) in patients age 12 years and older who have two copies of the F508del mutation (F508del/F508del) in their CFTR gene.

## Operating result

The Group realized a net operating loss in 2015 of €89.4 million, compared to a net operating loss of €36.6 million in 2014 for continuing operations.

R&D expenses for the Group in 2015 were €129.7 million compared to €111.1 million in 2014. This planned increase is due mainly to increased efforts on our clinical and pre-clinical programs, primarily the cystic fibrosis programs.

G&A and S&M expenses of the Group were €20.3 million in 2015, compared to €14.9 million in 2014. This increase is due primarily to non-cash items such as a higher provision for short term and long term management bonus and higher costs for warrant plans, mainly as a result of the evolution of the Galapagos share price.

## Non-cash adjustment on short term financial asset

Galapagos recognized a short term financial asset worth €39 million upon signing of the share subscription agreement with Gilead, as required under IAS 39. This financial asset initially reflected the share premium that Gilead committed to pay above the closing stock price of Galapagos on the day of signing of the subscription agreement. Under IAS 39, the fair value of the financial asset needed to be re-measured at year end and again upon entering into force of the subscription agreement on 19 January 2016, when the financial asset expired. Variations in fair value of the financial asset were recorded in the income statement.

The decrease in the fair value of the financial asset resulting from the increase in the Galapagos share price between signing of the subscription agreement and 31 December 2015, resulted in a negative, non-cash fair value charge of €30.6 million in the 2015 financial results. The subsequent increase in the fair value of the financial asset resulting from the decrease in the Galapagos share price between 1 January 2016 and 19 January 2016 will result in a positive non-cash gain of €57.5 million in the financial result of the first quarter 2016 financial reporting.

## Cash position

Cash, cash equivalents, and restricted cash totalled €348.2 million on 31 December 2015.

A net increase of €149.8 million in cash, cash equivalents and restricted cash was recorded in 2015. Net cash flows from financing activities generated €259.4 million through a global offering and concurrent listing on NASDAQ, as well as €12.0 million from warrant exercises. Furthermore, the Company continued to intensify its R&D investments, resulting in a cash burn of €121.6 million in 2015.

Furthermore, Galapagos' balance sheet holds an unconditional and unrestricted receivable from the French government (*Crédit d'Impôt Recherche*[2]) now amounting to €33.4 million, payable in 4 yearly tranches. Galapagos' balance sheet also holds a receivable from the Belgian Government for R&D incentives now amounting to €25.1 million. Galapagos received $725 million in cash from Gilead upon closing of their global collaboration agreement on 19 January 2016. Galapagos had €1.02 billion in cash, cash equivalents, and restricted cash after the closing of the transaction.

# Outlook 2016

The 20-week results from filgotinib in Crohn's disease (FITZROY) are expected in April. Galapagos and Gilead are preparing to initiate Phase 3 programs in rheumatoid arthritis and Crohn's disease with filgotinib in 2016.

In cystic fibrosis, Galapagos expects to report topline results with GLPG1837 in the Phase 2 SAPHIRA study in Class III mutation patients before year end and report Phase 1 topline results with other CF compounds. All components of a future triple combination are anticipated to be in clinical evaluation by year end.

Galapagos expects to complete recruitment in its Phase 2 study with GLPG1690 in idiopathic pulmonary fibrosis before year end for topline results in 1H 2017, and to report topline results from its Phase 1 study with osteoarthritis program GLPG1972 around mid-year.

[2] *Crédit d'Impôt Recherche* refers to an innovation incentive system underwritten by the French government.

The Company expects an operational use of cash of €100-120 million during 2016, excluding payments received from our collaboration partner Gilead for filgotinib.

I wish to thank our shareholders for their support last year. We ended 2015 in excellent shape, both financially and operationally. We are ready to advance the most effective combination therapy in CF to patient studies, to progress the rest of our promising pipeline, and to work with our collaboration partner Gilead to get the Phase 3 programs with filgotinib in rheumatoid arthritis and Crohn's disease under way.

Regards,
**Onno van de Stolpe**
CEO

# At a glance

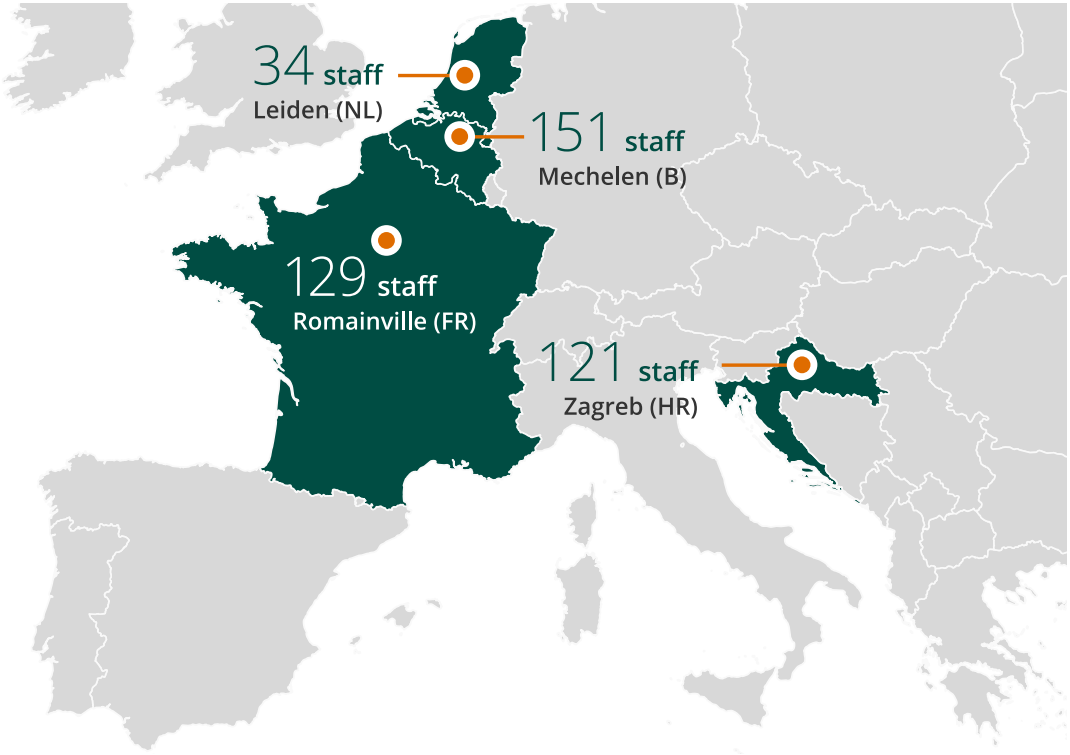
**Key figures (IFRS) Galapagos Group**

| (thousands of €, if not stated otherwise) | 31/12/2015 | 31/12/2014 | 31/12/2013 |
|---|---|---|---|
| **Results**[1] | | | |
| Revenues and other income | 60,579 | 90,021 | 96,572 |
| R&D expenditure | (129,714) | (111,110) | (99,380) |
| S, G&A expenses | (20,308) | (14,867) | (13,817) |
| Restructuring and integration costs | – | (669) | (290) |
| Personnel expenses (including share-based compensation) | (47,034) | (38,447) | (35,979) |
| Capital expenditure | 6,665 | 2,804 | 8,168 |
| Depreciation and amortization of (in)tangible assets | (3,402) | (3,765) | (4,105) |
| EBIT | (89,444) | (36,624) | (16,915) |
| EBITDA | (86,042) | (32,859) | (12,810) |
| Net loss from continuing operations | (118,410) | (37,303) | (16,811) |
| Net income from discontinued operations | – | 70,514 | 8,732 |
| Net income / loss (–) | (118,410) | 33,211 | (8,079) |
| **Balance sheet** | | | |
| Total assets | 442,514 | 270,467 | 287,374 |
| Cash, cash equivalents and restricted cash | 348,216 | 198,440 | 141,481 |
| Total liabilities | 77,515 | 64,332 | 120,237 |
| Stockholders' equity | 364,999 | 206,135 | 167,137 |
| Equity ratio (in %) | 82% | 76% | 58% |
| **Galapagos share** | | | |
| Number of shares issued on 31 December | 39,076,342 | 30,299,129 | 29,794,046 |
| Basic and diluted income / loss (–) per share (in €) | (3.32) | 1.10 | (0.28) |
| Share price on 31 December (in €) | 56.76 | 15.49 | 15.30 |
| **Personnel data** | | | |
| Total Group employees on 31 December (number) | 435 | 417 | 810[2] |

[1] Service activities (sold to Charles River on 1 April 2014) for the years 2014 and 2013 are shown on the line item "Net income from discontinued operations". All other line items consist of amounts from continuing operations, except for line item "Net income / loss (–)", which includes both continuing and discontinued operations.

[2] Includes employees from the sold service division.

## Employees per site




## Number of employees


The orange bars represent Galapagos' service division which was sold to Charles River Laboratories in April 2014.

# Strategy

Galapagos seeks to develop a robust portfolio of clinical-stage breakthrough therapies with potential to revolutionize existing treatment paradigms.

Our ambition is to become a leading global biotechnology company focused on the development and commercialization of novel medicines. Our strategy is to leverage our unique and proprietary target discovery platform, which facilitates our discovery and development of therapies with novel modes of action.

Key elements of our strategy include:

- **Rapidly advance the development of filgotinib with our collaboration partner Gilead in RA, CD, and potentially other inflammatory diseases**
  Based on the favorable safety and efficacy profile demonstrated in our Phase 2 clinical trials, we believe that filgotinib is a promising candidate for the treatment of RA and other inflammatory diseases. We expect Gilead to initiate Phase 3 clinical programs in RA and CD in 2016.

- **Work with our collaboration partner AbbVie to develop a CF franchise of oral therapies composed of novel potentiators and correctors**
  We are developing a novel potentiator therapy, called GLPG1837, for CF patients with the Class III (G551D) mutation of the CFTR gene, the same mutation which is targeted by the only approved therapy to address the cause of Class III mutation CF, Kalydeco®[3], marketed by Vertex. The most common mutation in the CFTR gene, the Class II (F508del) mutation, is present in approximately 90% of CF patients. Orkambi (Vertex) is the only approved therapy for the underlying cause of CF in this mutation. In order to address the unmet need in patients with Class II or other mutations, we believe that a combination of a potentiator and two corrector molecules will be required. To that aim, we are developing a triple combination therapy. We currently have lead and follow-on compounds for all three components of this therapy in development. In October 2015, we announced selection of GLPG2665, completing the triple combination therapy in CF. We initiated a Phase 1 trial for our first oral corrector candidate, GLPG2222, in January 2016, and we entered Phase 2 trials with potentiator GLPG1837 in Class III mutation patients in February 2016. We intend to initiate additional Phase 1 trials with novel CF compounds in 2016. We have an exclusive collaboration agreement with AbbVie to jointly discover, develop and commercialize these and other novel CF modulators.

- **Advance GLPG1690 in clinical trials in idiopathic pulmonary fibrosis (IPF)**
  In February 2015, we announced the results of a Phase 1 first-in-human trial of GLPG1690, a potent and selective inhibitor of autotaxin, or ATX. In this trial GLPG1690 demonstrated the ability to reduce plasma lipid lysophosphatidic acid (LPA) levels on a sustained basis, implying ATX engagement. We are planning to enroll patients in a Phase 2a trial in IPF, and we intend to disclose topline results of this trial in the first half of 2017. We currently retain worldwide development and commercialization rights for GLPG1690 and intend to develop this drug independently.

[3] Kalydeco® is a prescription drug marketed by Vertex Pharmaceuticals, indicated for the treatment of CF in patients aged 6 years and over with specific Class-III mutations in the CFTR gene, including G551D, G1244E, G1349D, G178R, G551S, S1251N, S1255P, S549N, S549R, or R117H.

- **Advance GLPG1972 through Phase 1 clinical trials with our collaboration partner Servier**
  In November 2015, we announced the initiation of a Phase 1 first-in-human trial of GLPG1972, a novel mechanism of action product candidate for the treatment of osteoarthritis. We expect to report topline results from this trial in the second quarter of 2016. Such topline results along with other data resulting from the ongoing program expected in the second quarter of 2017 will enable our collaboration partner Servier to exercise or not the option to license the compound for further development into osteoarthritis patient trials. We also expect to initiate a patient study in osteoarthritis patients in Q2 2016. Galapagos has retained all rights to this compound in the United States.

- **Maximize and capture the value of our target discovery platform**
  Our platform has yielded a number of new mode-of-action therapies across multiple therapeutic areas, demonstrating the potential of our technology platform. In addition to our current clinical programs, we have 20 different target-based discovery programs advancing toward clinical development with novel modes of action. Our most mature pre-clinical program is MOR106, which is partnered with MorphoSys. We intend to continue to advance more clinical candidates in various therapeutic areas. We aim to select promising programs in specialty pharmaceutical and orphan indications for internal development and commercialization to capture greater value for shareholders and establish Galapagos as a fully integrated biotechnology company.

# Going concern statement

To date, we have incurred significant operating losses, which is reflected in the balance sheet showing €177.3 million accumulated losses as at 31 December 2015. We realized a consolidated net loss of €118.4 million for the year ended 31 December 2015. The Board has examined the financial statements and accounting policies. Based on conservative assumptions which exclude any payment from our collaboration with Gilead, we believe that our existing cash and cash equivalents of €348.2 million for the year ended 31 December 2015 will enable us to fund our operating expenses and capital expenditure requirements at least through the next 2 to 3 years. The Board is also of the opinion that additional financing could be obtained, if required. Taking this into account, as well as the favorable outlook of developments of our drug discovery and development activities, the Board is of the opinion that it can submit the financial statements on a going concern basis. Whilst our cash position is sufficient for our immediate and midterm needs, the Board points out that if the R&D activities continue to go well, we may seek additional funding to support the continuing development of our products or to be able to execute other business opportunities.

# Risk management

Risk management is embedded in our strategy and is considered important for achieving our operational targets.

To safeguard the proper implementation and execution of the Group's strategy, we have an internal risk management and control system. The Board of Directors has delegated an active role to the Audit Committee members for designing, implementing and operating Galapagos' internal risk management and control systems. The purpose of these systems is to manage in an effective and efficient manner the significant risks to which Galapagos is exposed.

The internal control system is designed to ensure:

- The careful monitoring of the effectiveness of our strategy
- Galapagos' continuity and sustainability, through, for instance, consistent accounting, reliable financial reporting and compliance with laws and regulations
- Our focus on the most efficient and effective way to conduct our business

We have defined our risk tolerance on a number of internal and external factors including:

- Financial strength in the long run, represented by revenue growth and a solid balance sheet
- Liquidity in the short run; cash
- Business performance measures; operational and net profitability
- Scientific risks and opportunities
- Dependence on our alliance partners
- Compliance with relevant rules and regulations
- Reputation

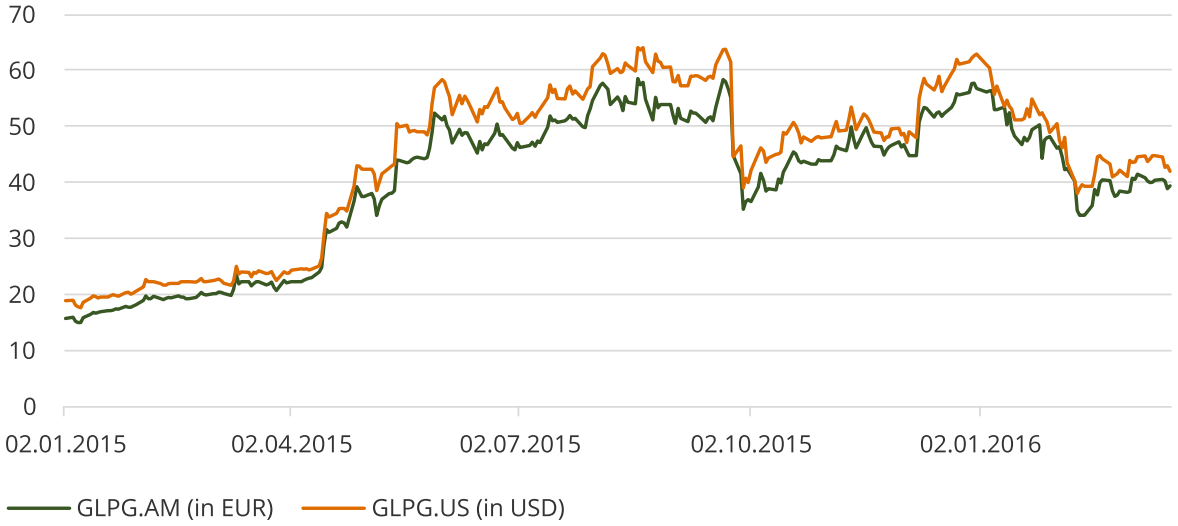
The identification and analysis of risks is an ongoing process that is naturally a critical component of internal control. On the basis of these factors and Galapagos' risk tolerance, the key controls within Galapagos will be registered and the effectiveness will be monitored. If the assessment shows the necessity to modify the controls we will do so. This could be the situation if the external environment changes, or the laws or regulations or the strategy of Galapagos change.

The financial risks of Galapagos are managed centrally. The finance department of Galapagos coordinates the access to national and international financial markets and considers and manages continuously the financial risks concerning the activities of the Group. These relate to the financial markets risk, credit risk, liquidity risk and currency risk. There are no other important risks, such as interest rate risk, because the Group has nearly no financial debt and has a strong cash position. The Group does not buy or trade financial instruments for speculative purposes. For further reference on financial risk management, see note 34 of the notes to the consolidated financial statements. We also refer to the "Risk factors" section of the Annual Report for additional details on general risk factors.

# The Galapagos share

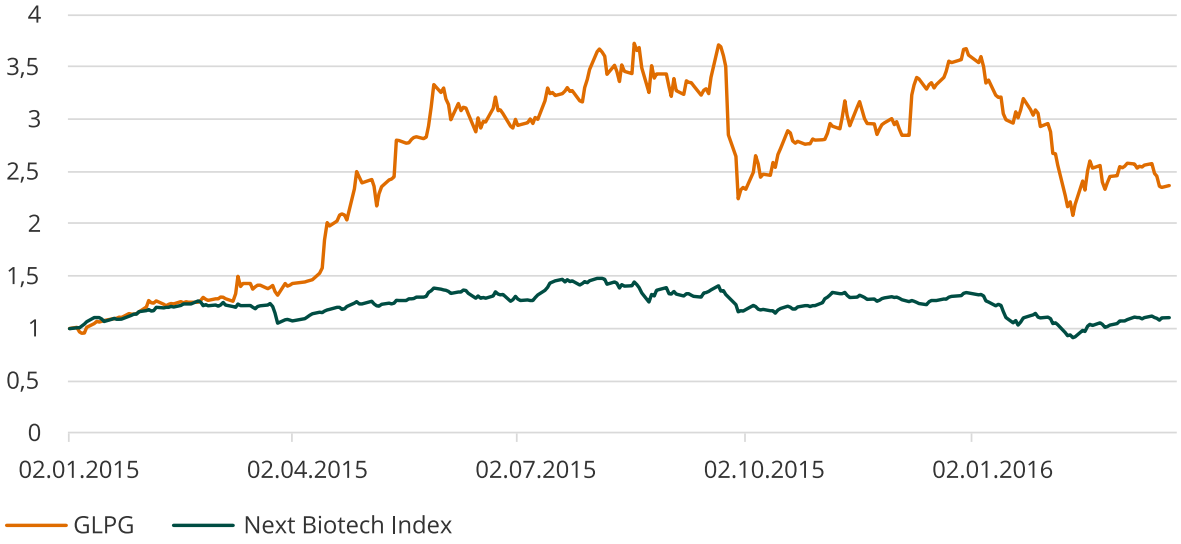
Galapagos NV (ticker: GLPG) has been listed on Euronext Amsterdam and Brussels since 6 May 2005 and on the NASDAQ Global Select Market since 14 May 2015. Galapagos NV forms part of the Bel20 index on Euronext Brussels (since 21 March 2016; previously we were part of the BelMid index) and of the Amsterdam Midcap (AMx) Index on Euronext Amsterdam.

## The Galapagos share in 2015




In 2015, average daily trading on Euronext was 292,581 shares and €12.0 million trading value, both metrics representing significant increases over 2014. Galapagos' daily trading on NASDAQ, which commenced on 14 May 2015, was 101,750 shares and $5.2 million trading value in 2015.

## Galapagos vs Next Biotech Index in 2015



## Investor relations activities

We increased our exposure to U.S. investors through the successful NASDAQ IPO, attracting more U.S. shareholders and sell-side analyst coverage by U.S. banks. Our IR team presented at several conferences in 2015 and did a number of broker-organized and self-organized roadshows throughout the U.S. and Europe. We presented Full Year, Half Year and Q3 2015 results via webcasts. We established an IR presence in the Boston area in September 2015.

The main topics of discussion with investors included the filgotinib DARWIN and FITZROY program results, the AbbVie licensing decision, the Gilead collaboration, developments in our cystic fibrosis programs, and Galapagos' cash position going forward.

# Subsequent events

On 16 December 2015, we entered into a global collaboration with Gilead Sciences, Inc. for the development and commercialization of the JAK1-selective inhibitor filgotinib for inflammatory indications. On 19 January 2016, we completed the closing of the global collaboration agreement with Gilead Sciences, Inc. in the framework of which Gilead Biopharmaceutics Ireland Unlimited Company made a $425 million (or €392 million) equity investment in Galapagos NV by subscribing to new shares at a price of €58 per share, including issuance premium. This resulted in Gilead owning 6,760,701 shares of Galapagos NV, representing 14.75% of the then outstanding share capital of Galapagos. We also received a license fee of $300 million. In addition, we are eligible for development and regulatory milestone-based payments of up to $755 million and sales-based milestone payments of up to $600 million, with tiered royalties starting at 20% and a profit split in co-promotion territories.

The subsequent increase in the fair value of the derivative financial asset initially recognized upon signing of the subscription agreement with Gilead, resulting from the decrease in the Galapagos share price between 1 January 2016 and 19 January 2016 will result in a positive, non-cash fair value re-measurement of €57.5 million in the financial result of the first quarter of 2016.

On 21 December 2015, the Board of Directors conditionally issued up to 700,000 warrants (subject to acceptance by the beneficiaries) within the framework of the authorized capital, for the benefit of our Directors and an independent consultant, and of our employees under new warrant plans ("Warrant Plan 2015 (B)" and "Warrant Plan 2015 RMV"). The offer of warrants to the Directors and to the members of the Executive Committee under Warrant Plan 2015 (B) was approved by the Special Shareholders' Meeting of 22 December 2015. The warrants to be issued under Warrant Plan 2015 (B) and Warrant Plan 2015 RMV have a term of eight years and an exercise price of €49.00. The acceptance of, in aggregate, 496,500 warrants under these two warrant plans was enacted on 2 March 2016.

On 26 January 2016, we announced the results of the ORIGIN Phase 2a study with GLPG1205, which confirmed good pharmacokinetics, safety and tolerability. The endpoints for efficacy in patients with ulcerative colitis (UC), however, were not met and we decided to discontinue clinical development of GLPG1205 in UC.

# Overview statutory results of Galapagos NV

**This overview only concerns the non-consolidated statutory results of Galapagos NV. These results are part of the consolidated results as discussed in the Letter from the management.**

Galapagos NV's operating income in 2015 amounted to €193.1 million compared to €172.7 million in 2014. This increase is mainly due to increased income from internally generated intangible assets – being capitalized R&D expenses – which contributed €23.7 million more to operating income than in the previous year. Turnover (i.e. R&D revenues) decreased slightly with €3.2 million compared to 2014. The other operating income amounts to €15.2 million, including €3.1 million of grants recognized for R&D projects, €3.3 million of recharges to subsidiaries and €5.3 million recognized for tax incentives for investments in intangible fixed assets.

The operating costs of 2015 amounted to €242.9 million compared to €197.6 million in 2014. Material purchases increased slightly from €3.7 million in 2014 to €4.4 million in 2015. Services and other goods increased substantially to €131.7 million compared to €96.7 million in 2014, primarily due to €19.4 million of one-off costs related to the global offering of ordinary shares on 19 May 2015 (NASDAQ IPO). In addition, increased subcontracting for our pre-clinical studies and clinical trials contributed to increased operating costs, driven by the maturing pipeline of our R&D projects.

Personnel costs in 2015 amounted to €15.7 million compared to €13.7 million in 2014. The number of employees at Galapagos NV at the end of 2015 amounted to 133, excluding insourced personnel.

Depreciation increased to €82.6 million in 2015, compared to €76.8 million in 2014. This is due to amortization booked on the internally generated intangible assets capitalized in 2012, 2013, 2014 and 2015.

Galapagos NV's 2015 financial income decreased significantly to €1.6 million compared to €108.1 million in 2014 and can be explained by a capital gain in 2014 of €105.9 million that has been realized in connection with the sale of the service division to Charles River Laboratories International, Inc. on 1 April 2014. Financial costs amounted to €1.2 million compared to €1.1 million in 2014.

Extraordinary costs amount to €13.5 million in 2015, compared to €19.7 million in 2014, which primarily consists of extraordinary write-offs of capitalized R&D costs with regard to alliances which ended or programs which were placed on hold (€13.2 million in 2015, compared to €13.5 million in 2014).

No tax expenses have been recorded in 2015. Tax expenses recorded in 2014 (€0.4 million) are related to capital gain taxes related to the sale of the service division.

Galapagos NV capitalizes its incurred R&D expenses to the extent that the costs capitalized do not exceed a prudent estimate of their value in use or their future economic benefits for the entity. The ability to recover the capitalized amounts takes into account assumptions (i.e. future peak sales, market share, sales price, attrition rates regarding the successful completion of the different R&D phases) which have a highly judgmental nature and depend on the outcome of uncertain factors which are beyond the control of the entity (i.e. test results). The achievement of these assumptions is critical and may impact the recoverability of the amounts capitalized. Capitalized R&D expenses amount to €153.0 million compared to €129.5 million last year.

Investments in fixed assets in 2015 totaled €1.4 million, excluding the internally generated assets. They consist mainly of new laboratory equipment, as well as investments in intangible assets, being software development.

Galapagos NV's cash position at the end of 2015 amounted to €339.4 million.

The non-consolidated annual accounts of Galapagos NV which we submit for your approval were prepared in accordance with Belgian accounting rules as well as with the legal and regulatory requirements. They show a negative result. The financial year 2015 closed with a loss of €63.0 million compared to a profit of €62.0 million in 2014. The recorded net profit in 2014 can entirely be explained by a substantial gain on the sale of the service division as mentioned above. Overall, the result of Galapagos NV is largely affected by the fact that, as from financial year 2010, Galapagos NV capitalizes some of its R&D expenses and revenues that are eligible for such capitalization under Belgian GAAP. This capitalization positively impacted the net result of Galapagos NV by €55.0 million in 2015, compared to a positive impact of €12.1 million in 2014. The non-consolidated annual accounts of Galapagos NV show accumulated losses of €132.8 million as at 31 December 2015; we refer to the Going Concern Statement for justification for the application of the valuation rules under the going concern assumption.

In 2015, neither Galapagos NV nor its affiliates made direct or active use of financial instruments such as hedging. However, at year-end 2015 an embedded derivative existed under the terms of the Gilead contract (see note 8 of the notes to the consolidated financial statements).

# Disclaimer and other information

This Annual Report contains all information required by Belgian law.

Galapagos NV is a limited liability company incorporated in Belgium and has its registered office at Generaal De Wittelaan L11 A3, 2800 Mechelen, Belgium. Throughout this report, the term "Galapagos NV" refers solely to the non-consolidated Belgian company and references to "we," "our," "the Group" or "Galapagos" include Galapagos NV together with its subsidiaries.

According to Belgian law, we must publish our Annual Report in Dutch. We also provide an English translation. We are responsible for the translation and conformity between the Dutch and English versions. In case of inconsistency between the Dutch and the English version of our Annual Report, the Dutch version prevails.

This Annual Report, including the statutory financial statements of Galapagos NV, is available to the public free of charge and upon request, to be addressed to:

**Galapagos NV**
Investor Relations
Generaal De Wittelaan L11 A3
2800 Mechelen
Belgium
Tel: +32 15 34 29 00
Email: ir@glpg.com

An electronic version of this Annual Report, including the statutory financial statements of Galapagos NV, is available on our website, www.glpg.com.

We will use reasonable efforts to ensure the accuracy of the electronic version, but do not assume responsibility if inaccuracies or inconsistencies with the printed document arise as a result of any electronic transmission. Therefore, we consider only the printed version of this Annual Report to be legally valid. Other information on our website or on other websites does not form a part of this Annual Report.

As U.S. listed company, we are also subject to the reporting requirements of the U.S. Securities and Exchange Commission, or SEC. An annual report will be filed with the SEC on Form 20-F. The Form 20-F will be available in the SEC's EDGAR database (https://www.sec.gov/edgar.shtml) and a link thereto will be posted on our website.

## Forward-looking statements

This Annual Report contains forward-looking statements, all of which involve certain risks and uncertainties. These statements are often, but are not always, made through the use of words or phrases such as "believe," "anticipate," "expect," "intend," "plan," "seek," "estimate," "may," "will," "could," "stand to," "continue," as well as similar expressions. Forward-looking statements contained in this Annual Report include, but are not limited to, statements made in the "Letter from the management", the information provided in the section captioned "Outlook 2016", guidance from management regarding the expected operational use of cash during financial year 2016, statements regarding the development of a potential triple combination therapy for Class II cystic fibrosis patients and the possible activity and clinical utility of such a potential triple combination therapy, statements regarding the future development of pre-clinical candidate MOR106, and statements regarding the expected timing, design and readouts of ongoing and planned clinical trials (i) with filgotinib in rheumatoid arthritis and Crohn's disease, (ii) with GLPG2222 in cystic fibrosis, (iii) with GLPG1837 in Class III cystic fibrosis patients, (iv) with GLPG1690 in IPF, and (v) with GLPG1972 in osteoarthritis. We caution the reader that forward-looking statements are not guarantees of future performance.

Forward-looking statements may involve known and unknown risks, uncertainties and other factors which might cause our actual results, financial condition and liquidity, performance or achievements, or the development of the industry in which we operate, to be materially different from any historic or future results, financial conditions, performance or achievements expressed or implied by such forward-looking statements. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with such forward-looking statements, they may not be predictive of results or developments in future periods. Among the factors that may result in differences are that our expectations regarding our 2016 revenues and financial results and our 2016 operating expenses may be incorrect (including because one or more of our assumptions underlying our revenue or expense expectations may not be realized), the inherent uncertainties associated with competitive developments, clinical trial and product development activities and regulatory approval requirements (including that data from our clinical research programs in rheumatoid arthritis, Crohn's disease, cystic fibrosis, idiopathic pulmonary fibrosis, osteoarthritis, and other inflammatory indications may not support registration or further development of our product candidates due to safety, efficacy or other reasons), our reliance on collaborations with third parties (including our collaboration partner for filgotinib, Gilead, and our collaboration partner for cystic fibrosis, AbbVie), and estimating the commercial potential of our product candidates. A further list and description of these risks, uncertainties and other risks can be found in our Securities and Exchange Commission filing and reports, including in our most recent annual report on Form 20-F filed with the SEC and our other filings and reports. We also refer to the "Risk Factors" section of this report. Given these uncertainties, the reader is advised not to place any undue reliance on such forward-looking statements. These forward-looking statements speak only as of the date of publication of this document. We expressly disclaim any obligation to update any such forward-looking statements in this document to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements, unless specifically required by law or regulation.

# R&D

## Research & Development

We trust our scientists and our technology, and empower our people to go where no one has gone before: to discover and develop novel molecules that have the potential to benefit many patients.

**Piet Wigerinck**
CSO Galapagos

# The Galapagos pipeline

## Galapagos seeks to develop a robust portfolio of clinical-stage breakthrough therapies with the potential to revolutionize existing treatment paradigms

Galapagos is a clinical-stage biotechnology company specialized in the discovery and development of small molecule medicines with novel modes of action, addressing disease areas of high unmet medical need. Execution on our proprietary drug target discovery platform has delivered a pipeline that at the end of 2015 consisted of three Phase 2, three Phase 1, five pre-clinical, and 20 discovery programs in inflammation, cystic fibrosis, or CF, fibrosis, osteoarthritis, or OA, and other indications. Our highly flexible platform offers applicability across a broad set of therapeutic areas. Our lead programs include filgotinib, for which our collaboration partner Gilead plans to start Phase 3 trials in RA, Crohn's disease, or CD this year; GLPG1837, for which we started a Phase 2 program in February 2016 in certain mutations of CF; GLPG1690, for which we will start a Phase 2a trial for idiopathic pulmonary fibrosis, or IPF, shortly; GLPG2222, for which we initiated a Phase 1 study in January 2016; GLPG1972, for which we initiated a Phase 1 first-in-human study in November 2015, and a series of novel potentiators and correctors in pre-clinical stages. Except for our CF program, these programs are derived from our proprietary target discovery platform, and it is our goal to develop these programs into best-in-class treatments.

In February 2012, we signed a collaboration agreement for filgotinib with Abbott (now AbbVie). In September 2015, AbbVie notified us of the termination of this agreement, following which, we regained all unencumbered rights to filgotinib. In December 2015, we entered into a global collaboration with Gilead for the development and commercialization of filgotinib for inflammatory indications. Our CF program is a joint research and development alliance with AbbVie. Our GLPG1972 program in OA is a joint research and development alliance with Servier. The following table summarizes key information on our lead development programs as of the date of this Annual Report:

| Program | Preclinical | Ph 1 | Ph 2 | Status | |
|---|---|---|---|---|---|
| Rheumatoid arthritis | JAK1 filgotinib | | | Ph 3 start | mid-2016 |
| Crohn's | JAK1 filgotinib | | | Wk 20 results | Apr '16 |
| Idiopathic pulmonary fibrosis | Autotaxin '1690 | | | Ph 2a start | H1 '16 |
| Cystic fibrosis Class III | '1837 | | | Ph 2 results | H2 '16 |
| Cystic fibrosis Class II | '2222 + others | | | Ph 1 results<br>Other Ph 1 starts | H1 '16<br>H2 '16 |
| Osteoarthritis | Novel MoA '1972 | | | Ph 1 results | H1 '16 |
| Inflammation | MOR106 | | | Ph 1 start | H1 '16 |

= partnered program

= proprietary program

# Proprietary target discovery platform

Galapagos' target discovery platform provides a significant and substantial competitive advantage in its portfolio of novel mode-of-action product candidates as it:

- Closely mimics the *in vivo* situation through the use of primary human cell with relevant trigger and readout for a specific disease phenotype
- Identifies the optimal point to intervene in a disease pathway by knocking down of a given protein in these assays
- Enables us to rapidly analyze all of the drugable genome and select pharmaceutically tractable protein targets directly by their ability to regulate key disease biology

Galapagos' product candidate filgotinib acts on a target whose role in the specific disease was discovered by us using our discovery platform and is a proof of success of this approach. Filgotinib acts on JAK1, and we believe it has potential for a best-in-class profile in rheumatoid arthritis and Crohn's disease. GLPG1690, which is also derived from this discovery platform, acts as an autotaxin inhibitor which has shown activity in an idiopathic pulmonary fibrosis animal model and will be tested shortly in a Phase 2a trial.

The human genome is made up of tens of thousands of genes which code for the proteins that make up the human body. Nearly all chronic diseases and disorders are caused by a disruption in the normal function of certain proteins. The main goal of pharmaceutical companies is to design drugs that alter the activity of these proteins so that normal function returns and the cause of the disease is minimized or eliminated. One of the main obstacles in discovering new drugs is to understand exactly which of the body's thousands of proteins play a key role in a particular disease. Once these proteins are discovered, they become targets for drug design. Finding these targets is one of the critical steps in the drug discovery process.

Galapagos' approach to target discovery is unique as our discovery platform focuses on target identification using primary human cells, which provides a good system to study the effect that a protein might have on the disease in the human body. Moreover, we concentrate our efforts on so called "drugable" proteins and utilize high throughput screening technology to identify these protein targets in human primary cells. This discovery approach increases the chances of success in bringing new mode-of-action drugs to the market. Since 2009, Galapagos has generated 22 pre-clinical candidates of which 16 have novel modes of action. Of these, 10 have entered the clinic, 7 with novel modes of action.

In order to study proteins in human cells, we take advantage of the distinctive properties of adenoviruses. Adenovirus is the virus that causes the common cold and has the capability to infect almost every type of human cell. The adenoviruses we work with have been engineered to act as a shuttle vehicle, allowing the delivery of specific pieces of DNA into human cells. Additionally, these viruses have been made replication incompetent, meaning they do not replicate in the human cell they infect, and so do not interfere with the processes in the cell. Galapagos has engineered the viruses to carry small pieces of DNA, specific for individual human genes. When the virus enters the cell, this DNA piece leads to the production of a short sequence of RNA that is processed in the cell to become "short interfering RNA", or siRNA, that specifically interferes with the mRNA of the protein it was designed for. By using these viruses, we can cause the cells to block, or "knock-down," the production of a certain protein, mimicking what a small molecule drug does in the human body. We have built a collection with these adenoviruses, now in excess of 20,000 viruses, that addresses over 6,000 drugable genes.

Our drug discovery research is based on the targets discovered using this technology. Once a target is validated, it is tested against large collections of chemical small molecules to identify chemical structures that interact with the target and block or activate protein production. These chemical structures are then optimized to obtain "drug-like" characteristics followed by testing of the drug candidate in the clinic.

In addition to its pipeline of molecules in the clinic, we have 20 different discovery programs which are advancing toward clinical development. Galapagos is exploring new modes of action in osteoarthritis, metabolic diseases, fibrosis and immune inflammation.

# Filgotinib is a selective JAK1 inhibitor, potentially best-in-class

Due to its high selectivity for Janus kinase 1, or JAK1, we believe that filgotinib has the potential to offer an improved side effect profile and improved efficacy in RA patients as compared to other JAK inhibitors which are less selective for JAK1. Filgotinib has been evaluated for RA in two Phase 2b trials and is currently being evaluated in an ongoing, follow-up trial, which trials we refer to collectively as DARWIN. These studies recruited patients with moderate to severe RA who have an inadequate response to methotrexate, or MTX, a common first line treatment for RA. Final results from 24 weeks of treatment in our Phase 2b trial for DARWIN 1 were disclosed on July 29, 2015. Final results from 24 weeks of treatment in our Phase 2b DARWIN 2 trial were disclosed on August 10, 2015. In addition, we are conducting DARWIN 3, an ongoing, long-term follow-up trial that allows patients to remain on filgotinib treatment. Of the patients who have completed DARWIN 1 and DARWIN 2 and were eligible to continue, approximately 98% elected to participate in the DARWIN 3 follow-up trial.

## RA and limitations of current treatments

RA is a chronic autoimmune disease, characterized by inflammation and degeneration of the joints. It affects almost 1% of the adult population worldwide, with onset typically between the ages of 30 and 50 years, and with a high prevalence in women. Patients suffer from pain, stiffness, and restricted mobility due to a persistent inflammation of multiple joints, which ultimately results in irreversible damage of the joint cartilage and bone. As RA develops, the body's immune cells perceive the body's own protein as foreign and cells called lymphocytes react to this protein. The reaction then causes the release of cytokines, which are chemical messengers that trigger more inflammation and joint damage. The inflammation may spread to other areas in the body, ultimately causing not only joint damage but also chronic pain, fatigue, and loss of function. Inflammation has also been linked to heart disease and the risk of having a heart attack. RA nearly doubles the risk of having a heart attack within the first 10 years of being diagnosed, according to the American College of Rheumatology.

The primary goals in the treatment of RA are to control inflammation and slow or stop disease progression. Initial therapeutic approaches relied on disease-modifying anti-rheumatic drugs, or DMARDS, such as MTX and sulphasalazine. These oral drugs work primarily to suppress the immune system and, while effective in this regard, the suppression of the immune system leads to an increased risk of infections. These drugs are also associated with side effects including nausea, abdominal pain, and serious lung and liver toxicities. Further, because these drugs often take an average of 6–12 weeks to take effect, rheumatologists may also couple them with over-the-counter pain medications or non-steroidal anti-inflammatory drugs to treat the pain and inflammation. Despite these shortcomings, DMARDS are still considered first-line therapies.

The development of monoclonal antibodies and biologics represented a significant advance in RA treatment. Biologic therapies involve the use of antibodies or other proteins produced by living organisms to treat diseases. In the majority of people with arthritis, the tumor necrosis factor, or TNF, protein is present in the blood and joints in excessive amounts, thereby increasing inflammation, along with pain and swelling. Biologic therapies have been developed to address this overproduction of TNF by disrupting communication between the body's immune cells. Thus, they block the production of TNF or are designed to attach to and destroy the body's immune B-cells, which play a part in the pain and swelling caused by arthritis. Anti-TNFs are currently the standard of care for first- and second-line biologic therapies for RA patients who have an inadequate response to DMARDS. Since anti-TNF drugs function through a suppression of the immune system, they also lead to a significant increase in the risk of infections. In addition, all approved anti-TNFs need to be delivered by injection or intravenously, which is inconvenient and painful for some patients, and in some cases self-injection can be particularly difficult for patients who suffer joint pain and damage from RA.

Not all patients achieve sufficient clinical response or maintain clinical response to anti-TNFs over time, resulting in a need to switch or cycle to a new therapy to control their disease. Approximately one-third of RA patients do not adequately respond to anti-TNFs. In addition, anti-TNFs are associated with low rates of disease remission and the response to these agents is not typically durable. In more than 30% of this population, alternative treatment approaches are needed. A significant number of patients treated with an anti-TNF will be cycled to their second and third anti-TNF within 24 months of anti-TNF therapy initiation. Therapeutic cycling is a serious issue for patients because the efficacy of each successive drug is not known typically for several months, which contributes to progression of disease and continued irreversible structural joint damage. For RA patients who fail or for whom anti-TNFs are contra-indicated, biologics with distinct mechanism and the oral agent JAK inhibitors provide alternative treatment opportunities.

Despite these limitations, the global market for RA therapies is large and growing rapidly. The market for RA therapies across the 10 main healthcare markets was $15.6 billion in 2013 and is expected to grow in excess of $19 billion by 2023, according to a December 2014 GlobalData PharmaPoint report. Injectable, biological therapies are the largest component of this market.

There continues to be a considerable unmet need with regard to efficacy, including sustained efficacy, safety, and convenience of use with these existing first line treatments.

## The potential of JAK inhibitors

The family of JAKs is composed of four tyrosine kinases, JAK1, JAK2, JAK3, and TYK2, that are involved in the JAK signaling pathway, which regulates normal hematopoiesis (or blood making), inflammation, immune function, and some growth processes. Dysregulation of the immune function and its effector molecules, cytokines, makes use of the JAK signaling pathway and has been associated with a number of diseases, including RA, psoriasis and other chronic inflammatory diseases.

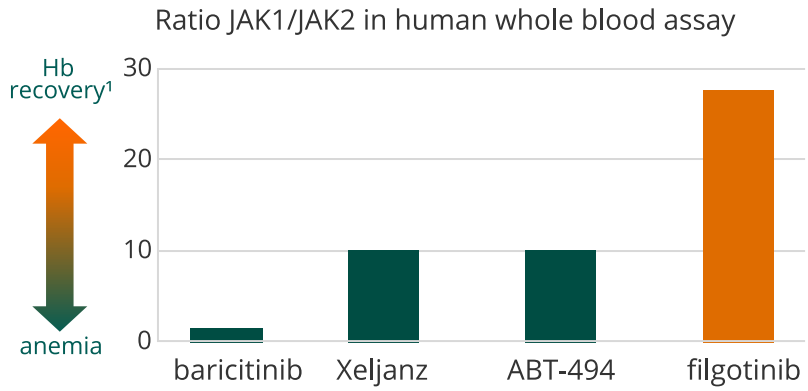
A growing body of clinical data suggests that the level of selectivity of a JAK therapeutic is highly correlated to its efficacy and safety profile. For example, JAK1 is known to interact with the other JAKs to transduce cytokine-driven pro-inflammatory signaling, which leads to inflammation in human tissues. Therefore, inhibition of JAK1 is believed to be of therapeutic benefit for a range of inflammatory conditions as well as for other diseases driven by JAK-mediated signal transduction. In contrast, inhibition of the other three kinases (JAK2, JAK3, and TYK2) may not be required for the anti-inflammatory effect, whereas their inhibition may contribute to side effects. For example, inhibition of JAK2 has been linked to anemia, and inhibition of JAK3 to immunosuppression. Non-selective JAK inhibitors have been shown to increase low-density lipoprotein, or LDL. Therefore, we believe the desired efficacy and safety profile of any JAK inhibitor is directly linked to the selectivity of the product.

In November 2012, Xeljanz®[4] was approved by the U.S. Food and Drug Administration, or FDA, as the first and only JAK inhibitor for RA approved for commercial sale in the United States. Xeljanz is intended for the treatment of adult patients with RA who have had an inadequate response to, or who are intolerant of, MTX. Xeljanz is a small molecule suitable for oral administration and has strong binding affinity for JAK3 and JAK1, and weaker affinity for JAK2. The safety and effectiveness of Xeljanz were evaluated in seven clinical trials in adult patients with moderately to severely active RA. In all of the trials, patients treated with Xeljanz experienced improvement in clinical response and physical functioning compared to patients treated with placebo. However, the use of Xeljanz has been associated with a range of side effects, including anemia (reduced hemoglobin levels) and elevations in both liver enzyme and lipid levels. For example, in controlled clinical trials for Xeljanz, dose-related elevations in lipid parameters (total cholesterol, LDL cholesterol, high-density lipoprotein, or HDL, cholesterol, triglycerides) were observed at one month of exposure, including a 15% increase in LDL cholesterol in the Xeljanz 5 mg twice daily arm, the approved dosage in the United States. Accordingly, Galapagos believes there continues to be a significant unmet medical need in RA and other inflammatory diseases for an orally administered approach with a more favorable side effect profile.

[4] Xeljanz® is a registered trademark for an approved RA medicine of Pfizer.

## Galapagos' clinical program for filgotinib for RA

Galapagos is developing a highly selective JAK1 inhibitor, called filgotinib (formerly known as GLPG0634), for treatment of RA, which we believe will address a number of the limitations of existing RA therapies. In a human whole blood assay Galapagos demonstrated that filgotinib, with a 30-fold selectivity for JAK1 over JAK2, was more selective for JAK1 than any other compound known to us to be either approved for sale or in clinical development. Galapagos believes the high selectivity of filgotinib for JAK1 may allow for a positive efficacy profile, with an improved safety profile for filgotinib due to the improved selectivity over JAK2 and JAK3.




[1] A. Tefferi, Blood 119 (2012) 2771-2730

Moreover, we believe that filgotinib has the potential to be used as a once-daily therapy, thereby potentially improving ease of administration and patient compliance. We also believe filgotinib has the potential to be used safely with concomitant medications, an important feature for this patient population since many of these patients are on other therapies to address co-morbidities or other diseases.

Through our DARWIN clinical programs, we demonstrated the following clinical and product effects of filgotinib for the treatment of RA:

- **Safety profile**: That filgotinib was well tolerated, showed absence of treatment-induced anemia, showed stable or improvement in the atherogenic index (percentage LDL versus HDL cholesterol) and resulted in an overall low infection rate and a favorable profile for liver enzymes
- **Efficacy profile**: That filgotinib enabled rapid onset of action, as measured by ACR20 response rates, with durable efficacy equal to or better than approved biologics and approaches such as anti-TNFs
- **Convenience**: That filgotinib enabled oral, once-daily dosing
- **Combination with other therapies**: That filgotinib will be able to be combined with other therapies commonly prescribed to RA patients, due to its low likelihood of drug-drug interactions

Filgotinib was evaluated in DARWIN 1 and 2 dose finding trials, Phase 2b trials in patients with moderate to severe RA and who have demonstrated an inadequate response to MTX. Patients completing one of these Phase 2b studies had the opportunity to roll-over to DARWIN 3, a long-term follow-up trial that allows patients to remain on treatment. The primary objective of the DARWIN 1 and 2 trials was efficacy in terms of percentage of subjects achieving an ACR20 response after 12 weeks of treatment. Final results after 24 weeks of treatment in both of the DARWIN trials were announced in July and August 2015, providing further insight as to the safety profile due to the fact the patients are treated for a longer period. Secondary trial objectives include efficacy in terms of the percentage of subjects achieving an ACR20 response at 24 weeks of treatment, ACR50 and ACR70 response and other disease activity measures as well as safety and tolerability and effects on subjects' disability, fatigue and quality of life.

Below is an overview of the trial designs for the DARWIN clinical program.

| Trial Name | DARWIN 1 (GLPG0634-CL-203) | DARWIN 2 (GLPG0634-CL-204) |
|---|---|---|
| **Trial Design** | Double-blind, placebo-controlled | |
| | Add-on to MTX<br><br>Seven trial arms:<br><br>■ three daily dose levels: 50 mg, 100 mg and 200 mg<br>■ two dose regimens for each dose level: once (q.d.) or twice daily (b.i.d.)<br>■ placebo | Monotherapy<br><br>Four trial arms:<br><br>■ three daily dose levels: 50 mg, 100 mg and 200 mg<br>■ one dose regimen for each dose level: once (q.d.)<br>■ placebo |
| **Patient Population** | Subjects with moderately to severely active RA who have an inadequate response to MTX (oral or parenteral) | |
| **Trial Objective** | Phase 2b dose finding trial to: | |
| | ■ evaluate efficacy of different doses and regimens of filgotinib as add-on to MTX | ■ evaluate efficacy of different doses of filgotinib as monotherapy |
| | ■ identify minimally and optimally effective dose<br>■ assess safety and tolerability<br>■ describe parameters for pharmacokinetics, or PK, the characterization of the fate of a drug from its absorption up to its the elimination from the body, and PD, the assessment of the effects of drugs on the body | |
| **Number of Subjects Randomized** | 599 (594 treated) | 287 (283 treated) |
| **Total Treatment Duration** | 24 weeks | |
| **Re-Randomization** | At week 12, subjects on placebo or lower doses of filgotinib who have not achieved 20% improvement in swollen joint count, or SJC, 66, and tender joint count, or TJC, 68, are re-randomized automatically to another treatment arm with either a 50 mg or 100mg dose. Subjects in the other groups maintain their randomized treatment until week 24 | |
| **Primary Trial Objective (at Week 12)** | Efficacy in terms of percentage of subjects achieving an ACR20 response of: | |
| | ■ different doses and dose regimens of filgotinib compared to placebo | ■ different doses of filgotinib given once daily compared to placebo |
| **Secondary Trial Objectives (at every visit)** | Efficacy in terms of the percentage of subjects achieving an ACR20, ACR50, ACR70, DAS28(CRP) and other disease activity measures<br><br>Safety and tolerability<br><br>Effects on subjects' disability, fatigue and quality of life of: | |
| | ■ different doses and dose regimens of filgotinib compared to placebo | ■ different doses of filgotinib given once daily compared to placebo |
| | Population PK and PD of filgotinib and its metabolite in subjects with RA and investigate the relationship between exposure and efficacy/safety/PD | |

DARWIN 3 (GLPG0634-CL-205) is a multicenter, open-label, long-term follow-up safety and efficacy trial of subjects who have completed either DARWIN 1 or DARWIN 2. All subjects have started the trial at the same dose level, either at 200 mg once per day or at 100 mg twice per day (except for males in the U.S. sites of these trials who receive a maximum daily dose of 100 mg), depending on the regimen administered during the preceding trial, with DARWIN 1 subjects continuing to use filgotinib in combination with MTX.

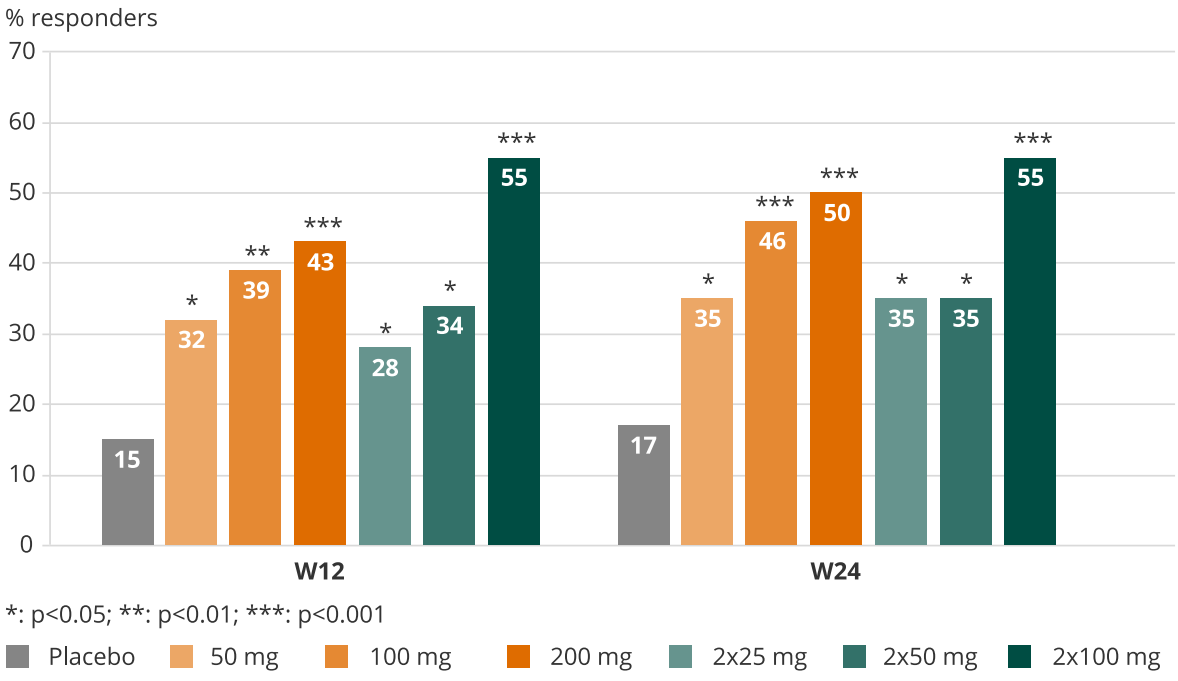
In connection with the DARWIN clinical program, we agreed with the FDA to exclude the 200 mg filgotinib daily dose for male subjects; males receive a maximum daily dose of 100 mg in the U.S. sites in this trial. This limitation was not imposed by any other regulatory agency in any other jurisdiction in which the DARWIN clinical program is being conducted. See "Risk Factors–Risks related to product development, regulatory approval and commercialization."

## Measurements of RA

The severity of RA can be assessed using several indices as recommended by the ACR. The ACR criteria measure improvement in tender or swollen joint counts and include other parameters which take into account the patient's and physician's assessment of disability. These clinical disease activity parameters are combined to form composite percentages of clinical response that are known as ACR20, ACR50, and ACR70. An ACR20 score represents a 20% improvement in these criteria and is considered a modest improvement in a patient's disease. An ACR50 score and ACR70 score represent a 50% and 70% improvement in the clinical response criteria, respectively, and each is considered evidence of a meaningful improvement in a patient's disease.

Galapagos reported final 24 weeks' data from DARWIN 1 in July 2015. DARWIN 1 was a 24-week, double-blind, placebo-controlled evaluation of filgotinib, as once- and twice-daily administration (QD and BID dosing, respectively) at three daily dose levels. Final results pertained to 594 patients with moderate to severe RA who showed an inadequate response to MTX and who remained on their background therapy of methotrexate. These patients received filgotinib or placebo and were evaluated up 24 weeks. Galapagos achieved the primary endpoint of ACR20 response at 12 weeks, reporting 80% ACR20 response on 100 mg BID versus 45% on placebo. We went on to report the following results for ACR50 response at 12 and 24 weeks:

**ACR50 Responses**
**DARWIN 1, ITT-NRI**



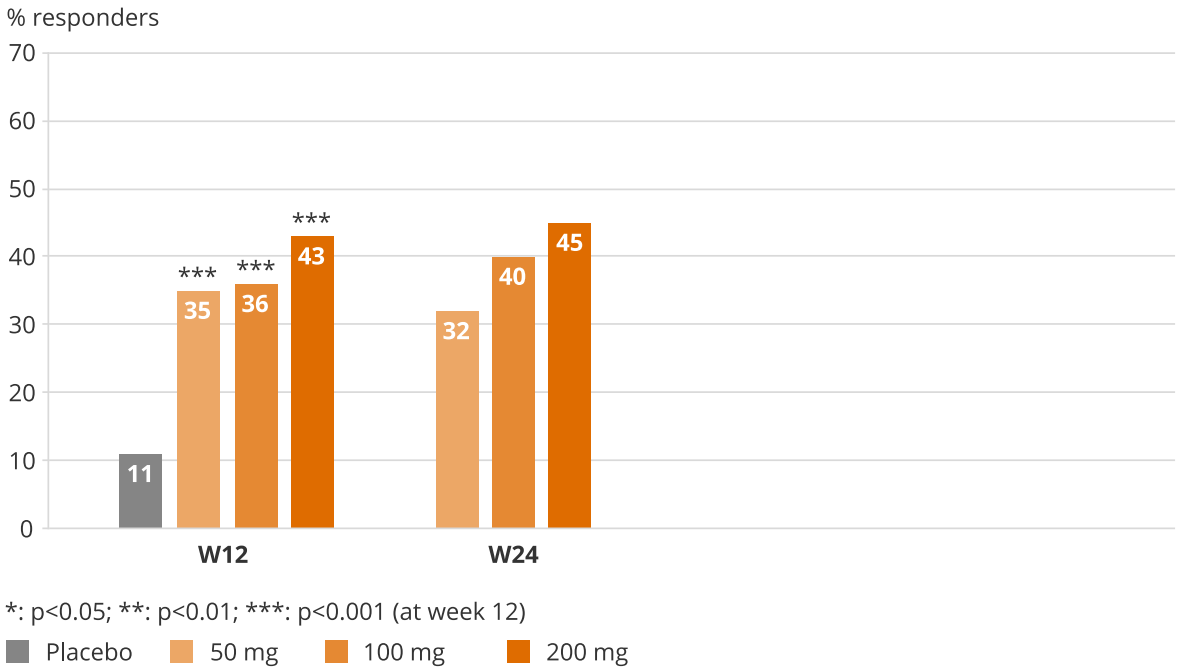

Subjects who switch treatment at week 12 are handled as if they discontinued at week 12.
Statistical analysis by ITT (intent to treat) with NRI (non-responder imputation).

Overall, there was no statistically relevant difference between the once-daily and twice-daily dosing regimens.

Over all DARWIN 1 dose groups including placebo, 3.9% of patients stopped treatment during the study for safety reasons. Patients reporting serious (2.5% overall) and non-serious treatment-emergent adverse events were evenly spread over the dose groups including placebo. Serious infections were reported in six patients, including one death on active treatment in the second half of the study and for which the Data Safety Monitoring Board did not see a reason to pause or change the study. No opportunistic infections were reported. Herpes zoster infection occurred in five patients, equally spread over placebo and filgotinib groups. Consistent with its selective JAK1 inhibition, filgotinib treatment led to an improvement in hemoglobin (up to 0.5 g/dL, or a 4% increase from baseline). All lipid fractions including HDL and LDL increased, with the largest percentage increase in HDL. Lymphocytes were not impacted by treatment with filgotinib in this study. No clinically significant changes or discontinuations were observed for male reproductive hormones.

Galapagos announced topline results after 24 weeks of treatment in the DARWIN 2 trial in August 2015. DARWIN 2 was a 24-week, double-blind, placebo-controlled evaluation of filgotinib, as once-daily administration (QD dosing) at three dose levels. DARWIN 2 results were for 283 patients with moderate to severe RA who showed an inadequate response to MTX. Filgotinib or placebo was given as monotherapy. The patients were evaluated up to 24 weeks. Galapagos achieved the primary endpoint of ACR20 response with all three doses at 12 weeks and went on to report the following ACR50 responses at 12 and 24 weeks of once-daily monotherapy:

**ACR50 Responses**
**DARWIN 2, ITT-NRI**




Subjects who switch treatment at week 12 are handled as if they discontinued at week 12. Statistical analysis by ITT (intent to treat) with NRI (non-responder imputation).

The results from DARWIN 2 showed a rapid onset of efficacy, as of week one for ACR and DAS28(CRP) responses. Maximum ACR20 and ACR50 responses were obtained at week eight and week twelve respectively. Additional gain was reported for ACR70 and DAS28 (CRP) during the second half of the study. In the highest dose groups, up to 50% of the patients reached low disease activity or remission.

Over all DARWIN 2 dose groups including placebo, 3.9% of patients stopped treatment during the study for safety reasons. A higher discontinuation rate for safety was observed for placebo (5.6%) during the first 12 weeks of the study compared to filgotinib treated patients (2.5%) up to week 24. Similar incidence of serious and non-serious treatment-emergent adverse events was reported, evenly spread over the dose groups including placebo. A higher rate of infections was observed in filgotinib (19% over 24 weeks) compared to placebo (10% up to week 12), with serious infections remaining limited (1.4% of filgotinib patients). No malignancies, tuberculosis, major adverse cardiac events, opportunistic infections, or deaths were reported. Consistent with its selective JAK1 inhibition, filgotinib treatment led to an improvement in hemoglobin (up to 0.4 g/dL, or 3.6% increase from baseline). Neutrophil levels remained stable after initial decline to mid-normal range at week four. There was no impact on lymphocytes or liver function tests. The similar increases in LDL and HDL were maintained. No clinically significant changes or discontinuations were observed for male reproductive hormones.

## Previous clinical trials for filgotinib for RA

### Phase 2a proof-of-concept trial

In November 2011, Galapagos announced topline data from a Phase 2a proof-of-concept trial (GLPG0634-CL-201), a four-week trial performed in RA patients with insufficient response to MTX. This trial was a randomized, double-blind, placebo-controlled trial that was conducted in a single center. A total of 36 patients were randomized in a 1:1:1 allocation ratio to receive filgotinib 100 mg (twice-daily), 200 mg (daily) or placebo, respectively, while continuing their stable dose regimen of MTX. All randomized patients completed the trial.

In the trial, ACR20 at week 4 was achieved by approximately 92% (p-value versus placebo = 0.0094), 75% (p-value versus placebo = 0.0995), and 33% in the 100 mg (twice-daily), 200 mg (daily) and placebo groups, respectively, and up to 40% of the filgotinib-treated patients went into either disease remission or low disease activity. The difference in number of ACR20 responders at week 4 was statistically significant for the pooled GLPG0634 group versus the placebo group (p-value versus placebo = 0.0067).

No serious adverse events, or SAEs, were reported on patients who received active treatment with various doses and dose regimens of filgotinib and there were also no permanent discontinuations among patients treated with filgotinib. Median laboratory values and p-values were visually inspected for trends over time, however, no statistical analysis on trends over time was performed. No clinically relevant trends or changes were apparent from these analyses, except for a decrease in platelet count in both filgotinib treatment groups. Vital signs and electrocardiogram, or ECG, parameters were not influenced by filgotinib. Overall, the results of this proof-of-concept trial in patients with RA demonstrated that a daily dose of 200 mg of filgotinib on top of MTX shows promising activity and was generally well-tolerated over four weeks of treatment.

### Phase 2a dose-ranging trial

In November 2012, Galapagos announced topline data from a follow-up Phase 2a dose-ranging trial (GLP0634- CL-202) to confirm the safety profile observed in the Phase 2a proof-of-concept trial. This trial was a four-week, randomized, double-blind, placebo-controlled, dose-ranging trial performed in patients with active RA who had an inadequate response to MTX and was conducted in four countries and involved 19 centers. A total of 91 patients were randomized in a 1:1:1:1:1 allocation ratio to receive once-daily regimens of 30 mg filgotinib, 75 mg filgotinib, 150 mg filgotinib, 300 mg filgotinib or placebo during four weeks, respectively.

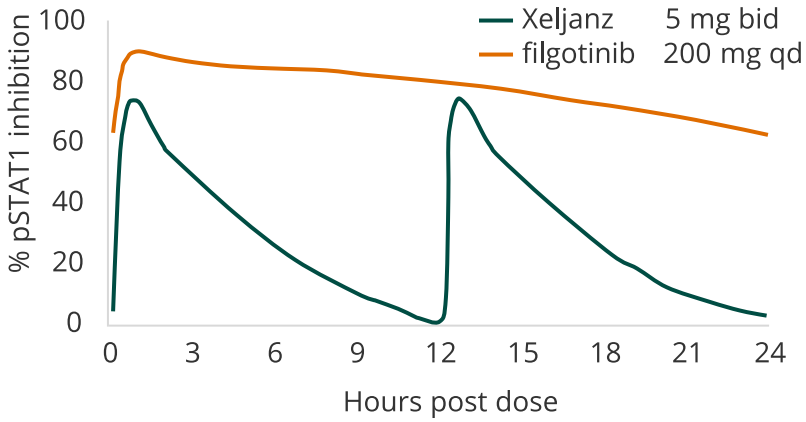
In this trial, ACR20 by week 4 was achieved by 35% (p-value versus placebo = 0.736), 55% (p-value versus placebo = 0.456), 40% (p-value versus placebo = 0.834), 65% (p-value versus placebo = 0.111), and 41% for doses 30 mg, 75 mg, 150 mg, 300 mg and placebo, respectively. Overall activity of filgotinib was confirmed across a wide panel of parameters. Some imbalances among treatment groups in demographic and disease characteristics, as well as the limited size of each treatment group, may explain the relatively high placebo ACR20 response rate and the apparently low ACR20 response rate of the 150 mg/day filgotinib dose group. Overall, more consistent and dose-related results across treatment groups were observed for objective measures of disease activity, such as serum C-reactive protein, and for assessments of

disesase such as swollen joint counts (SJC), tender joint counts (TJC), compared with the subjects' subjective assessments, i.e. global disease and pain assessment or Health Associated Questionnaire – Disability Index (HAQ-DI). This was particularly evident in the 150mg dose group, in which subjects had a higher SJC and TJC at baseline than the other arms, and may have resulted in less perceived improvement in pain and global visual analog scale, or VAS, leading to a poor ACR response. We selected the 50, 100, and 200 mg doses for the DARWIN Phase 2b program based on the outcome of this trial.

No SAEs were reported on patients who received active treatment with various doses of filgotinib and there were also no permanent discontinuations among patients treated with filgotinib. No medically significant shifts from baseline in laboratory parameters evaluated were seen. Filgotinib was well-tolerated at all dosages. The safety profile in this trial was not different to the previous trials conducted on filgotinib. Vital signs and ECG parameters were not significantly influenced by filgotinib.

## Phase 1

Galapagos evaluated filgotinib in healthy human volunteers in Phase 1 trials and did not achieve a maximum tolerated dose, even at a dose of 450 mg. Through its compound specific metabolic transformation, filgotinib has a one-day half-life, which may contribute to its once-daily, or QD, efficacy.




Furthermore, the potential for drug-drug interactions for filgotinib and its major metabolite was investigated *in vitro*, and confirmed with midazolam (marker for CYP3A4) in healthy volunteers and with MTX in patients. As filgotinib does not interact with Cytochromes P450 Enzymes, or CYP, and does not inhibit key drug transporters, we expect that it can be used with these concomitant drugs without dose adjustment of filgotinib or these concomitant medications.

# ‘The scariest thing about RA is the speed with which it can develop’

**Jef van Rompay**

diagnosed with rheumatoid arthritis in 2002

**Jef van Rompay (56) is a physiotherapist who has three daughters and four grandchildren. In 2002 he was diagnosed with rheumatoid arthritis (RA). As a ‘professional’ patient, he wishes to inform others about the disease and the importance of recognizing the early signs.**

“Rheumatoid arthritis is an insidious condition which tends to creep up on you. In late 2001, I started to feel pain in my feet and lower arms. It became more difficult to open the car door, that sort of thing. As a fit and healthy 42-year-old, the possibility of RA didn’t occur to me. I thought it was probably work-related strain. But it got worse. I was no longer fit and healthy. The problems were no longer confined to my joints. I felt unwell and tired all the time. I had several blood tests for rheumatoid factor but it was only the fourth time – some six months later – that the results came back positive. That goes to show that the clinical symptoms of RA are far more important than any laboratory tests.

The sooner you know about it, the better. That gives you a chance to hit the disease back with a high dose of drugs and perhaps lessen the longer-term impact. It really is a case of striking while the iron is hot. People tend to go to their doctor with the usual aches and pains but the inflammation associated with RA is easily overlooked. If the disease isn’t treated properly from the outset, other joints are likely to be affected. The scariest thing about RA is the speed with which it can develop, plus the huge impact it has on your general sense of wellbeing. Your fitness, condition and quality of life can go downhill extremely quickly.

## It’s possible that my RA won’t respond to the traditional therapies quite so well as time goes on, but it is very reassuring to know that there are new drugs in the pipeline

Good information is really important. The more you know, the more comfortable you can make your life and the better you will be able to cope. Quality of life is very important to me. I have enjoyed fifteen fantastic years, both professionally and at home, despite having RA. It is in remission because I have been getting the right treatment all this time. I always do what the doctors tell me: patient compliance is extremely high in my house! It can be unpleasant when the RA flares up, which happens once in a while, but a good dose of the drugs brings it back under control. It’s possible that my RA won’t respond to the traditional therapies quite so well as time goes on, but it is very reassuring to know that there are new drugs in the pipeline. More effective, safe new medicines are our ‘window of opportunity’.”

# Our second treatment area is IBD: filgotinib in CD Phase 3 trials to be initiated in 2016

Inflammatory bowel disease, or IBD, is a group of inflammatory conditions in the colon and small intestine, with CD and UC representing the two most common forms of the disease. Our IBD program consists of filgotinib, an orally-available, highly selective inhibitor of JAK1. Filgotinib was discovered and validated using our target discovery platform.

## CD and limitations of current treatments

CD is an IBD causing chronic inflammation of the gastrointestinal, or GI, tract with a relapsing and remitting course. The prevalence estimates for CD in North America range from 44 cases to 201 cases per 100,000 persons. In Europe, prevalence varies from 37.5 cases to 238 cases per 100,000 persons, according to a January 2014 GlobalData PharmaPoint report. The disease is slightly more common in women, with a peak incidence at the age of 20 to 40 years. The cause of CD is unknown; however, it is believed that the disease may result from an abnormal response by the body's immune system to normal intestinal bacteria.

The disease is characterized by inflammation that may affect any part of the GI tract from mouth to anus, but most commonly the distal small intestine and proximal colon, causing a wide variety of symptoms including anemia, abdominal pain, diarrhea, vomiting, and weight loss. The characteristic inflammatory response of CD is focal transmural inflammation, frequently associated with granuloma formation, which may evolve to progressive damage over time.

Treatment of CD will depend on severity of the disease. The main goal of treatment is to stop the inflammation in the intestine, prevent flare-ups and keep patients' disease in remission. While mild to moderate symptoms may respond to an antidiarrheal medicine, antibiotics, and other medicines to control inflammation, severe symptoms are often treated with anti-TNF agents. Anti-TNF agents, however, do not work for all patients, and, in patients who do find therapeutic benefit, they can lose their effect over time resulting in relapse. Anti-TNF agents have also demonstrated side effects arising from long term suppression of the immune system including increased rate of infections. Unlike in RA, few biologics have been approved in CD and, as such, caregivers have a more limited number of available treatments.

The market for CD therapies, across the 10 main healthcare markets, was approximately $3.2 billion in 2012 and is estimated to exceed $4.1 billion in 2022, according to a January 2014 GlobalData PharmaPoint report, driven primarily by use of anti-TNF agents. The primary existing brands are shown in the table below.

| Brand | Drug Class | Company |
|---|---|---|
| infliximab | Anti-TNF agent | Johnson & Johnson |
| adalimumab | Anti-TNF agent | AbbVie |
| certolizumab pegol | Anti-TNF agent | UCB |
| natalizumab | Integrin inhibitor | Biogen Idec |
| mesalamine/olsalazine/sulfasalazine/balsalazide | Intestinal anti-inflammatory | generic |
| budesonide MMX | glucocorticoid steroid | Salix |

| Brand | Drug Class | Company |
|---|---|---|
| AZA | Purine analog (immunosuppressant) | generic |
| vedoluzimab | integrin receptor antagonist | Takeda |

## The potential of JAK inhibitors for the treatment of CD

As with RA, dysregulation of the JAK-STAT signaling pathway has been associated with CD. Accordingly, Galapagos believes that drugs with high selectivity for JAK1 and less selectivity for JAK2 and JAK3 are likely to be attractive candidates for development in CD. By inhibition of JAK1 but not JAK2, unwanted effects such as anemia may be prevented. Complications surrounding anemia are of particular importance to IBD patients, who frequently experience fecal blood loss. We therefore believe there continues to be a significant unmet medical need in CD treatment for an oral, highly selective JAK1 inhibitor that allows for the efficacy benefits of a highly selective JAK1 inhibitor with a more favorable side effect profile driven by less selectivity to JAK2 and JAK3.

Galapagos is also developing filgotinib for treatment of CD to address the limitations of existing CD therapies. Through the FITZROY clinical program, we hope to demonstrate the following clinical and product benefits of filgotinib for the treatment of CD:

- **Safety profile**: That filgotinib will be well tolerated, will show an absence of treatment-induced anemia, will show marginal increase of LDL cholesterol and will result in an overall lower infection rate
- **Efficacy profile**: That filgotinib will demonstrate rapid onset of action and durable activity
- **Convenience**: That filgotinib will enable oral dosing, as there are currently no approved effective oral therapies for CD
- **Combination with other therapies**: That filgotinib can be combined with other therapies commonly prescribed to CD patients, due to its low likelihood of drug-drug interactions

## Clinical program for filgotinib for CD

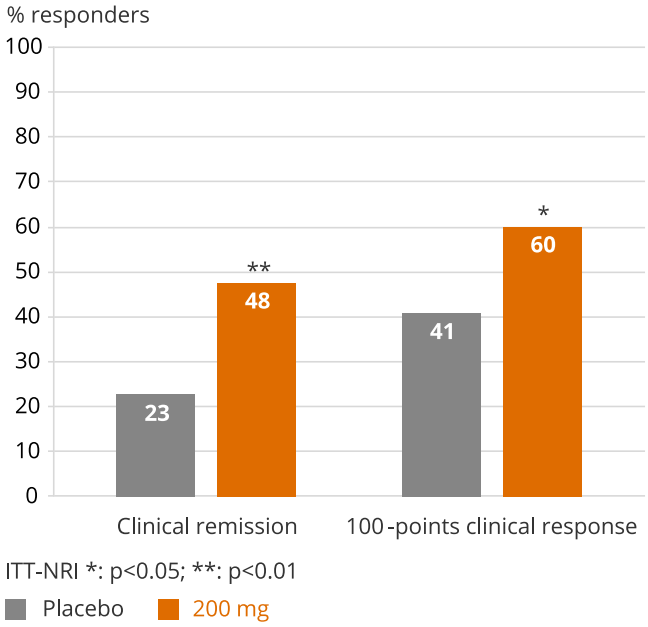
Filgotinib is currently in Phase 2 clinical development for CD and has shown favorable activity in pre-clinical models for IBD. Galapagos announced the completion of recruitment for FITZROY, a Phase 2 trial in CD with filgotinib, on August 6, 2015. This trial enrolled 175 patients with CD, evaluating the induction of disease remission at 10 weeks and clinical response and other parameters with up to 20 weeks of treatment. Patients were recruited from 49 centers in Eastern and Western Europe. We announced topline results of 10 weeks of treatment in the CD trial in December 2015 and expects to announce topline results from 20 weeks of treatment in April 2016. Pending regulatory approval, a global Phase 3 clinical program in CD is expected in 2016.

Below is an overview of the design for the FITZROY clinical trial.

| | |
|---|---|
| **Trial Name** | **FITZROY (GLPG0634-CL-211)** |
| **Trial Design** | Double-blind, placebo-controlled add-on to stable background treatment (e.g., corticosteroids, aminosalicylates or CD-related antibiotics).<br><br>Two trial parts: 10 weeks Part 1 + re-randomization +10 weeks Part 2.<br><br>Part 1 - two trial arms:<br><br>■ one daily dose level: 200 mg (q.d.)<br>■ placebo<br><br>Part 2 - three trial arms:<br><br>■ two daily dose levels: 100 mg and 200 mg<br>■ one dose regimen for each dose level: once (q.d.)<br>■ placebo |
| **Patient Population** | Subjects with active CD with evidence of mucosal ulceration. |
| **Trial Objective** | Proof-of-concept trial of filgotinib for the treatment of active CD. |
| **Number of Subjects Randomized** | 175 |
| **Total Treatment Duration** | 20 weeks |
| **Primary Trial Objective** | At week 10: Efficacy in terms of the percentage of subjects achieving clinical remission (CDAI score of less than 150) following 10 weeks of treatment versus placebo. |
| **Secondary Trial Objectives** | ■ Efficacy in terms of percentage of subjects achieving clinical response, clinical remission, endoscopic response, endoscopic remission and mucosal healing compared to placebo<br>■ Safety, tolerability and PK<br>■ Effect of filgotinib on quality of life, on selected PD/ biomarkers and histopathological features of the intestinal mucosa<br>■ Develop an exposure-response model between filgotinib / major metabolite exposure and selected PD/biomarkers or efficacy markers |

In December 2015, we announced achievement of the 10-week primary endpoint in FITZROY:

### FITZROY study CDAI responses, ITT-NRI, W10




Overall, in the FITZROY study at 10 weeks of treatment, filgotinib demonstrated a favorable safety profile consistent with the previous DARWIN studies. Similar incidences in SAEs and AEs were observed between filgotinib and placebo, with the majority of the SAEs related to worsening of CD. In the FITZROY study, filgotinib showed a favorable lipid profile with an increase in HDL and no change in LDL, resulting in an improved atherogenic index. An increase in hemoglobin was also observed in FITZROY, without difference between filgotinib and placebo. No clinically significant changes from baseline in neutrophils or liver function tests were observed in this study at 10 weeks.

We expect to announce results from the 20-week final readout in April 2016. Gilead plans to initiate Phase 3 trials with filgotinib in CD in 2016, pending the successful outcome of discussions with regulatory authorities.

### Phase 1 trial / pre-clinical study

In a pre-clinical study, Galapagos demonstrated encouraging activity results in a mouse dextran sodium sulfate, or DSS, induced colitis model. In Phase 1 clinical trials for filgotinib described above, we demonstrated a sustained effect of JAK1 inhibition over a 24-hour period with a low likelihood of drug-drug interactions.

## Ulcerative colitis

Ulcerative colitis, or UC, is an IBD causing chronic inflammation of the lining of the colon and rectum. Unlike CD, UC involves damaging inflammation of only the colon and rectum. The disease often presents in young adulthood. In patients with moderate to severe UC the symptoms include frequent loose bloody stools, anemia, abdominal pain, fever, and weight loss. UC affected nearly 625,000 people in the United States in 2012, according to a December 2013 GlobalData EpiCast report.

The ultimate aim in the treatment of UC is to change the natural course of the disease by slowing down or halting its progression, thus avoiding surgery or hospitalization. The current standard treatment for mild-to-moderate UC is 5-aminosalicylates, or 5-ASA. Given either orally or rectally, these drugs work to decrease inflammation in the lining of the intestines. For patients who do not respond to 5-ASA, other treatment options include corticosteroids, immunomodulators, biological therapies, such as anti-TNF agents, and cyclosporin. Surgery may be necessary for

patients with refractory UC. The global market for UC therapies was approximately $4.2 billion in 2012, and is estimated to grow to $6.7 billion in 2022, driven primarily by use of biological therapies, according to a September 2014 GlobalData PharmaPoint report.

Changes in UC treatment strategies, accompanied by advances in drug development and the addition of targeted biological therapies, have greatly improved the outcomes for patients. Although the introduction of anti-TNF agents has changed the treatment of refractory patients dramatically, only one-third or fewer patients will achieve long-term remission with such treatment, and many of those patients will eventually lose their response. In addition, anti-TNF agents have known side effects including increased risk of infections. As such, the medical need in this patient segment is still considered to be significant.

The primary existing brands of UC therapies are shown in the table below.

| Brand | Drug Class | Company |
|---|---|---|
| infliximab | Anti-TNF agents | Johnson & Johnson |
| adalimumab | Anti-TNF agents | AbbVie |
| golimumab | Anti-TNF agents | Johnson & Johnson |
| vedolizumab | Integrin inhibitor | Takeda |
| AZA | Purine analog (immunosuppressant) | generic |
| cyclosporine | Immunomodulator | generic |
| mesalamime | 5-ASA | Shire |
| mesalamime | 5-ASA | Actavis |
| mesalamime | 5-ASA | Salix |
| mesalamime | 5-ASA | Ferring |
| budesonide MMX | glucocorticoid steroid | Salix |

We believe that filgotinib may have potential application in UC. Xeljanz was shown to have a favorable efficacy profile in patient trials in UC. Given the higher selectivity for JAK1 of filgotinib, and the hemoglobin improvement shown with filgotinib in multiple Phase 2 patients studies including in CD, filgotinib's risk/benefit profile may prove to be even more attractive than that of tofacitinib in UC patients.

In 2015, we conducted a proof-of-concept study with GLPG1205, a potent and selective inhibitor of GPR84, in patients with UC. On January 26, 2016, we announced the results of the ORIGIN Phase 2a study, which confirmed good PK, safety and tolerability. The endpoints for efficacy in UC, however, were not met and Galapagos resolved to discontinue clinical development of GLPG1205 in UC.

# Our third treatment area is CF: an area of significant unmet medical need

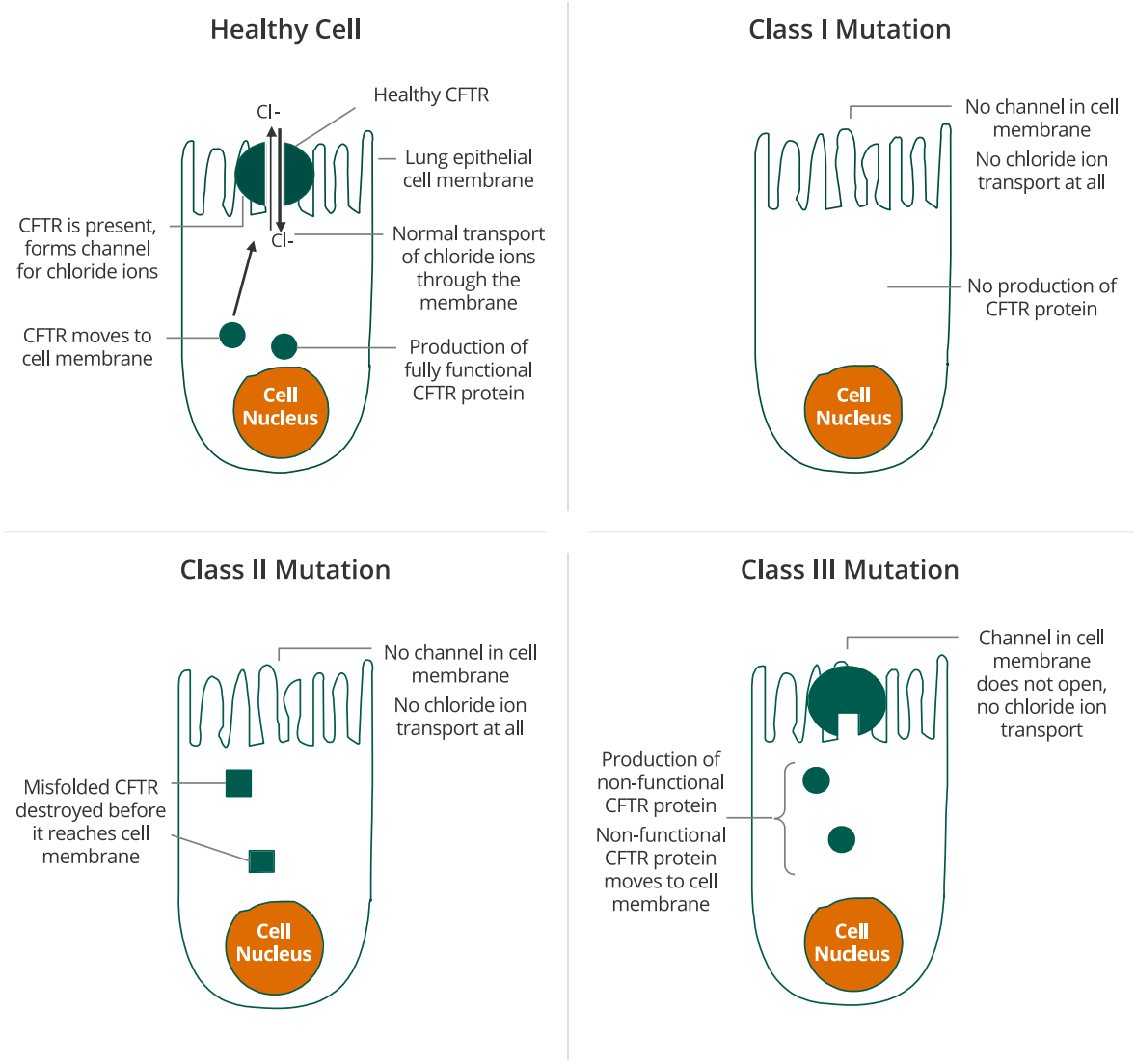
Cystic fibrosis is a rare, life-threatening, genetic disease that affects approximately 80,000 patients worldwide and approximately 30,000 patients in the United States. CF is a chronic disease that affects the lungs and digestive system. CF patients, with significantly impaired quality of life, have an average lifespan approximately 50% shorter than the population average. There currently is no cure for CF. CF patients require lifelong treatment with multiple daily medications, frequent hospitalizations and ultimately lung transplant, which is life-extending but not curative. In the United States, a CF patient on average incurs approximately $50,000 per year in outpatient expenses alone and substantial additional costs for frequent hospitalizations. Kalydeco, the only approved therapy for the underlying cause of Class III mutation CF, adds approximately $300,000 of additional costs per year. Orkambi, the only approved therapy for the underlying cause of Class II mutation CF, adds approximately $259,000 of additional costs per year.

CF is caused by a mutation in the gene for the CF transmembrane regulator, or CFTR, protein, which results in abnormal transport of chloride across cell membranes. Transport of chloride is required for effective hydration of epithelial surfaces in many organs of the body. Normal CFTR channel moves chloride ions to outside of the cell. Mutant CFTR channel does not move chloride ions, causing sticky mucous to build up on the outside of the cell. CFTR dysfunction results in dehydration of dependent epithelial surfaces, leading to damage of the affected tissues and subsequent disease, such as lung disease, malabsorption in the intestinal tract and pancreatic insufficiency.

Individuals who carry two copies of a defective CFTR gene, referred to as homozygous, are typically affected by CF and show symptoms of the disease. Individuals who carry one copy of a defective CFTR gene are called carriers. Carriers are typically unaffected by CF and show no symptoms of the disease. Individuals who carry one copy each of two different defective CFTR genes, referred to as heterozygous, are typically affected by CF and show symptoms of the disease. Today, the majority of CF patients are diagnosed at birth through newborn screening and the majority of diagnosed patients have been genotyped, up to 97% in the United States. There are more than 1,900 known mutations in the CFTR gene, some of which result in CF. Mutations in the CFTR gene can be classified into five classes according the mode by which they disrupt the synthesis, traffic and function of CFTR, as described in the table below.

| Class | CFTR Dysfunction | CFTR Impact | Commentary | |
|---|---|---|---|---|
| I | Absent functional CFTR | Protein translation | Leads to no CFTR on cell membrane | "Severe" Mutations ~96% of patients |
| II | Absent function CFTR | Protein folding | CFTR can't reach cell surface (F508del most common Class II) | |
| III | Defective channel regulation | Function | CFTR on cell surface but can't be activated (G551D most common Class III) | |
| IV | Defective CFTR channel | Function | CFTR on cell surface but chloride channel is unable to function properly | "Mild" Mutations |
| V | Reduced function & synthesis | Reduced number & CFTR degradation | CFTR made at insufficient levels or degrades too quickly | |

## Selected CF Mutations




Source: Adapted from [Proesmans et al., 2008]

Two of the most prevalent mutations in the CFTR gene are Class II and Class III, including the F508del mutation and the G551D mutation, respectively. In Class II patients having insufficient CFTR reaching the membrane, about half of the patient population have the F508del mutation on both alleles, the so-called homozygotes. For clinical trials, these patients form a homogenous group. About the other half of the Class II patient population have the F508del mutation on one allele only and carry another mutation on the second allele; they are called the heterozygotes. Also this other mutation impairs the correct processing of CFTR. As the group is less homogenous, clinical trials have proven to be more difficult. The F508del mutation is sometimes called a "processing" mutation because it results in a defect in the CFTR protein in which the CFTR protein does not reach the surface of cells in sufficient quantities. The G551D mutation, a Class III mutation, is sometimes called a "gating" mutation because it results in a defect in the CFTR protein in which the defective CFTR protein reaches the surface of a cell but does not efficiently transport chloride ions across the cell membrane. Most therapeutic approaches under development for CF target the defects caused by one or both of these mutations. Given the prevalence of the F508del mutation, a compound that corrects the effect of the F508del mutation can, beside for patients with Class II mutations only, also be used for combination therapy approaches in heterozygous patients with Class I and Class III mutations.

## The potential of CFTR modulators for the treatment of CF

There is no cure for CF, and to date, all but one of the therapies approved to treat CF patients have been designed to treat the symptoms rather than address the underlying cause of the disease. The market for CF therapies, across the six main healthcare markets, exceeded $1 billion in 2012 and is to exceed $5 billion in 2018 according to a July 2014 GlobalData OpportunityAnalyzer report, primarily driven by introduction of disease modifying treatments. To treat the symptoms of disease, such as CF-associated malnutrition, diabetes, lung disease and systemic inflammation, an aggressive combination of specific therapies is required. To address the cause of the disease, the primary focus has been on a class of drugs known as CFTR modulators.

Two types of disease-modifying CFTR modulators are the primary area of focus for therapies under development. Potentiator molecules are designed to restore the flow of ions through an activated CFTR by influencing the channel's open probability. Potentiator molecules can only function if CFTR is already present in the cell membrane (Class III/IV) mutations. Corrector molecules are designed to overcome defective protein processing by restoring proper folding of CFTR and allowing for increased surface expression (Class II mutations).

Kalydeco, marketed by Vertex, is currently the only approved therapy to address the cause of Class III mutation CF. Kalydeco is an orally-administered prescription CFTR potentiator for the treatment of patients two years of age and older with CF who have several specific mutations in the CFTR gene, including the Class III (G551D) mutation. Kalydeco is designed to keep the CFTR protein channels on the cell surface open longer in order to increase the flow of salt and water into and out of the cell. However, this treatment is limited to the subset of patients who suffer from the Class III and other gating mutations of the CFTR gene. Class III mutations occur in only a small percentage of patients with CF (4%).

In contrast, the Class II F508del mutation affects approximately 90% of all CF patients. In these patients, CFTR is not expressed at the cell surface and cannot be potentiated by drugs like Kalydeco (that can only function if CFTR is already present in the cell membrane). Small molecule corrector approaches aim to transport the non-functional Class II CFTR protein to the cell membrane. Lumacaftor (VX-809), which was developed by Vertex, is a small molecule corrector approved for patients with two copies (homozygous) of the Class II (F508del) mutation in their CFTR gene for use in combination with Kalydeco. Vertex refers to this combination of lumacaftor and Kalydeco as Orkambi, which is currently the only approved therapy to address the cause of Class II mutation CF. Orkambi showed statistically significant reductions in pulmonary exacerbations in the pooled analysis of the TRAFFIC and TRANSPORT Phase 3 studies. Other signs of clinical improvement were either limited or not statistically different from placebo.

The Class I mutations affect approximately 10% of all CF patients. This mutation shortens the length of the CFTR protein and leads to complete loss of CFTR function. To date, there are no approved molecules on the market to treat this mutation.

Despite the approval of Kalydeco and Orkambi, there is need for better therapies with improved pulmonary function. Though many pediatric patients have normal lung function at the time of diagnosis, physicians generally believe that earlier treatments can have downstream benefits for the patient by slowing the deterioration in lung function.

Galapagos believes that restoration of CFTR function in cellular assays may be predictive of clinical outcomes. Specifically, review of Vertex patient and cellular data has shown strong correlation as reflected in Diagram A. In the case of patients with F508del mutation, the administration of Kalydeco and lumacaftor combination resulted in approximately 20% restoration of normal, or wild-type, CFTR. The clinical outcome reflected in Vertex's Phase 3 trial and primary endpoint was that 46% of patients showed an FEV1 improvement of greater than or equal to 5%. Forced expiratory volume (FEV1) levels are a measurement of the volume of air that can be forcibly blown out in one second after full inspiration. Further, as reflected in Diagram B, for patients with G551D mutation, the administration of Kalydeco resulted in approximately 30% restoration of wild-type CFTR. The clinical outcome reflected in Vertex' Phase 3 trial and primary endpoint was that 75% of patients showed an FEV1 improvement of greater than or equal to 5%.

**Diagram A**
**F508del – Homozygous for F508del**

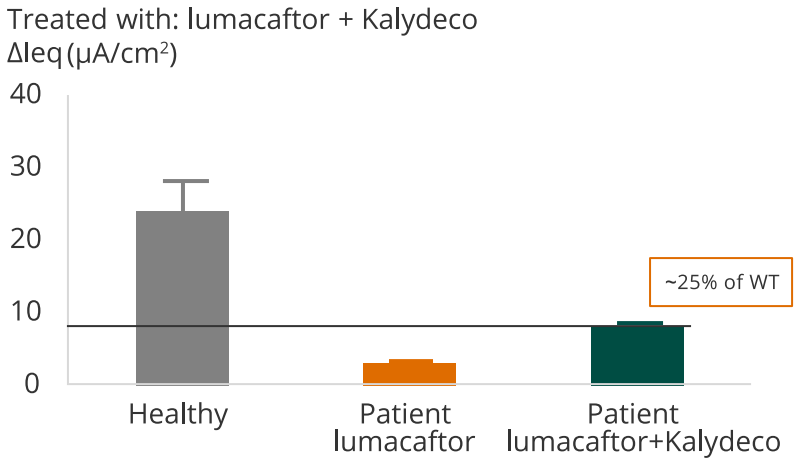
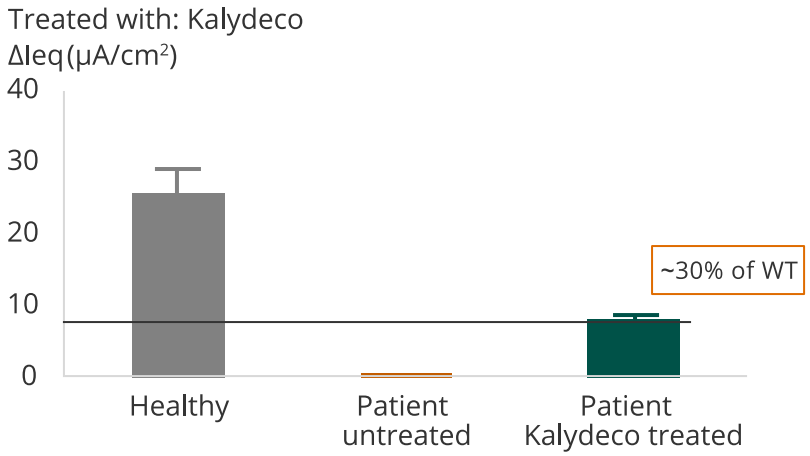



**Diagram B**
**G551D – Heterozygous G551D with F508del**




Galapagos believes these studies demonstrate that cellular models can be used to identify novel molecules to treat Class II and Class III mutations and select those combinations that can restore wild-type CFTR to greater than 50%, a threshold that we believe needs to be achieved to lead to disease remission in patients.

## Novel modulator combinations for treating CF

Galapagos believes that its CF modulators have the potential to offer important advantages compared to currently approved therapies as well as other therapies under development:

- Disease modifying activity in Class II/III mutations in CF
- Regaining greater than 50% of CFTR activity, important for achieving compelling clinical efficacy;
- Improved risk/benefit compared to standard of care
- Small molecules allowing for oral administration
- Adequate safety profile for chronic use, including pediatric application
- No adverse interactions with drugs commonly taken by CF patients, including antibiotics and anti-inflammatory drugs; and
- Active in homo- & heterozygous patients

Galapagos believes that it is well positioned in CF due to ours:

- Robust portfolio of CF modulators, including prolific chemistry with multiple binding modes to modulate CFTR
- Unique assay cascade, including primary cells from CF patients, for screening of candidate drugs that modulate the CFTR protein
- Expertise in working since 2005 with a broad discovery platform containing highly relevant disease assays starting from cells from CF patients; and
- Collaborative partnership with AbbVie, which is an expert in combination therapies and committed to the CF field

Galapagos is developing novel oral corrector-potentiator combinations for the treatment of CF patients with the Class II F508del mutation, including both homozygous and heterozygous patients. The aim is to develop multiple correctors and multiple potentiators for patients with this mutation, and Galapagos has been successful in identifying multiple candidates in each focus area thus far. Galapagos does this to increase the chances of success in the event that molecules fail along the development path, but also to achieve the highest possible improvement in CFTR function for these patients. We believe that multiple drugs will ultimately need to be used in combination in order to achieve compelling clinical efficacy.

Therapies that restore CFTR function through a combination of correctors and potentiators improve hydration of the lung surface and subsequent restoration of mucociliary clearance. Galapagos is focused on increasing the percentage of wild-type CFTR restored to greater than 50%. We believe that a potentiator/corrector combination restoring more than 50% of healthy function CFTR will have a substantially positive impact on the quality of life of Class II patients and can reverse disease. Galapagos also believes it is important to use drug-drug interaction such as interference with the working of antibiotics, an important class of medication for CF patients, as a key screening criterion in the CF programs.

Galapagos has identified multiple series of novel corrector molecules that enhance the restoration of CFTR in combination with the Company's novel potentiators. We believe that a triple combination of a potentiator, a C1 corrector and a C2 corrector will deliver the best therapeutic result in Class II patients. C1 and C2 correctors differ in the way they bind with CFTR and contribute to the restoration of CFTR function. In order to increase the chances of success and of selecting the best possible triple combination, Galapagos and our collaboration partner AbbVie are developing a portfolio of CF compounds comprising at least one lead and at least one follow-on molecule for each position in the triple combination therapy for Class II patients.

Based on pre-clinical data, Galapagos believes that potentiator GLPG1837 has the potential to offer a favorable efficacy and safety profile, important for Class III positioning, but also important for forming the potentiator component of combination therapies for Class II mutation patients as well.

Diagram C below summarizes the results of a pre-clinical evaluation of potentiator GLPG1837 and Vertex's Kalydeco potentiator in heterozygous donor cells from a single donor with the G551D and F508del mutations. The first bar shows the activity of the Kalydeco potentiator, which achieved approximately 30% wild-type restoration on average in this assay. The second bar shows the activity of GLPG1837, which achieved greater wild-type restoration on average in this assay.

Diagram D below summarizes the results of a pre-clinical evaluation of two correctors plus potentiator combinations in homozygous donor cells from a single donor with the F508del mutation. The left side of the diagram shows the comparison of Orkambi with a single Galapagos corrector and potentiator combination. Orkambi and the Galapagos dual combination show comparable (~20% of healthy) restoration of CFTR in this pre-clinical evaluation. The right side of the diagram shows the Galapagos dual combination in comparison with a Galapagos triple combination comprising a potentiator and two correctors from the CF portfolio. Here Galapagos demonstrates in a pre-clinical evaluation that the Galapagos triple combination has greater CFTR restoration than the Galapagos dual combination in Class II cells.

**Diagram C**
**'1837: compared to Kalydeco, G551D/F508del primary cells**

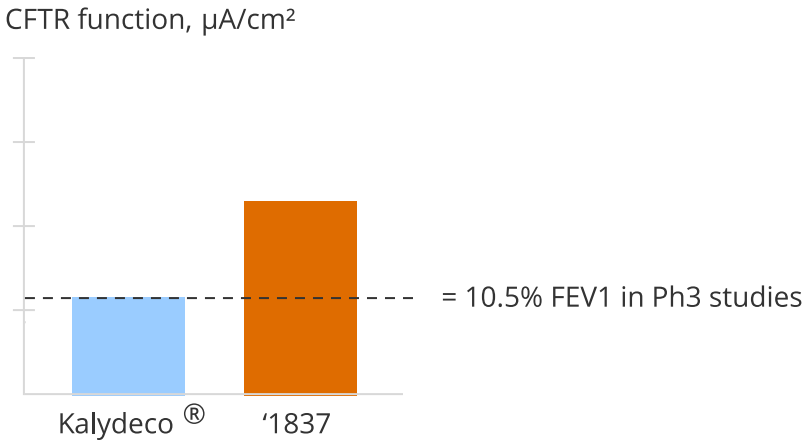
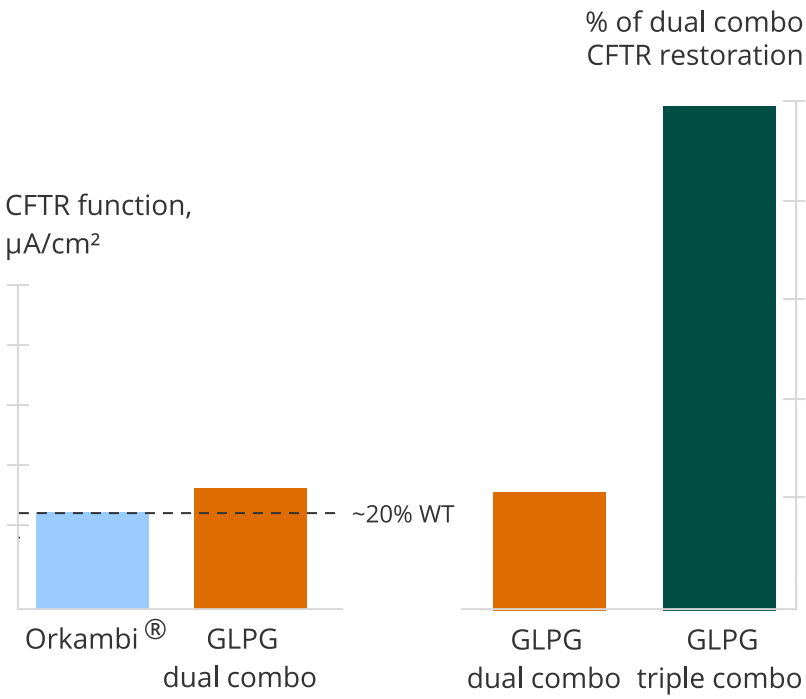



**Diagram D**
**Dual and triple combinations, F508del/F508del primary cells**




Galapagos also has preliminary pre-clinical data which suggests that certain of the Company's candidate drugs, in combination with facilitated mRNA translation agents, may potentially restore clinically meaningful CFTR function in Class I mutation patients.

## GLPG1837

### Phase 1 trial

Galapagos selected GLPG1837 as a pre-clinical candidate potentiator drug late in 2013. In December 2014, Galapagos initiated a Phase 1 clinical trial for GLPG1837, for which the Company announced topline results in October 2015. The trial was a first-in-human, randomized, double-blind, placebo-controlled, single center Phase 1 trial evaluating single ascending doses, or SAD, and multiple ascending oral doses, or MAD, of GLPG1837 in healthy subjects. The trial was

designed to include five cohorts of healthy volunteers that participate in one or more treatment periods. In the SAD part of the trial the ascending doses alternate between cohorts which run in parallel. Other cohorts are executed consecutively and only upon successful completion of the SAD part of the trial.

On safety, GLPG1837 up to a single dose of 2000 mg and up to 800 mg twice daily for 14 days was generally well tolerated in this study. There were no adverse effects observed on ECG, vital signs, or on laboratory parameters. Treatment-emergent adverse events were rare, with the most common adverse events reported being headache and tiredness. The pharmacokinetics of GLPG1837 also proved favorable in this study. Rapid absorption occurred, with a mean apparent elimination half-life of 6-15 hours. The bioavailability of GLPG1837 was improved with food. Steady state was attained within the second dosing, with no accumulation.

### Phase 2a trials

Galapagos initiated two Phase 2a clinical trials with GLPG1837 in Class III patients. In SAPHIRA 1, an open-label study of three doses of GLPG1837 in at least 12 patients with the G551D mutation, GLPG1837 was first dosed in patients in March 2016. In SAPHIRA 2, an open-label study of two doses of GLPG1837 in at least six CF patients with the S1251N mutation, GLPG1837 was first dosed in patients in February 2016. The SAPHIRA Phase 2a program will explore the safety, tolerability, efficacy, and PK and PD of GLPG1837 in patients in six EU countries and Australia. Primary objectives are to evaluate the safety and tolerability; secondary objectives are to assess changes in sweat chloride from baseline as the biomarker of CFTR ion channel function and to explore the changes in pulmonary function (forced expiratory volume in 1 second, or FEV1) from baseline. Both studies will include subjects treated with Kalydeco as well as those who are naïve to this drug. In each study, different doses of GLPG1837 tablets will be administered twice daily for a total duration of four weeks.

## GLPG2222

Galapagos initiated a Phase 1 trial for our first C1 corrector candidate, GLPG2222, in January 2016, triggering a $10 million payment from AbbVie. Galapagos is conducting this randomized, double-blind, placebo-controlled study over a range of doses of GLPG2222 in healthy volunteers in Belgium and expects topline results in the first half of 2016.

## GLPG2665

In November 2015, Galapagos selected GLPG2665 as the first C2 corrector candidate. GLPG2665 was the first candidate to complete the potential triple combination therapy for the delta F508 (class II) mutation in CF. GLPG2665 in combination with corrector GLPG2222 and potentiator GLPG1837 consistently have shown restoration of healthy activity level in human bronchial epithelial (HBE) cells of patients with the Class II F508del mutation. The combination resulted in chloride transport up to six-fold greater than Orkambi in HBE cells with the homozygous F508del mutation. GLPG2665 has entered pre-clinical development.

Galapagos entered into an exclusive collaboration agreement with AbbVie to discover, develop and commercialize novel CF modulators. AbbVie and Galapagos are working collaboratively, contributing technologies and resources to develop and commercialize oral drugs that address the main mutations in CF patients, including Class II and Class III.

# ‘Now I will be able to become a doctor’


**Nikki Scheen (13) has cystic fibrosis. A comparison of her life before and after June 2015 couldn’t be starker, both for Nikki, her two younger sisters and her parents. They’re all still adjusting to the situation.**

“Our social life always used to be fairly low-key”, says Anne-Martine, Nikki’s mother. “Birthdays, parties and suchlike were never really our thing. The risk of Nikki catching a bug somewhere and getting ill was simply too great. And besides, she was usually too tired for anything like that anyway. Feeling a little under the weather, like a normal person would, is not something Nikki ever experienced. The last time she was ill was early last year, and it took her months to recover from that.”

Nikki: “I used to be tired all the time. I went to school tired, arrived back home tired, went to bed tired and woke up tired. I could never really do very much. Weekends used to be my time to get some rest. During holidays we could only ever do one activity a day, anything more than that would have been too tiring.”

“Nikki not only had low energy, she frequently used to be ill as well. The standard procedure was admission to hospital with high doses of antibiotics. The mucus build-up in the lungs caused by CF is an ideal environment for bacteria to multiply. And due to the defective mucus production and clearance mechanisms, coupled with the generally poor health all CF patients have, it can take a really long time to recover from such infections.”

## We’re looking forward to new and even better CF drugs becoming available

In June of last year, Kalydeco became commercially available. This drug has helped about 5 percent of CF patients. Nikki is one of those 5 percent. Her lung capacity has improved from 50 percent to 90 percent. “One day, Nikki ran outside into the garden. That was on the third day after starting the treatment. We watched our girl jumping on the trampoline with our mouths open. Was that really our daughter?”

“We’re looking forward to new and even better CF drugs becoming available. Nikki is doing well at the moment, but what will things be like 10 years from now? Also, the efficacy of the drugs varies from patient to patient: there are almost 2,000 different genetic mutations, and no drug can undo the damage in the form of scar tissue your body develops over the years.”

“As a kid, all you know is what you’re used to and what your life is like. CF and all the associated discomforts used to be Nikki’s reality. Seeing her go about her life like a normal 13-year-old is such a huge change. And a permanent change, too. Only now is she starting to think about the things she likes and wants. Meeting friends after school, going to parties. ‘Now I WILL be able to become a doctor’, she told us recently. And for our family as well the impact has been tremendous. I can work away from home now, and we can start building a social life. Next summer we’re all going to Sri Lanka. Who would ever have thought that?”

# ‘You’ll never know until you try’

**Katja Conrath**

is responsible for the discovery and development of new drugs to treat CF

**Katja Conrath (42) is mother to a son aged 4 and a daughter aged 8. At one time, she wanted to study space technology. In the end, however, she swapped the infinitely large for the microscopically small. Since joining Galapagos ten years ago, she has been responsible for the discovery and development of candidate drugs to treat cystic fibrosis.**

“A scientist asks questions, seeks answers and is constantly learning. A scientist never gives up. I am not an inventor, I am a problem solver. There is always a starting point, such as an assay which emulates the target disease. I like to look at the process from all directions, finding alternative ways to analyze and measure a function or activity. The biology of proteins and cells is already very challenging and the extra layer of complexity that disease brings makes this a very exciting area of study. CF is a prime example. I derive much satisfaction from trying to identify and counteract the defect which drives the disease. Understanding and changing the cell assays, looking for alternatives, not taking data for granted: that’s how we have come this far.

## At Galapagos we are all very committed to our work. Perhaps because we know that we can really make a difference.

In recent years, collaboration with other researchers and organizations has become an increasingly important aspect of my work. At Galapagos our motto is 'Go for it!' We try new routes all the time, since you never know until you try. Given this context, it was quite a challenge to achieve the desired results within the agreed timeframe and to lead the team rather than become a mere member of it.

One thing that can be said of everyone at Galapagos is that we are all very committed to our work. Perhaps that is because we know that we can really make a difference. A scientist here is given a high degree of autonomy. We can do whatever we feel appropriate. No one is there to say no, and there is plenty of opportunity to learn and develop. I became involved in the CF project almost by accident. I gradually got into the swing of things and could work at my own pace, but always with one eye on the deadlines of course. There is still a lot of work to be done before we completely understand our molecules and the molecular effects of the disease in depth, but we have come a long way."

# Our fourth treatment area is IPF: another area of significant unmet medical need

Idiopathic pulmonary fibrosis, or IPF, is a chronic, relentlessly progressive fibrotic disorder of the lungs that typically affects adults over the age of 40. According to an April 2013 GlobalData EpiCast report, the prevalence of IPF is <30 per 100,000 persons in both Europe and the United States, and, as such, Galapagos believes that IPF is eligible for orphan designation in these jurisdictions. The clinical prognosis of patients with IPF is poor as the median survival at diagnosis is 2–4 years. Currently, no medical therapies have been found to cure IPF. The medical treatment strategy aims to slow the disease progression and improve the quality of life. Lung transplantation may be an option for appropriate patients with progressive disease and minimal comorbidities.

Regulatory agencies have approved Esbriet®[5] (pirfenidone) and Ofev®[6] (nintedanib) for the treatment of mild to moderate IPF. Both pirfenidone and nintedanib have been shown to slow the rate of functional decline in IPF and are likely to become the standard of care worldwide. These regulatory approvals represent a major breakthrough for IPF patients; yet neither drug improves lung function, and the disease in most patients on these therapies continues to progress. Moreover, the adverse effects associated with these therapies are considerable (e.g., diarrhea, liver function test abnormalities with nintedanib, nausea and rash with pirfenidone). Therefore, there is still a large unmet medical need as IPF remains a major cause of morbidity and mortality. According to an April 2013 GlobalData OpportunityAnalyzer report, growth in the United States and European Union IPF markets is expected in the near future with forecasted IPF sales in 2017 of over $1.1 billion.

GLPG1690 is a potent and selective inhibitor of autotaxin (ATX). Galapagos identified ATX as a potential target for IPF, after finding the target using an inflammation assay in its target discovery platform. Pharmacology and translational studies published by other parties since then suggest that ATX may also play a role in metabolic disease, arthritic pain, oncology, and lung disease.

ATX is a secreted enzyme with lysophospholipase D activity responsible for the production of bioactive plasma lipid lysophosphathidic acid, or LPA. LPA signals through several receptors to control a range of cell activities such as migration, contraction and proliferation. In published studies, LPA levels have been shown to be increased in bronchoalveolar lavage, or BLA, fluid, and in exhaled breath condensate, of IPF patients, and ATX levels have been shown to be elevated in the lung tissue of IPF patients. Bristol-Myers Squibb has initiated a Phase 2 proof-of-concept trial in IPF patients with an LPA1 receptor antagonist.

Galapagos evaluated GLPG1690 in a pre-clinical lung fibrosis model (bleomycin-treated mice) and observed effects on reducing the fibrotic score, numerically favoring GLPG1690 over pirfenidone.

GLPG1690 has completed a Phase 1 first-in-human trial, the results of which were announced in February 2015. The aim of this trial was to evaluate the safety, tolerability, pharmacokinetics and pharmacodynamics of oral single and multiple ascending doses of GLPG1690. The randomized, double-blind, placebo-controlled, single center trial was conducted in 40 healthy volunteers in Belgium. In this study, GLPG1690 was shown to be well-tolerated in up to 1000 mg daily dose and demonstrated a favorable pharmacokinetic profile. Moreover, in this trial GLPG1690 demonstrated the ability to reduce plasma LPA levels on a sustained basis, implying ATX engagement.

Galapagos is planning to enroll a Phase 2 trial in IPF, and is expecting to complete patient recruitment for this trial before year end 2016, with topline results expected in the first half of 2017. This randomized, placebo-controlled double-blind study will recruit 24 patients with IPF from multiple centers in Europe.

[5] Esbriet® (pirfenidone) is indicated for the treatment of idiopathic pulmonary fibrosis (IPF) by Roche.
[6] Ofev® (nintedanib) is indicated for the treatment of idiopathic pulmonary fibrosis (IPF) by Boehringer Ingelheim.

# Our fifth treatment area is osteoarthritis: GLPG1972 presents a unique opportunity

Sometimes called degenerative joint disease or degenerative arthritis, osteoarthritis, or OA, is the most common chronic condition of the joints. OA can affect any joint, but it occurs most often in the small joints of the fingers, knees, hips, lower back and neck, and the bases of the thumb and big toe[7]. According to a November 2015 GlobalData EpiCast Report, OA will be the fourth leading cause of disability by the year 2020. There are limited data on the total prevalence of OA, but as an example, in the 7 major markets in 2014 the diagnosed prevalence of hand OA was over 60 million patients. In normal joints, a firm, rubbery material called cartilage covers the end of each bone. Cartilage provides a smooth, gliding surface for joint motion and acts as a cushion between the bones. In OA, the cartilage breaks down, causing pain, swelling and problems moving the joint. As OA worsens over time, bones may break down and develop growths called spurs. Bits of bone or cartilage may chip off and float around in the joint. In the body, an inflammatory process occurs and cytokines (proteins) and enzymes develop that further damage the cartilage. In the final stages of OA, the cartilage wears away and bone rubs against bone leading to joint damage and more pain[7].

Although OA occurs in people of all ages, osteoarthritis is most common in people older than 65. Common risk factors include obesity, previous joint injury, over use of the joint, and weak thigh muscles. One in two adults in the United States will develop symptoms of knee OA during their lives. One in four American adults will develop symptoms of hip OA by age 85. One in 12 people 60 years or older have had OA[7]. Current treatments for OA include weight loss, physical therapy, pain and anti-inflammatory medicines, and surgery, all of which address only the symptoms of the disease. There currently are no approved disease-modifying therapies available.

In November 2015, we announced that GLPG1972, a first-in-class candidate drug aimed at treating OA, had been dosed in a Phase 1 First-in-Human study. GLPG1972 has a novel mode of action with potential application in osteoarthritis, and was discovered by us under our collaboration agreement with Servier, an independent French-based pharmaceutical company. Galapagos earned a €3.5 million milestone payment from Servier in connection with this achievement.

The aim of the Phase 1 study is to evaluate the safety, tolerability, and pharmacokinetics of oral single and multiple ascending doses of GLPG1972. The randomized, double-blind, placebo-controlled, single center study is being conducted in at least 40 healthy volunteers in Belgium. In the first part of the study, single ascending doses will be evaluated. In the second part, the new compound will be administered daily for 14 days in multiple ascending doses. Topline results from this Phase 1 study along with other data resulting from the ongoing program expected in the second quarter of 2017 will enable our partner Servier to exercise or not the option to license the compound for further development into osteoarthritis patient trials. Galapagos also expects to initiate a patient study in osteoarthritis patients in Q2 2016. Galapagos has retained full rights to the compound in the United States.

[7] Source: www.arthritis.org

# Risk Factors

## Description of the risks of which investors should be aware

A scientist asks questions, seeks answers and is constantly learning. I look at the process from all directions, finding alternative ways to analyze and measure a function or activity. A scientist never gives up.

**Katja Conrath**
Therapeutic Area Head

# Risks related to our financial position and need for additional capital

We are a clinical-stage biotechnology company and have not yet generated significant income. Our operations to date have been limited to developing our technology and undertaking pre-clinical studies and clinical trials of our product candidates.

Since our inception, we have incurred significant operating losses. We expect to continue incurring significant research, development and other expenses related to our ongoing operations, and to continue incurring losses for the foreseeable future. We do not anticipate generating revenues from sales of products for the foreseeable future, if ever. Because of the numerous risks and uncertainties associated with pharmaceutical product development, we are unable to predict the timing or amount of expenses and when we will be able to achieve or maintain profitability, if ever.

We will require substantial additional future capital which may not be available to us on acceptable terms, or at all, in order to complete clinical development and, if we are successful, to commercialize any of our current product candidates. In addition, raising additional capital may cause dilution to our existing shareholders, restrict our operations or require us to relinquish rights to our product candidates or technologies. The incurrence of additional indebtedness could result in increased fixed payment obligations and could also result in certain additional restrictive covenants that could adversely impact our ability to conduct our business. In the event that we enter into collaborations and/or licensing arrangements in order to raise capital, we may be required to accept unfavorable terms, including relinquishing or licensing to a third party on unfavorable terms our rights to technologies or product candidates.

For further reference on financial risks in particular, see note 34 of the notes to the consolidated financial statements.

# Risks related to product development, regulatory approval and commercialization

We operate adequate standard operating procedures to secure the integrity and protection of our research and development activities and results, and the optimum allocation of our R&D budgets. The progress of the most important research and development programs is continuously monitored by our Executive Committee; they are discussed with the Board at least once per quarter, and Board members with expertise in clinical and scientific matters occasionally attend meetings with our scientific staff to discuss and assess such programs. Nevertheless, due to our limited resources and access to capital, we must and have in the past decided to prioritize development of certain product candidates; these decisions may prove to have been wrong and may adversely affect our business.

We are heavily dependent on the success of our product candidate filgotinib and our other product candidates. We may not be successful in our efforts to use and expand our novel, proprietary target discovery platform to build a pipeline of product candidates.

Our business and future success is substantially dependent on our ability to develop successfully, obtain regulatory approval for, and then successfully commercialize our product candidate filgotinib and our other product candidates. We are not permitted to market or promote any of our product candidates before we receive regulatory approval from the FDA, the EMA or any other comparable regulatory authority, and we may never receive such regulatory approval for any of our product candidates. We cannot give any assurances that our clinical trials for filgotinib or our other product

candidates will be completed in a timely manner, or at all. We have never completed a Phase 3 trial or submitted an NDA. If filgotinib or any future product candidate is not approved and commercialized, we will not be able to generate any product revenues for that product candidate.

The regulatory approval processes of the FDA, the EMA and other comparable regulatory authorities are lengthy, time consuming and inherently unpredictable, and if we are ultimately unable to obtain regulatory approval for our product candidates, our business will be substantially harmed.

Clinical testing is expensive and can take many years to complete, and its outcome is inherently uncertain. Results of earlier studies and trials as well as data from any interim analysis of ongoing clinical trials may not be predictive of future trial results and failure can occur at any time during the clinical trial process. If we experience delays in the completion of, or termination of, any clinical trial of our product candidates, the commercial prospects of our product candidates will be harmed, and our ability to generate product revenues from any of these product candidates will be delayed. If filgotinib or any other product candidate is found to be unsafe or lack efficacy, we will not be able to obtain regulatory approval for it and our business would be materially harmed.

The rates at which we complete our scientific studies and clinical trials depend on many factors, including, but not limited to, patient enrolment.

Patient enrolment is a significant factor in the timing of clinical trials and is affected by many factors including competing clinical trials, clinicians' and patients' perceptions as to the potential advantages of the drug being studied in relation to other available therapies and the relatively limited number of patients. Any of these occurrences may harm our clinical trials and by extension, our business, financial condition and prospects.

Our product candidates may cause undesirable side effects or have other properties that could delay or prevent their regulatory approval, limit the commercial profile of an approved label, or result in significant negative consequences following marketing approval, if any.

Undesirable side effects caused by our product candidates could cause us or regulatory authorities to interrupt, delay or halt clinical trials and could result in a more restrictive label or the delay or denial of regulatory approval by the FDA, the EMA or other comparable regulatory authorities. The drug-related side effects could affect patient recruitment or the ability of enrolled patients to complete the trial or result in potential product liability claims. Any of these occurrences may harm our business, financial condition and prospects significantly.

Based on pre-clinical findings, we expect that filgotinib, if approved, may have a labeling statement warning female patients of child-bearing age to take precautionary measures of birth control to protect against pregnancy, similar to warnings included with other frequently used medications in RA, such as methotrexate.

In addition, there may be dose limitations imposed for male patients that are prescribed filgotinib, if approved. In connection with the DARWIN clinical program, we agreed with the FDA to exclude the 200 mg filgotinib daily dose for male subjects in the U.S.; males received a maximum daily dose of 100 mg in the U.S. sites in these trials. This limitation was not imposed by any other regulatory agency in any other jurisdiction in which the DARWIN clinical program is being conducted. We agreed to this limitation because in both rat and dog toxicology studies, filgotinib induced adverse effects on the male reproductive system and the FDA determined there was not a sufficient safety margin between the filgotinib exposure at the no-observed-adverse-effect-level, or NOAEL, observed in these studies and the anticipated human exposure at the 200 mg daily filgotinib dose. Accordingly, in connection with the DARWIN 3 clinical trial, in the United States, male subjects are dosed at a daily dose of 100 mg only. Male participants in this study and their partners are required to use highly effective contraceptive measures for the duration of the study and during a washout period thereafter. As an additional safety measure, we monitor clinical laboratory changes in hormone levels for subjects in the DARWIN 3 clinical trial.

Recently generated non-clinical data showed filgotinib did not induce any macroscopic or microscopic findings in the male reproductive system in animals with higher filgotinib exposure versus previous studies. Although this data has been shared with the FDA, the selection of doses for the filgotinib Phase 3 development program will be based on an overall risk/benefit assessment, taking into account all available non-clinical findings as well as clinical safety and efficacy data (including data from male subjects treated with the 200 mg daily dose of filgotinib outside of the United States). Therefore, the FDA or other regulatory authorities may still impose dosing restrictions.

Even if filgotinib does receive regulatory approval or marketing authorization, the FDA or other regulatory authorities may impose dosing restrictions that differ from the approved dosing regimen in other jurisdictions.

Box warnings, labeling restrictions, dose limitations and similar restrictions on use could have a material adverse effect on our ability to commercialize filgotinib in those jurisdictions where such restrictions apply.

## Risks related to our reliance on third parties

We are heavily dependent on Gilead in its further development of our product candidate filgotinib. Gilead may not devote sufficient resources or give sufficient priority to the filgotinib program. Gilead may not be successful in the further development and commercialization of filgotinib, even when they do resource and prioritize the efforts for filgotinib.

We may not be successful in maintaining development and commercialization collaborations, and a collaboration partner may not devote sufficient resources to the development or commercialization of our product candidates.

The collaboration arrangements that we have established, and any collaboration arrangements that we may enter into in the future, may ultimately not be successful, which could have a negative impact on our business, results of operations, financial condition and growth prospects. It is possible that a collaboration partner may not devote sufficient resources to the development or commercialization of our product candidate or may otherwise fail in development or commercialization efforts, in which event the development and commercialization of such product candidate could be delayed or terminated and our business could be substantially harmed.

We rely on third party suppliers for which a reliable supply of materials is required in order to avoid delays in the drug discovery and development process. Most goods and services are provided by several different suppliers, which mitigates the risk of loss of key suppliers. Expanding the suppliers' network can be time consuming as all source suppliers are subject to rigorous ethical and quality control standards. The suppliers should perform as contractually required or expected.

We rely on third parties to conduct our pre-clinical studies and clinical trials.

We have relied on and plan to continue to rely on contract research organizations ("CROs") to monitor and manage data for our pre-clinical and clinical programs. We and our CROs also rely on clinical sites and investigators for the performance of our clinical trials in accordance with the applicable protocols and applicable legal, regulatory and scientific standards. If CROs do not successfully carry out their contractual duties or obligations or meet quality standards, regulatory requirements or expected, our clinical trials may be extended, delayed or terminated and we may not be able to obtain regulatory approval for or successfully commercialize our product candidates.

We rely on clinical data and results obtained by third parties that could ultimately prove to be inaccurate or unreliable.

As part of our strategy to mitigate development risk, we seek to develop product candidates with validated mechanisms of action and we utilize biomarkers to assess potential clinical efficacy early in the development process. This strategy necessarily relies on clinical data and other results obtained by third parties. If the third-party data and the results

that we rely on prove to be inaccurate, unreliable or not applicable to our product candidates, we could make inaccurate assumptions and conclusions about our product candidates and our research and development efforts could be materially adversely affected.

## Risks related to our competitive position

We face significant competition for our drug discovery and development efforts, and if we do not compete effectively, our commercial opportunities will be reduced or eliminated.

The biotechnology and pharmaceutical industries are intensely competitive and subject to rapid and significant technological change. Our competitors may develop drug products that render our products obsolete or non-competitive by developing more effective drugs or by developing their products more efficiently. In addition, our ability to develop competitive products would be limited if our competitors succeeded in obtaining regulatory approvals for drug candidates more rapidly than we were able to or in obtaining patent protection or other intellectual property rights that limited our drug development efforts.

## Risks related to our intellectual property

Our ability to compete may decline if we do not adequately protect our proprietary rights.

We endeavor to protect our proprietary technologies and know-how by entering into confidentiality and proprietary information agreements with our employees and partners, and by setting up special procedures (e.g. with respect to the handling of the laboratory books).

Our commercial success depends on obtaining and maintaining proprietary rights to our product candidates, as well as successfully defending these rights against third party challenges. We will only be able to protect our product candidates, and their uses from unauthorized use by third parties to the extent that valid and enforceable patents, or effectively protected trade secrets, cover them. If we fail to maintain to protect or to enforce our intellectual property rights successfully, our competitive position could suffer, which could harm our results of operations.

Pharmaceutical patents and patent applications involve highly complex legal and factual questions, which, if determined adversely to us, could negatively impact our patent position.

The patent positions of biotechnology and pharmaceutical companies can be highly uncertain and involve complex legal and factual questions. The interpretation and breadth of claims allowed in some patents covering pharmaceutical compositions may be uncertain and difficult to determine, and are often affected materially by the facts and circumstances that pertain to the patented compositions and the related patent claims. The standards of the United States Patent and Trademark Office, the European Patent Office, and other foreign counterparts are sometimes uncertain and could change in the future. If we fail to obtain and maintain patent protection and trade secret protection of our product candidates, we could lose our competitive advantage and the competition we face would increase, reducing any potential revenues and adversely affecting our ability to attain or maintain profitability.

We will not seek to protect our intellectual property rights in all jurisdictions throughout the world and we may not be able to adequately enforce our intellectual property rights even in the jurisdictions where we seek protection.

Filing, prosecuting and defending patents on our product candidates in all countries and jurisdictions throughout the world would be prohibitively expensive, and our intellectual property rights in some countries could be less extensive than those in the United States and Europe. Consequently, we may not be able to prevent third parties from practicing our inventions in all countries, or from selling or importing products made using our inventions.

## Risks related to our organization, structure and operation

Our future success depends on our ability to retain the members of our Executive Committee and to attract, retain and motivate qualified personnel. If we are not successful in attracting and retaining highly qualified personnel, we may not be able to successfully implement our business strategy. Adequate remuneration and incentive schemes and the sharing of our knowledge amongst key employees mitigate this risk. In the recent past, we have continued to be successful in attracting and retaining qualified employees.

Risks from the improper conduct of employees, agents, contractors, or collaborators could adversely affect our reputation and our business, prospects, operating results, and financial condition. Our information technology systems could face serious disruptions that could adversely affect our business. Continuing an uninterrupted performance of our IT system is critical to the success of our business strategy and operations. A recovery plan for data has been implemented, as well as a system for interception of power failures. Fire walls and virus scanners provide an additional and adequate protection. Our personnel should adhere to continuity plans and procedures regarding access rights and installation of different programs. Business interruptions could delay us in the process of developing our product candidates. This risk has a high potential impact, but is mitigated by policies and procedures such as surveillance of the buildings, annual appraisals and bonuses, and monthly management meetings.

We could be subject to liabilities under environmental, health and safety laws or regulations, or fines, penalties or other sanctions, if we fail to comply with such laws or regulations or otherwise incur costs that could have a material adverse effect on the success of our business. The very limited use of hazardous materials, the existence of stringent health and safety operation procedures, and regular inspections and safety days significantly decrease the potential impact as well as the estimated likelihood of the risk. Furthermore, we employ quality & environmental health and safety managers who closely monitor laboratory safety and continuously seek to improve quality and safety conditions.

Our collaboration arrangements with our strategic partners may make us an attractive target for potential acquisitions under certain circumstances. Under certain circumstances, due to the structure of our collaboration arrangements with our strategic partners, our strategic partners may prefer to acquire us rather than paying the milestone payments or royalties under the collaboration arrangements, which may bring additional uncertainties to our business development and prospects.

We may undertake strategic acquisitions in the future and any difficulties from integrating such acquisitions could adversely affect our share price, operating results and results of operations. We may acquire companies, businesses and products that complement or augment our existing business. We may not be able to integrate any acquired business successfully or operate any acquired business profitably. Integrating any newly acquired business could be expensive and time-consuming. Integration efforts often take a significant amount of time, place a significant strain on managerial, operational and financial resources, result in loss of key personnel and could prove to be more difficult or expensive than we predict. As part of our efforts to acquire companies, business or product candidates or to enter into other significant transactions, we conduct business, legal and financial due diligence with the goal of identifying and evaluating material risks involved in the transaction. Despite our efforts, we ultimately may be unsuccessful in ascertaining or evaluating all such risks and, as a result, might not realize the intended advantages of the transaction.

If we are unable to use tax loss carryforwards to reduce future taxable income or benefit from favorable tax legislation, our business, results of operations and financial condition may be adversely affected. We may incur unexpected tax charges, including penalties, due to the failure of tax planning or due to the challenge by tax authorities on the basis of transfer pricing. Any changes to Belgian and international taxation legislation or the interpretation of such legislation by tax authorities may influence our activities, financial situation and results. Such potential changes and their impact are monitored carefully by management and its advisors.

Being active in research and development in Belgium and France, we have benefited from certain research and development incentives. If the Belgian and/or the French government decide to eliminate, or reduce the scope or the rate of, the research and development incentive benefit, either of which it could decide to do at any time, our results of operations could be adversely affected. We also expect to benefit in the future from the "patent income deduction" initiative in Belgium. If, however, there are unexpected adverse changes to the Belgian "patent income deduction" initiative, or if we are unable to qualify for such advantageous tax legislation, our business, results of operations and financial condition may be adversely affected.

We have received several technological innovation grants to date, to support various research programs from an agency of the Flemish government to support technological innovation in Flanders. If we fail to comply with our contractual obligations under the applicable technological innovation grant agreements, we could be forced to repay all or part of the grants received. Such repayment could adversely affect our ability to finance its research and development projects.

We annually establish a detailed budget that is submitted to the Board of Directors for review and approval. Our performance compared to the budget is continuously monitored by our Executive Committee and is discussed with the Board at least once per quarter. For the establishment of our financial information, we have processes and methods in place that enable the preparation of consolidated financial statements for our annual and quarterly reporting. Our management reporting systems – which include an advanced integrated ERP system – secure the generation of consistent financial and operational information, allowing management to follow-up our performance on a daily basis.

# Market risks relating to the Galapagos shares

Galapagos has identified the following major market risks:

- **Possible volatility of share price**
  The market price of the shares might be affected by a variety of factors outside management control, such as the global economic situation, the business development of competitors, sector mergers and acquisitions; it is difficult to mitigate this risk

- **Economic risk due to failure in confidence**
  General public confidence about future economic conditions or performance of us or our suppliers or customers may impact the ability or willingness of others to trade with us

- **Dilution through capital increases**
  Raising additional capital may cause dilution to our existing shareholders. By raising additional capital through capital increases with cancellation of the preferential subscription rights of our existing shareholders, these shareholders will be diluted

- **Dilution through exercise of warrant plans**
  The exercise of existing warrants can significantly increase the number of outstanding Galapagos shares

- **Inability to distribute dividends**
  We have a limited operating history and future profitability cannot be guaranteed. Galapagos NV has significant losses carried-forward and will thus not be able to distribute dividends in the near future. This can cause people to refrain from investing in Galapagos shares

- **Reputational damage**
  High ethical standards are maintained throughout the entire organization at all levels. Laws and guidelines are complied with

- **Belgian law provisions**
  There are several provisions of Belgian company law and certain other provisions of Belgian law, such as the obligation to disclose important shareholdings and merger control, that may apply to us and which may make an unfriendly tender offer, merger, change in management or other change in control, more difficult. These provisions could discourage potential takeover attempts that third parties may consider and thus deprive the shareholders of the opportunity to sell their shares at a premium (which is typically offered in the framework of a takeover bid)

# General statement about Galapagos Group risks

According to our current assessment we consider the risks to be manageable and our going concern not to be endangered at the time of the current report. Assuming no further deterioration of the global business, financial and regulatory environment, we consider ourselves well prepared to meet all future challenges.

# Corporate governance

## Corporate governance at Galapagos in 2015

We increased our exposure to American investors through the successful NASDAQ IPO, attracting more shareholders and sell-side analyst coverage by banks. Furthermore, we established IR presence in Boston in the fall of 2015.

**Elizabeth Goodwin**
VP Corporate Communications & Investor Relations

# Galapagos' corporate governance policies

We have adopted the Belgian Corporate Governance Code 2009 (which can be consulted on www.corporategovernancecommittee.be) as our reference code. Galapagos NV's Board of Directors approved a Corporate Governance Charter (which is available on our website, www.glpg.com). The Corporate Governance Charter applies in addition to the law, Galapagos NV's articles of association and the corporate governance provisions included in the Belgian Companies Code and the Belgian Corporate Governance Code 2009.

The Board of Directors strives to comply with the rules of the Belgian Corporate Governance Code 2009 as much as possible. At the same time, the Board of Directors is of the opinion that certain deviations from the provisions of the Belgian Corporate Governance Code 2009 are justified, in view of our activities, our size and the specific circumstances in which we operate. In such cases, which are mentioned in this corporate governance statement, we apply the "comply or explain" principle. Reference is made to the "Remuneration of non-executive Directors of Galapagos NV" section.

In addition to the information set out below, we refer to the "Risk management" and "Risk factors" sections of this report for a description of the most important characteristics of our internal control and risk management systems. The "Risk management" and "Risk factors" sections are incorporated by reference in this corporate governance statement.

# Board of Directors of Galapagos NV

## Composition of Galapagos NV's Board of Directors

**Onno van de Stolpe** – Please refer to the "Composition of Galapagos NV's Executive Committee" for a biography.

**Rajesh Parekh, MA, DPhil** has served as the Chairman of Galapagos NV's Board of Directors since 2004. Raj is a General Partner at Advent Life Sciences LLP, which he joined in 2005. During an academic career at Oxford University, he co-founded Oxford GlycoSciences PLC, where he served as Chief Scientific Officer and Chief Executive Officer from 1988 until its sale to Celltech Group PLC (now UCB SA) in 2003. He has founded or served on the boards of several life sciences companies in the United States and Europe including Celldex Therapeutics, Inc.; Avila Therapeutics, Inc.; EUSA Pharma (Europe) Limited; Thiakis Limited; Biocartis NV; and Amsterdam Molecular Therapeutics (AMT) Holding NV (now uniQure). Raj currently serves as a member of the board of directors of Advent Venture Partners; Advent Life Sciences LLP; Aleta Inc.; Arrakis, Inc.; Aura Inc.; Artax Inc.; Capella BioSciences Ltd.; Cellnovo Limited; Itara Ltd.; Levicept Limited; PE Limited; and Project Paradise Limited. He is also a member of the Supervisory Board of the Novartis Venture Fund. He received his MA in Biochemistry and DPhil in Molecular Medicine from the University of Oxford, where he has also been a Senior Research Fellow and Professor.

**Harrold van Barlingen, Ph.D.** has served as a member of Galapagos NV's Board of Directors since 2005. Harrold is the managing director and founder of Thuja Capital BV, Thuja Capital Holding BV and Thuja Capital Management BV. Prior to founding Thuja Capital, he headed the life sciences effort of AlpInvest Partners BV from 2001 to 2006, managing a portfolio of over 30 companies. Previously, he was at the Boston Consulting Group ("BCG") where he worked as a consultant in management and strategy from 1999 to 2002. Prior to BCG, he headed the continental activities of The Lewin Group (a Quintiles subsidiary), an internationally active firm specialized in the field of health economics. He holds an MSc in Medical Biology and a PhD in Medicine, both from Utrecht University. From 1991 to 1992 he was a visiting scientist at the University of Chicago. He is the author of a wide variety of peer-reviewed scientific and pharmaco-

economics papers. He currently serves on the supervisory boards of Encare Biotech BV, TheraSolve NV (chairman), and Hemics BV (chairman). In addition, during the last five years he also served on the boards of Okapi Sciences NV, arGEN-X NV and Curacyte GmbH.

**Werner Cautreels, Ph.D.** has served as a member of Galapagos NV's Board of Directors since 2009. Werner is the President, Chief Executive Officer and member of the board of Selecta Biosciences, Inc. Previously, he joined Solvay Pharmaceuticals SA in 1998 where he was Global Head of R&D and later Global Chief Executive Officer from 2005 onwards, until it was acquired by Abbott Laboratories Inc. in February 2010. Prior to joining Solvay he was employed by Sanofi SA, Sterling Winthrop, Inc. and Nycomed Amersham PLC in a variety of R&D management positions in Europe and in the United States from 1979 to 1998. Werner was a director of Innogenetics NV and ArQule, Inc. from 1999 until 2006. He was the President of the Belgian-Luxemburg Chamber of Commerce for Russia and Belarus until June 2010. He graduated from the University of Antwerp, with a Doctorate in Chemistry, specializing in mass spectrometry. He received his management and financial education from the Harvard Business School. Werner currently serves as a member of the board of directors of Seres Health, Inc.

**Howard Rowe, JD** has served as a member of Galapagos NV's Board of Directors since 2010. Howard is Managing Director at Hayfin Capital Management LLP. Prior to joining Hayfin Capital Management, he was a Managing Director with The Goldman Sachs Group, Inc. where he had multiple healthcare responsibilities over his 12 years at the firm. His most recent roles at Goldman Sachs were as part of the European Special Situations and Principal Strategies teams where he established and led the private healthcare investing effort. During that time he served on the boards of EUSA Pharma (Europe) Limited, Healthcare Brands International Limited, SmallBone Innovations, Inc. and Ikonisys, Inc. Prior to his investing activities, Howard was a senior member of the European Healthcare Investment Banking team, where he advised numerous corporate clients on M&A and corporate finance activities. Before joining Goldman Sachs, he was a corporate lawyer with the law firm Sullivan & Cromwell LLP. Howard received his Bachelor of Science in Psychobiology from the University of Southern California and his JD from Harvard Law School. He currently serves as a member of the board of directors of MedAvante, Inc.

**Katrine Bosley** has served as a member of Galapagos NV's Board of Directors since 2013. Katrine has served as the President, Chief Executive Officer and member of the board of directors of Editas Medicine, Inc. since June 2014. Prior to joining Editas, she was the Entrepreneur-in-Residence at The Broad Institute from 2013 to 2014. From 2009 to 2012, she was President, Chief Executive Officer and member of the board of directors of Avila Therapeutics, Inc., which was acquired by Celgene Corporation in 2012. She served as President, Celgene Avilomics Research at Celgene in 2012. Prior to her time at Avila Therapeutics she was Vice President, Strategic Operations at Adnexus, a Bristol-Myers Squibb R&D Company, and was Vice President, Business Development at Adnexus Therapeutics, Inc. before that. Katrine joined Adnexus Therapeutics from Biogen Idec, Inc. where she had roles in business development, commercial operations and portfolio strategy in the United States and Europe. Earlier, she was part of the healthcare team at the venture firm Highland Capital Partners, Inc. Katrine graduated from Cornell University with a B.A. in Biology. She currently serves as chairman of the board of Genocea Biosciences, Inc. and as a director of Scholar Rock, LLC. She also serves on the board of directors of the Biotechnology Innovation Organization and is a review committee member of the Wellcome Trust.

**Christine Mummery, Ph.D.** has served as a member of Galapagos NV's Board of Directors since 30 September 2015. Christine has served as a Professor of Developmental Biology and Chair of the Department of Anatomy and Embryology at the Leiden University Medical Centre (LUMC) since 2008 and a Professor of Vascular Modelling at the Technical University of Twente in The Netherlands since September 2015. In 2007, she was a Radcliffe fellow at the Harvard Stem Cell Institute and Massachusetts General Hospital when human-induced pluripotent stem cells were being developed, and she was the first to derive these from patients in The Netherlands. In 2002, she became a Professor at the Utrecht University Medical Centre in The Netherlands. She was a postdoctoral fellow from 1981 to 1984 at the Hubrecht Institute in Utrecht, where she later also served as a staff scientist and group leader until 2008. Christine obtained her B.S. in Physics, Electronics, and Mathematics at the University of Nottingham and her Ph.D. in BioPhysics at London University in the United Kingdom. Her primary research focus is currently the development and use of stem cells in cardiovascular development and disease. She served on the Ethical Councils of the Dutch Ministry of Health, is

member of the Royal Netherlands Academy of Arts and Sciences (KNAW), editor-in-chief of the Cell Press journal Stem Cell Reports, former board member of the International Society for Stem Cell Research and past-president of the International Society of Differentiation. She was co-founder of Pluriomics BV. In addition, she is on the board of ZonMw (Dutch Medical Research Council) and chairs the executive board of the Institute for human Organ and Disease Model Technologies (hDMT), a non-profit R&D institute of which we are a founding partner. She is a review committee member of the European Research Council, the Wellcome Trust (*ad hoc*) and the Heineken Jury Prize (KNAW).

## About Galapagos NV's Board of Directors

Galapagos NV's Board of Directors consists of minimum five and maximum nine members, including the Chairman and the CEO. The Chairman is a non-executive Director and does not hold the office of CEO. At least three Directors are independent.

The Directors are appointed by the Shareholders' Meeting upon the proposal of the Board, for a renewable term of up to four years. When a position on the Board becomes vacant, the other Directors may temporarily fill the mandate until the Shareholders' Meeting appoints a new Director. The Nomination and Remuneration Committee nominates, for the approval of the Board, candidates to fill vacancies and advises on proposals for appointment originating from shareholders, in each case taking into account Galapagos' needs and the selection criteria determined by the Board.

Except for Mr. Onno van de Stolpe, all Board members are non-executive Directors.

In 2015, the following persons were members of the Board: Dr. Raj Parekh (Chairman), Ir. Onno van de Stolpe (CEO), Dr. Harrold van Barlingen, Dr. Werner Cautreels, Mr. Howard Rowe, Ms. Katrine Bosley and Dr. Christine Mummery (as from 30 September 2015); the latter four Directors were appointed as independent Directors within the meaning of article 526*ter* of the Belgian Companies Code.

The Board's role is to pursue the long-term success of Galapagos. The Board does so by assuming the authority and responsibilities assigned to it by Belgian corporate law and by combining entrepreneurial leadership with appropriate risk assessment and management. Each of the Directors' expertise and experience is exemplified by the varied professional activities they carry out and offices they hold.

In 2015, the Board of Directors held 4 regular meetings, 11 meetings by telephone conference to discuss specific matters and 4 meetings in the presence of a notary (relating to the issuance of Warrant Plan 2015, Warrant Plan 2015 (B), Warrant Plan 2015 RMV and the issuance of shares with cancellation of the shareholders' preferential subscription rights).

The attendance rate (in person or by written proxy to a fellow Director) for the Board members in function at 31 December 2015 was as follows: Dr. Parekh: 100%; Mr. Van de Stolpe: 95%; Dr. Cautreels: 100%; Dr. Van Barlingen: 95%; Mr. Rowe: 95%; Ms. Bosley: 100% and Dr. Mummery: 100%. The overall attendance rate was 98%. In addition, certain Board members also attended a number of review meetings with scientific staff of the Group.

The Board of Directors acts as a collegial body. We do not have a formalized process in place to evaluate the Board, its Committees and its individual Directors; the Board is of the opinion that such evaluation can occur on an ongoing and informal basis within the framework of the meetings of the Board and its Committees.

During 2015, Galapagos NV complied with the Law of 28 July 2011 with respect to gender diversification in the Board of Directors, and the Board will continue to monitor future compliance.

# Committees

## Executive Committee

### Composition of Galapagos NV's Executive Committee

**Onno van de Stolpe** founded Galapagos NV in 1999 and has served as our Chief Executive Officer and a member of the Board of Directors from 1999 to the present. From 1998 to 1999, he was the Managing Director of Genomics at IntroGene BV (later Crucell NV, which was acquired by Johnson & Johnson Services, Inc. in 2011). Prior to joining IntroGene in 1998, he was Managing Director of Molecular Probes Europe BV. He established these European headquarters after joining Molecular Probes, Inc. in the United States. Previously, he worked for The Netherlands Foreign Investment Agency in California, where he was responsible for recruiting biotechnology and medical device companies to locate in The Netherlands. Onno started his career as Manager of Business Development at MOGEN International NV in Leiden. He received an MSc degree from Wageningen University. Onno currently also serves as a member of the supervisory board of the Stichting Institute for Human Organ and Disease Model Technologies and has in the past served as a member of the board of directors of DCPrime BV.

**Bart Filius, MBA** has served as our Chief Financial Officer since December 2014. Prior to that, Bart worked over 13 years at Sanofi SA, where he was the Chief Financial Officer of Sanofi Europe during the last three years. Earlier at Sanofi, he was the Country Manager and Chief Financial Officer of Sanofi in The Netherlands. Before that, he was Vice President for Mergers & Acquisitions, during which time he led and completed the divestiture of various franchises. Prior to joining Sanofi, he was a strategy consultant at Arthur D. Little. Bart has an MBA degree from INSEAD and a bachelor's degree in business from Nyenrode Business University.

**Piet Wigerinck, Ph.D.** joined Galapagos in April 2008 from Tibotec-Virco Comm. VA (a subsidiary of Johnson & Johnson Services, Inc.) where he was VP Drug Discovery, Early Development and CM&C, and a member of the Management Board. He started his professional career as a medicinal chemist at Janssen Research Foundation in 1992. He then joined Tibotec Group NV in 1998, where, under his leadership, TMC114 (Prezista™) and TMC435 (Olysio™) were selected and moved forward into clinical trials. Piet also played a key role in Tibotec's expansion into novel diseases such as Hepatitis C and advanced several compounds into Phase 1 and Phase 2 clinical trials. He brings over 25 years of research and development experience from both large pharmaceutical companies and biotechnology companies to Galapagos. Piet holds a Ph.D. from the K.U. Leuven and is inventor on more than 25 patent applications.

**Andre Hoekema, Ph.D.** is responsible for M&A, licensing and Intellectual Property at Galapagos. He had the lead in rolling out our pharmaceutical alliance strategy since its start in 2006, and is the architect of our collaboration with AbbVie for CF. Andre joined Galapagos in March 2005 from Invitrogen Corporation, where he was Managing Director of Corporate Development Europe, overseeing licensing and M&A for Invitrogen Europe. He brings 30 years of biotech experience from positions at Molecular Probes Europe BV (Managing Director of the European office), Crucell NV (Director of Business Development and Intellectual Property), Koninklijke DSM NV, MOGEN International NV (Research and Project Management), and Genentech, Inc. (postdoctoral researcher). Andre studied Chemistry and holds a Ph.D. from Leiden University. During his Ph.D. work, he invented the binary vector system for the genetic modification of plants, which he published in Nature in 1983; this has since then become the global standard in the field of agricultural biotech. He is the author of more than 30 peer-reviewed scientific papers, and an inventor of over 20 series of patent applications, resulting in 15 patents issued in the United States. Andre has previously served as a member of the supervisory board of VitalNext BV.

### About the Executive Committee of Galapagos NV

The tasks of the Executive Committee include the following matters: the research, identification and development of strategic possibilities and proposals which may contribute to Galapagos' development in general, the drafting and development of policy guidelines to be approved by the Board of Directors, Galapagos' management through, among other things, the implementation of policy guidelines, the supervision of the actual performance of the business compared to its strategic goals, plans and budgets, and the support of the CEO with the day-to-day management of Galapagos.

On 31 December 2015, the Executive Committee consisted of four people: Mr. Van de Stolpe (CEO, also executive Director), Mr. Bart Filius (CFO), Dr. Piet Wigerinck (Chief Scientific Officer) and Dr. Andre Hoekema (Senior Vice President, Corporate Development).

The Executive Committee meets regularly, and in principle once per month.

## Audit Committee

The role of the Audit Committee is to follow up on financial reporting and verification of financial data, verify and follow up on the internal control mechanisms, evaluate and verify the effectiveness of the risk assessment systems, and follow up on the internal and external audit activities.

At the end of 2015, the Audit Committee consisted of the following three Directors: Dr. Cautreels (Chairman), Dr. Van Barlingen and Mr. Rowe. All members of the Audit Committee are non-executive Directors, the majority of whom are independent within the meaning of article 526*ter* of the Belgian Companies Code. The Chairman is an independent non-executive Director and has extensive experience in financial matters (including general accounting and financial reporting) and in matters of audit, internal control and risk control. The other members have extensive experience in these matters as well.

In 2015, the Audit Committee held 5 meetings, in which it dealt with matters pertaining to audit review, risk management and monitoring financial reporting. The Audit Committee acts as a collegial body. The overall attendance (present or represented) at the Audit Committee meetings in 2015 was 93%. Some of the meetings were attended by the Statutory Auditor.

## Nomination and Remuneration Committee

The Nomination and Remuneration Committee's role is twofold: providing recommendations to the Board of Directors regarding the remuneration policy of Galapagos and the remuneration of Directors and members of the Executive Committee, and selecting the appropriate candidates and making recommendations to the Board of Directors in relation to the appointment of Directors and members of the Executive Committee.

At the end of 2015, the Nomination and Remuneration Committee consisted of the following three non-executive Directors: Dr. Parekh (Chairman), Dr. Cautreels and Ms. Bosley, the majority of whom are independent Directors. The Committee has the necessary expertise in the area of remuneration policy.

The Nomination and Remuneration Committee meets at least twice per year. In 2015, the Nomination and Remuneration Committee held 6 meetings, dealing with matters pertaining to grants of warrants and bonuses, the review of our remuneration policy and salary increases. The Nomination and Remuneration Committee acts as a collegial body. The overall attendance rate (present or represented) at the Nomination and Remuneration Committee meetings in 2015 was 100%. The CEO attended the meetings of this Committee when the remuneration of the other members of the Executive Committee was discussed.

## Composition of Board Committees (excluding Executive Committee)

| | Audit Committee | Nomination and Remuneration Committee |
|---|---|---|
| Onno van de Stolpe | | |
| Raj Parekh | | * |
| Harrold van Barlingen | ● | |
| Werner Cautreels[1] | * | ● |
| Howard Rowe[1] | ● | |
| Katrine Bosley[1] | | ● |
| Christine Mummery[1] | | |

● denotes committee membership
* denotes committee chairmanship
[1] denotes qualification as an independent director within the meaning of article 526*ter* of the Belgian Companies Code

# Galapagos NV's share capital and shares

## Share capital increases and issue of shares by Galapagos NV in 2015

On 1 January 2015, the share capital of Galapagos NV amounted to €163,904,134.89 represented by 30,299,129 shares. In the course of 2015 there were four capital increases resulting from the exercise of warrants, resulting in the issuance of 1,244,714 new shares, an increase of the share capital by €6,733,902.74 and an increase of the issuance premium account by €5,269,197.19. In addition, on 19 May 2015, Galapagos NV issued 7,532,499 new shares in the framework of a concurrent public offering in the U.S. and private placement in Europe and countries other than the U.S. and Canada, resulting in an increase of the share capital by €40,750,819.59 and an increase of the issuance premium account by €237,951,643.41. At the end of 2015, the total share capital of Galapagos NV amounted to €211,388,857.22 represented by 39,076,342 shares.

On 30 April 2015, the Board of Directors issued 532,053 warrants (after acceptances) within the framework of the authorized capital, for the benefit of the Directors and an independent consultant of Galapagos NV, and of employees of the Group under a new warrant plan ("Warrant Plan 2015"). The offer of warrants to the Directors and to the members of the Executive Committee under Warrant Plan 2015 was approved by the Annual Shareholders' Meeting of 28 April 2015. The warrants issued under Warrant Plan 2015 have a term of eight years and an exercise price of €28.75.

On 21 December 2015, the Board of Directors conditionally issued up to 700,000 warrants (subject to acceptance by the beneficiaries) within the framework of the authorized capital, for the benefit of the Directors and an independent consultant of Galapagos NV, and of employees of the Group under new warrant plans ("Warrant Plan 2015 (B)" and "Warrant Plan 2015 RMV"). The offer of warrants to the Directors and to the members of the Executive Committee under Warrant Plan 2015 (B) was approved by the Special Shareholders' Meeting of 22 December 2015. The warrants issued under Warrant Plan 2015 (B) and Warrant Plan 2015 RMV have a term of eight years and an exercise price of €49.00. The acceptance of, in aggregate, 496,500 warrants under these two warrant plans was enacted on 2 March 2016.

## Number and form of Galapagos shares

Of the 39,076,342 shares of Galapagos NV outstanding at the end of 2015, 538,696 were registered shares and 38,537,646 shares were dematerialized shares. All shares are issued and fully paid up and are of the same class.

## Rights attached to Galapagos shares

Each share (i) entitles its holder to one vote at the Shareholders' Meetings; (ii) represents an identical fraction of the share capital and has the same rights and obligations and shares equally in the profit of Galapagos NV; and (iii) gives its holder a preferential subscription right to subscribe to new shares, convertible bonds or warrants in proportion to the part of the share capital represented by the shares already held. The preferential subscription right can be restricted or cancelled by a resolution approved by the Shareholders' Meeting, or by the Board of Directors subject to an authorization of the Shareholders' Meeting, in accordance with the provisions of the Belgian Companies Code and Galapagos NV's articles of association.

## Galapagos NV's authorized capital

In accordance with the articles of association, the Extraordinary Shareholders' Meeting of Galapagos NV authorized the Board of Directors to increase the share capital of Galapagos NV, in one or several times, and under certain conditions set forth *in extenso* in the articles of association of Galapagos NV. This authorization was renewed and is valid for a period of five years from the date of this renewal, i.e. 23 May 2011. The Board of Directors may increase the share capital of Galapagos NV within the framework of the authorized capital for an amount of up to €142,590,770.44. In 2015, Galapagos NV's Board of Directors made use of the right to increase the capital in the framework of the authorized capital on three occasions: (1) on 30 April 2015, in connection with the issuance of Warrant Plan 2015 under which a maximum of 532,053 new shares can be issued for a total maximum capital increase of €2,878,406.73 (plus issuance premium); (2) on 19 May 2015, in connection with the concurrent public offering in the U.S. and private placement in Europe and countries other than the U.S. and Canada, resulting in an increase of the share capital by €40,750,819.59 (plus issuance premium) and the issuance of 7,532,499 new shares; and (3) on 21 December 2015, in connection with the issuance of Warrant Plan 2015 (B) and Warrant Plan 2015 RMV, under which (subject to the acceptance of the offered warrants by the beneficiaries) an aggregate maximum of 700,000 new shares could be issued for a total maximum capital increase of €3,787,000.00 (plus issuance premium). On 31 December 2015, an amount of €70,410,696.51 still remained available under the authorized capital.

When increasing the share capital within the limits of the authorized capital, the Board of Directors may, in Galapagos NV's interest, restrict or cancel the shareholders' preferential subscription rights, even if such restriction or cancellation is made for the benefit of one or more specific persons other than the employees of the Group.

## Procedure for changes in Galapagos NV's share capital

In accordance with the Belgian Companies Code, Galapagos NV may increase or decrease its share capital by decision of the Extraordinary Shareholders' Meeting approved by a majority of 75% of the votes cast, at a meeting where at least 50% of the share capital of Galapagos NV is present or represented. If the attendance quorum of 50% is not met, a new Extraordinary Shareholders' Meeting must be convened at which the shareholders may decide on the agenda items, irrespective of the percentage of share capital present or represented at such meeting. In this respect, there are no conditions imposed by Galapagos NV's articles of association that are more stringent than those required by law.

Within the framework of the powers granted to it under the authorized capital, the Board of Directors may also increase Galapagos NV's capital as specified in its articles of association.

## Purchase and sale of Galapagos treasury shares

In accordance with the Belgian Companies Code, Galapagos NV may purchase, subject to the provisions of the Belgian Companies Code, Galapagos NV's own shares and dispose thereof by decision of the Extraordinary Shareholders' Meeting approved by a majority of 80% of the votes cast, at a meeting where at least 50% of the share capital of Galapagos NV is present or represented. If the attendance quorum of 50% is not met, a new Extraordinary Shareholders' Meeting must be convened at which the shareholders may decide on the agenda items, irrespective of the percentage of share capital present or represented at such meeting. The aforementioned rules are also applicable to the acquisition of shares of Galapagos NV by its subsidiaries.

The Board of Directors has currently not been authorized by an Extraordinary Shareholders' Meeting to purchase or sell its own shares.

On 31 December 2015, neither Galapagos NV nor any subsidiary of Galapagos NV held any shares in Galapagos NV, nor did any third party hold any shares in Galapagos NV on behalf of Galapagos NV or any of its subsidiaries either.

## Anti-takeover provisions in Galapagos NV's articles of association

Galapagos NV's articles of association currently do not contain any anti-takeover provisions.

## Anti-takeover provisions under Belgian law

Under Belgian law, public takeover bids for all outstanding voting securities of the issuer are subject to the supervision of the FSMA. If the latter determines that a takeover violates Belgian law, it may lead to suspension of the exercise of the rights attached to any shares that were acquired in connection with the envisaged takeover. Pursuant to the Belgian Law of 1 April 2007 on public takeovers, a mandatory takeover bid must be made when, as a result of its own acquisition or the acquisition by persons acting in concert with it, a person owns, directly or indirectly, more than 30% of the securities with voting rights in a company with registered office in Belgium whose securities are admitted to trading on a regulated or recognized market. The acquirer must offer to all other shareholders the opportunity to sell their shares at the higher of (i) the highest price offered by the acquirer for shares of the issuer during the 12 months preceding the announcement of the bid or (ii) the weighted average price of the shares on the most liquid market of the last 30 calendar days prior to the date on which it became mandatory for the acquirer to launch a mandatory takeover bid for the shares of all other shareholders.

## Procedure for amendments to Galapagos NV's articles of association

Pursuant to the Belgian Companies Code, any amendment to the articles of association, such as an increase or decrease in the share capital of Galapagos NV, and certain other matters, such as the approval of the dissolution, merger or de-merger of Galapagos NV may only be authorized with the approval of at least 75% of the votes validly cast at an Extraordinary Shareholders' Meeting where at least 50% of Galapagos NV's share capital is present or represented. If

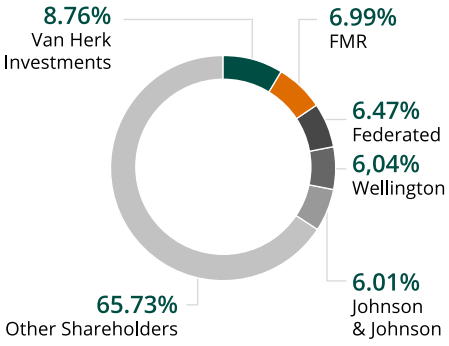
the attendance quorum of 50% is not met, a new Extraordinary Shareholders' Meeting must be convened at which the shareholders may decide on the agenda items, irrespective of the percentage of share capital present or represented at such meeting.

# Shareholders

## Major shareholders of Galapagos NV

Based on the transparency notifications received by Galapagos NV under Belgian law and the statements of acquisition of beneficial ownership filed on Schedule 13G with the U.S. Securities and Exchange Commission under U.S. securities law, the shareholders owning 5% or more of its shares on 31 December 2015 were Van Herk Investments BV (3,423,363 shares or 8.76%), FMR LLC (2,732,508 shares or 6.99%), Federated Investors, Inc. (2,528,773 shares or 6.47%), Wellington Management Group LLP (2,359,857 shares or 6.04%) and Johnson & Johnson (2,350,061 shares or 6.01%).

### Major shareholders on 31 December 2015




After 31 December 2015, we received a joint transparency notification from Gilead Sciences, Inc. and Galapagos NV notifying that Gilead Sciences, Inc., as a result of its entirely-controlled subsidiary Gilead Biopharmaceutics Ireland Unlimited Company subscribing to a capital increase and thus receiving 6,760,701 new shares of Galapagos NV on 19 January 2016, indirectly holds 14.75% of the shares of Galapagos NV outstanding on 19 January 2016. A 10% notification threshold of Galapagos NV's voting rights was thus crossed. On 28 January 2016, we received a transparency notification from Wellington Management Group LLP, confirming that, as a result of the aforementioned capital increase, its shareholding had passively decreased below the lowest 5% notification threshold of Galapagos NV's voting rights. On 1 March 2016, we received a transparency notification from Johnson & Johnson, indicating that affiliates under its control sold 2,350,061 shares. Johnson & Johnson continued to be a shareholder, but its shareholding decreased below the lowest 5% notification threshold of Galapagos NV's voting rights. A pie chart representing our major shareholders based on transparency notifications received to date and the statements of acquisition of beneficial ownership filed on Schedule 13G filed with the SEC to date is available on our website, www.glpg.com.

At the end of 2015, the CEO owned 538,289 shares of Galapagos NV and 636,874 warrants. The other members of the Executive Committee held an aggregate of 17,852 shares and 740,000 warrants. The other members of the Board held an aggregate of 16,074 shares and 115,730 warrants. Each warrant entitles its holder to subscribe to one share of Galapagos NV.

## Agreements between Galapagos NV shareholders

On the date of this report, Galapagos NV had no knowledge of the existence of any shareholders' agreements between its shareholders.

## Agreements with major Galapagos NV shareholders

On 23 October 2007, Galapagos NV entered into the Rheumatoid Arthritis Research Alliance and Option Agreement and the Reserved Program Option Agreement with Janssen Pharmaceutica NV, an affiliate of Johnson & Johnson. These agreements were terminated in March 2015. Moreover, on 1 March 2016, we received a transparency notification from

Johnson & Johnson, indicating that affiliates under its control sold 2,350,061 shares. Johnson & Johnson continued to be a shareholder, but its shareholding decreased below the lowest 5% notification threshold of Galapagos NV's voting rights.

Throughout 2015 there were no lock-up agreements in effect between Galapagos NV and any of its shareholders. On 19 January 2016, Gilead Sciences, Inc. and Galapagos NV completed the closing of their global collaboration for filgotinib (see "Subsequent events"), in the framework of which Gilead Biopharmaceutics Ireland Unlimited Company made a $425 million (or €392 million) equity investment in Galapagos NV by subscribing to new shares at a price of €58 per share, including issuance premium. This resulted in Gilead owning 6,760,701 ordinary shares of Galapagos NV, representing 14.75% of the then outstanding share capital of Galapagos. In the framework of this transaction, the parties agreed to a lock-up arrangement.

# Remuneration report

## Determination of remuneration of Directors and Executive Committee members of Galapagos NV

The procedure for establishing the remuneration policy and setting remuneration for members of the Board of Directors and of the Executive Committee is determined by the Board of Directors on the basis of proposals from the Nomination and Remuneration Committee, taking into account relevant benchmarks with appropriate peer companies and, for the members of the Executive Committee, also the Group's performance rating system.

The remuneration of the members of the Board and the grant of warrants to members of the Board are submitted by the Board for approval to the Shareholders' Meeting, and are only implemented after such approval.

The fixed and variable remuneration of the CEO (who is a member of the Board) is established by the Board of Directors based upon an authorization from the Shareholders' Meeting. The fixed and variable remuneration of, and grant of warrants to, the other members of the Executive Committee is established by the Board of Directors, upon recommendation of the Nomination and Remuneration Committee.

## Our remuneration policy

### Principles

The objective of our remuneration policy is to attract, motivate and retain the qualified and expert individuals that we need in order to achieve our strategic and operational objectives. In light of the remuneration policy, the structure of the remuneration package for the Executive Committee is designed to balance short-term operational performance with the long-term objective of creating sustainable value, while taking into account the interests of all stakeholders.

The remuneration of the non-executive Directors consists of a fixed annual amount, irrespective of the number of Board meetings that are held during the year, with a correction principle pursuant to which, in the event a Director's presence rate at Board meetings is below 75%, the annual remuneration will be proportionally decreased. The remuneration of the non-executive Directors does not contain a variable part. The Board fees are paid in quarterly installments at the end of each calendar quarter.

The remuneration of the CEO and of the other members of the Executive Committee consists of a fixed amount and of a variable part (bonus). Remuneration increases and bonuses are merit-driven and based on our performance rating system that is based on individual performance (including exceptional deliverables) in combination with our overall performance, compared to the level of achievement of individual and corporate objectives that are established annually. The corporate objectives and the CEO's objectives are established annually by the Board of Directors, and

the objectives of the other members of the Executive Committee are established annually by the CEO and are in relation to the corporate objectives set by the Board. For 2015 the corporate objectives included elements of clinical trial progression, cash position, corporate development and business development; all of these objectives were considered to be of equal importance. The level of achievement of the objectives for the CEO is reviewed at the end of each year by the Nomination and Remuneration Committee and discussed and finally established by the Board, and the level of achievement of the objectives of the other members of the Executive Committee is assessed by the CEO at the end of the year in connection with appraisal discussions, discussed by the Nomination and Remuneration Committee and finally established by the Board of Directors.

Pursuant to the rules of the Senior Management Bonus Scheme established in 2006, 50% of the bonus is paid immediately around year-end and the payment of the other 50% is deferred for three years. The deferred 50% component is dependent on the change in the price of Galapagos NV's share relative to the Next Biotech Index (which tracks Euronext-listed biotech companies). The share price and the Next Biotech Index at the start and end of the 3-year period is calculated by the average price over the preceding and last month of the 3-year period, respectively.

- If the share price change is better than or equal to the change in the Next Biotech Index, the deferred bonus will be adjusted by the share price increase/decrease and paid out
- If the share price change is up to 10% worse than the change in the Next Biotech Index, 50% of the deferred bonus will be adjusted by the share price increase/decrease and paid out, and the remainder will be forfeited
- If the share price change is more than 10% worse than the change in the Next Biotech Index the deferred bonus will be forfeited

To be entitled to any deferred payment under the bonus scheme the beneficiary must still be in our employ.

In addition, exceptional special bonuses, outside the scope of the regular bonus schemes, can be considered by the Board upon recommendation of the Nomination and Remuneration Committee in the event of and for exceptional achievements.

### Relative importance of the various components

The CEO's bonus under the Senior Management Bonus Scheme can be maximum 100% of the fixed part of his annual remuneration of the year for which the bonus is awarded. The aggregate bonuses of the other members of the Executive Committee under the Senior Management Bonus Scheme can be maximum 60% of the total amount of the fixed part of their aggregate annual remuneration of the year for which the bonus is awarded. In addition, the CEO and/or the other members of the Executive Committee enjoy a number of benefits such as pension payments, insurances and other fringe benefits, the monetary value of which is, however, limited.

### Performance-related premiums in shares, options or other rights to acquire shares

Galapagos does not provide for any performance-related premiums in shares, options or other rights to acquire shares. The warrants granted to members of the Board of Directors (including the CEO) are not considered as a (performance-related or otherwise) variable remuneration as defined by the Belgian Companies Code.

### Information on the remuneration policy for the next two years

We currently have no plans to substantially deviate from the general principles of the remuneration policy used in 2015 and the years before, as described above, in the next two financial years.

## Remuneration of non-executive Directors of Galapagos NV

Pursuant to the decision of the Annual Shareholders' Meeting of 28 April 2015, the total maximum amount of the annual remuneration for all Directors together (other than Dr. Parekh and the CEO) for the exercise of their mandate as a Director of Galapagos NV is fixed, on an aggregate basis, at €200,000 (plus expenses). The same Annual Shareholders' Meeting granted a power of attorney to the Board to determine the remuneration of the individual Board members within the limits of said aggregate amount. Pursuant to this power of attorney, the Board determined, after

discussion within the Nomination and Remuneration Committee, the allocation of the aggregate annual remuneration for Directors as follows: (a) annual remuneration for each non-executive Director (Dr. Cautreels, Dr. Van Barlingen, Mr. Rowe and Ms. Bosley): €40,000; and (b) additional remuneration for the chairman of the Audit Committee (Dr. Cautreels): €5,000. Dr. Mummery, being appointed as non-executive Director as from 30 September 2015, received €10,000 as remuneration for the performance of her mandate during the last quarter of 2015.

In the event a Director has an attendance rate at Board meetings that is below 75%, the amounts referred to above are proportionally decreased. Directors representing a shareholder in the Board of Directors would only receive reimbursement of the expenses incurred for participating in the Board of Directors (there were no such Directors in 2015).

The remuneration of the non-executive Directors does not contain a variable part; hence no performance criteria apply to the remuneration of the non-executive Directors.

The Chairman of the Board of Directors, Dr. Parekh, does not receive remuneration like the other Directors. However, a consultancy contract was made with him in 2005, under which he receives an annual fee of £50,000 as compensation for giving strategic advice.

In 2015, we issued three warrant plans for the benefit of employees of the Group and of the Directors and one independent consultant of Galapagos NV: Warrant Plan 2015, Warrant Plan 2015 (B) and Warrant Plan 2015 RMV. In accordance with the resolution of the Annual Shareholders' Meeting of 28 April 2015, the following number of warrants were offered under Warrant Plan 2015 to the non-executive Directors: Dr. Parekh: 5,400 warrants; Dr. Cautreels: 3,780 warrants; and Ms. Bosley, Dr. Van Barlingen and Mr. Rowe: each 2,520 warrants. All Directors accepted the warrants offered. These warrants have a term of eight years. The exercise price of the warrants is €28.75. As regards the Directors, the warrants vest over a period of 36 months at a rate of $1/36^{th}$ per month. The warrants cannot be transferred and cannot be exercised prior to the end of the third calendar year following the year of the grant. Moreover, in accordance with the resolution of the Special Shareholders' Meeting of 22 December 2015, the following number of warrants were offered under Warrant Plan 2015 (B) to the non-executive Directors: Dr. Parekh: 15,000 warrants; Dr. Cautreels, Dr. Van Barlingen, Mr. Rowe, Ms. Bosley and Dr. Mummery: each 7,500 warrants. All Directors accepted the warrants offered. These warrants have a term of eight years. The exercise price of the warrants is €49.00. As regards the Directors, the warrants vest over a period of 36 months at a rate of $1/36^{th}$ per month. The warrants cannot be transferred and cannot be exercised prior to the third anniversary of the notary deed enacting the acceptance of the warrants. No warrants were offered to Directors under Warrant Plan 2015 RMV. The Board of Directors does not consider the above warrants as variable remuneration as defined by the Belgian Companies Code as they are not subject to any performance-related criteria.

The Board of Directors points out that provision 7.7 of the Belgian Corporate Governance Code 2009 stipulates that non-executive Directors should not be entitled to performance-related remuneration such as stock-related long-term incentive schemes. In deviation from this provision, the Board of Directors has decided to grant warrants to non-executive Directors. This way, Galapagos has additional possibilities to attract competent non-executive Directors and to offer them an attractive additional remuneration that does not affect Galapagos' cash position. Furthermore, the grant of warrants is a commonly used method in the sector in which Galapagos operates. Without this possibility, Galapagos would be confronted with a considerable disadvantage compared to competitors and peer companies who do offer stock-related incentive schemes to their non-executive Directors. The Board of Directors is of the opinion that the granting of warrants has no negative impact on the functioning of the non-executive Directors.

Except as set forth above, there are no other benefits granted to the non-executive Directors.

## Remuneration of executive Directors of Galapagos NV

Mr. Van de Stolpe is an executive member of the Board of Directors. As managing Director and CEO, he acts as Chairman of the Executive Committee. Mr. Van de Stolpe does not receive any specific or additional remuneration for his work on the Board of Directors, as this is part of his total remuneration package in his capacity as member of the Executive Committee.

## Criteria and methods to evaluate the performance of Galapagos NV's CEO and other Executive Committee members in connection with their performance-based remuneration

The executive Director (CEO) and the members of the Executive Committee are eligible for performance-based remuneration (bonus). The level of the achieved bonus is established annually by the Board of Directors upon recommendation of the Nomination and Remuneration Committee (whose recommendation is based on proposals from the CEO with respect to the other members of the Executive Committee). The award of a bonus is merit-driven and based on the Group's performance rating system that is based on annual individual performance (including exceptional deliverables) in combination with our overall performance, compared to the level of achievement of individual and corporate objectives that are established annually. The corporate objectives and the CEO's objectives are established annually by the Board of Directors, and the objectives of the other members of the Executive Committee are established annually by the CEO. For 2015 the corporate objectives included elements of clinical trial progression, cash position, corporate development and business development; all of these objectives were considered to be of equal importance. Each of the corporate objectives is clear and measurable so that it is easy to determine whether or not a specific objective has been achieved or not.

## Gross remuneration of our CEO for financial year 2015

i. Base salary (fixed): €456,297 (including €18,860 in the form of pension contributions).

ii. Variable remuneration (bonus): given the level of achievement of the criteria from the Senior Management Bonus Scheme to be entitled to a bonus (i.e. the corporate objectives for 2015), a bonus equal to 100% of the 2015 base salary was awarded over 2015, of which 50% was paid early January 2016, and the other 50% was deferred for 3 years. The value of the 50% deferred part of the bonus awarded over 2012 was established at the end of 2015 and resulted in a payment in early January 2016 of an amount of €400,757 (a multiple of 3.17 of the deferred bonus, as a result of the share price performance over the period 2012-2015 as per the provisions of the Senior Management Bonus Scheme). In addition, upon recommendation of the Nomination and Remuneration Committee, the Board resolved to award an exceptional special bonus given the success of the NASDAQ listing, amounting to €275,000, of which 50% was payable in June 2015, and the other 50% was deferred for 3 years.

iii. Pension: €47,386 (of which €18,860 are part of the fixed base salary).

iv. Other components of the remuneration: company car and payments for invalidity and healthcare cover, totaling €19,900.

v. In its meeting of 1 December 2015 (in application of article 523 of the Belgian Companies Code and without the CEO being present) the Board of Directors resolved, upon recommendation of the Nomination and Remuneration Committee, to increase the CEO's salary by 3.5% as from 2016. The principles applied for such increase were in line with the Remuneration Policy described above.

## Aggregate gross remuneration of the other Executive Committee members for financial year 2015

i. Base salaries (fixed): €868,059 (including €60,000 in the form of pension contributions).

ii. Variable remunerations (bonuses): given the level of achievement of the criteria from the Senior Management Bonus Scheme to be entitled to a bonus (i.e. the corporate objectives for 2015), an aggregate bonus of €520,830 (i.e. 100% of the aggregate bonus pool) was awarded over 2015 of which 50% was paid early January 2016, and the other 50% was deferred for 3 years. The value of the 50% deferred part of the bonus awarded over 2012 was established at the end of 2015 and resulted in a payment in early January 2016 of an amount of €227,703 (a multiple of 3.17 of the deferred bonus, as a result of the share price performance over the period 2012-2015 as per the provisions of the Senior Management Bonus Scheme). In addition, upon recommendation of the Nomination and Remuneration Committee, the Board resolved to award an exceptional special bonus given the success of the NASDAQ listing, amounting to €750,000, of which 50% was payable in June 2015, and the other 50% was deferred for 3 years.

iii. Pensions: €96,791 (of which €60,000 are part of the fixed base salary).

iv. Other components of the remunerations: company cars, payments for invalidity and healthcare cover, and other fringe benefits, totaling €42,630.

In its meeting of 1 December 2015 the Board of Directors resolved, upon recommendation of the Nomination and Remuneration Committee, to implement salary increases as from 2016 for the members of the Executive Committee generally in line with the increases awarded in previous years, based on individual performance and taking into account relevant benchmarks. The principles applied for such increases were in line with the Remuneration Policy described above.

## Shares, warrants or other rights to acquire shares awarded to, exercised by or expired for the Galapagos NV Executive Committee members during financial year 2015

In 2015, only warrants were offered to the members of the Executive Committee, and no shares or other rights to acquire shares were awarded. No warrants expired for members of the Executive Committee in 2015 and, in aggregate, 243,126 warrants were exercised by members of the Executive Committee in 2015 (228,126 warrants were exercised by Onno van de Stolpe, 7,500 warrants by Piet Wigerinck and 7,500 warrants by Andre Hoekema). The Board of Directors does not consider the granted warrants as a variable remuneration, as they are not subject to any performance criteria. The following number of warrants were offered to and accepted by members of the Executive Committee in 2015: (i) under Warrant Plan 2015, issued by the Board of Directors under the authorized capital on 30 April 2015, to Mr. Van de Stolpe: 100,000 warrants, to each of Dr. Wigerinck and Dr. Hoekema: 30,000 warrants and to Mr. Filius: 15,000 warrants; and (ii) under Warrant Plan 2015 (B), issued by the Board of Directors under the authorized capital on 21 December 2015, to Mr. Van de Stolpe: 100,000 warrants, to each of Dr. Wigerinck and Mr. Filius: 50,000 warrants and to Dr. Hoekema: 40,000 warrants.

The warrants issued under Warrant Plan 2015 have an exercise price of €28.75 per warrant, a life time of 8 years, and vest only and fully at the end of the third calendar year after the year of the grant, except for Mr. Van de Stolpe, whose warrants vest over a period of 36 months at a rate of 1/36$^{th}$ per month. The warrants cannot be exercised prior to the end of the third calendar year after the year of the grant; they are not transferable, and each warrant gives the right to subscribe to one share of Galapagos NV.

The warrants issued under Warrant Plan 2015 (B) have an exercise price of €49.00 per warrant, a life time of 8 years, vest only and fully on the third anniversary of the notary deed enacting the acceptance of the warrants, except for Mr. Van de Stolpe, whose warrants vest over a period of 36 months at a rate of 1/36$^{th}$ per month. The warrants cannot be exercised prior to the third anniversary of the notary deed enacting the acceptance of the warrants. They are not transferable, and each warrant gives the right to subscribe to one share of Galapagos NV.

At the end of 2015, Mr. Van de Stolpe owned 538.289 shares of Galapagos NV and 636,874 warrants. The other members of the Executive Committee held an aggregate of 17,852 shares and 740,000 warrants. The other members of the Board held an aggregate of 16,074 shares and 115,730 warrants. Each warrant entitles its holder to subscribe to one share of Galapagos NV. This does however not take into account the warrants offered under Warrant Plan 2015 (B). These warrants were offered on 22 December 2015 subject to acceptance by the beneficiaries; as per 31 December 2015, they were not yet formally accepted nor issued.

## Contractual provisions regarding compensation for severance for the Galapagos NV Executive Committee members

The contracts between Galapagos NV (or its relevant affiliates) and the CEO and other members of the Executive Committee do not provide for severance compensation. They do not contain notice periods that exceed six months. However, Galapagos NV entered into undertakings with the CEO and the other members of the Executive Committee, providing that in case their contract with the Group is terminated as a result of a change of control of Galapagos, they would be entitled to a severance compensation of 12 months' base salary for the CEO and 9 months' base salary for the other members of the Executive Committee.

## Severance payments for departing Galapagos NV Executive Committee members during financial year 2015

Not applicable; in 2015 no members of the Executive Committee (including the CEO) left Galapagos.

## Claw-back right of Galapagos relating to variable remuneration

There are no contractual provisions in place between Galapagos and the CEO or the other members of the Executive Committee that give Galapagos a contractual right to reclaim from said executives the variable remuneration that would be awarded based on erroneous financial information.

# Conflict of interests and related parties

In the event of a transaction where a Director's interest conflicts with the interest of Galapagos NV, the Director shall notify the Board of Directors in advance of the conflict and will act in accordance with the relevant rules of the Belgian Companies Code (i.e. article 523 of the Belgian Companies Code). In addition, Galapagos' Corporate Governance Charter and Galapagos' Related Person Transaction Policy contain procedures for transactions between Galapagos and its Directors, members of its Executive Committee or major shareholders. Without prejudice to the procedure defined in article 523 of the Belgian Companies Code, these policies provide that all transactions between Galapagos and its Directors, its members of the Executive Committee or its representatives need the approval of the Audit Committee and the Board of Directors, which approval can only be provided for transactions at normal market conditions. Moreover, conflicts of interest, even in the event they are not a conflict of interest within the meaning of article 523 of the Belgian Companies Code, are enacted in the meeting minutes, and the Director or member of the Executive Committee cannot participate to the voting.

In 2015, three cases of conflict of interests between Galapagos NV and a Director within the meaning of article 523 of the Belgian Companies Code were noted:

i. In a meeting of the Board of Directors held on 23 June 2015, the following was reported in accordance with article 523 of the Belgian Companies Code and in connection with the recommendation of the Nomination and Remuneration Committee, further to the resolution of the Shareholders' Meeting of 28 April 2015, as to the allocation of the aggregate annual remuneration of €200,000 (plus expenses) for Directors (other than Dr. Parekh and Mr. Van de Stolpe) for the exercise of their mandate as Director: the Chairman declared that the Directors involved had informed the Board of a conflict of interest, concerning their proposed remuneration. It has been explained to the Board that the proposed remuneration for each Director falls within the scope and limits of the authorization of the AGM of 28 April 2015. The level of these remunerations will have no material impact on the financial position of Galapagos NV. Insofar as it related to his/her individual remuneration, the Director involved did not take part in the deliberation and the vote concerning this decision.

ii. During the same meeting of 23 June 2015, the following was reported in accordance with article 523 of the Belgian Companies Code and in connection with an exceptional bonus of €275,000 for the CEO as reward for the tremendous importance and impact and the exceptional success of the NASDAQ listing: the Chairman declared that Mr. Van de Stolpe had informed the Board of Directors of a conflict of interest, concerning the proposed award to him of said exceptional bonus. The Board was of the opinion that said exceptional bonus is a justified reward for the exceptional success of the recent offering and NASDAQ listing, which completely changed and strengthened the position of the company. The exceptional bonus will have no material impact on the financial position of the company. Mr. Van de Stolpe did not take part in the deliberation and the vote concerning this decision.

iii. In a meeting of the Board of Directors held on 1 December 2015, the following was reported in accordance with article 523 of the Belgian Companies Code and in connection with the salary increase and bonus for the CEO: the Chairman declared that Mr. Onno van de Stolpe had informed the Board of Directors of a conflict of interest, concerning the proposed award to him of a salary increase and a bonus. The salary of Mr. Van de Stolpe was increased with 3.50% as of 2016. Given the actual level of achievement of the criteria from the Senior Management Bonus Scheme to be entitled to a bonus (i.e. the corporate objectives for 2015) a bonus equal to 100% of his 2015 salary was awarded to Mr. Van de Stolpe for 2015. It has been explained to the Board that said salary increase and bonus is a justified reward for the results achieved by Mr. Van de Stolpe in 2015. The salary increase and bonus will have no material impact on the financial position of the company. The Board shares the opinion of the Remuneration Committee that the proposed salary increase and bonus is justified and reasonable. Mr. Van de Stolpe did not take part in the deliberation and the vote concerning this decision.

# Statement by the Board of Directors

The Board of Directors of Galapagos NV, represented by all its members, declares that, as far as it is aware, the statutory accounts and consolidated financial statements, prepared according to the applicable standards for financial statements, give a true and fair view of the equity, financial position and the results of Galapagos NV and its consolidated companies as of 31 December 2015.

The Board of Directors of Galapagos NV, represented by all its members, further declares that, as far as it is aware, this report to the shareholders for the financial year ending on 31 December 2015, gives a true and fair view on the development, results and position of Galapagos NV and its consolidated companies and on the most important risks and uncertainties with which Galapagos is confronted.

The Board of Directors will submit proposed resolutions to the Shareholders' Meeting to approve the annual accounts for the financial year 2015, and to release the Directors and the Statutory Auditor from liability for the performance of their mandate during the financial year ended 31 December 2015.

Mechelen, 21 March 2016

On behalf of the Board of Directors

**Onno van de Stolpe**
CEO

**Raj Parekh**
Chairman

# Financial statements

## Consolidated and non-consolidated financial statements for 2015

Riding on the success of filgotinib, the JAK1 inhibitor discovered by Galapagos, we aim to advance more programs using proprietary targets toward the clinic.

**Bart Filius**
CFO Galapagos

# Consolidated financial statements

## Consolidated statements of income and comprehensive income

**Consolidated income statement**

| (thousands of €, except share and per share data) | Year ended 31 December 2015 | 2014 | Notes |
|---|---|---|---|
| Revenues | 39,563 | 69,368 | 5 |
| Other income | 21,017 | 20,653 | 5 |
| **Total revenues and other income** | **60,579** | **90,021** | |
| | | | |
| Research and development expenditure | (129,714) | (111,110) | 6 |
| General and administrative expenses | (19,127) | (13,875) | 6 |
| Sales and marketing expenses | (1,182) | (992) | 6 |
| Restructuring and integration costs | – | (669) | 6 |
| **Operating loss** | **(89,444)** | **(36,624)** | |
| | | | |
| Fair value re-measurement of share subscription agreement | (30,632) | – | 8 |
| Other financial income | 1,987 | 2,291 | 9 |
| Other financial expenses | (1,539) | (867) | 9 |
| | | | |
| **Loss before tax** | **(119,627)** | **(35,201)** | |
| | | | |
| Income taxes | 1,218 | (2,103) | 10 |
| | | | |
| **Net loss from continuing operations** | **(118,410)** | **(37,303)** | |
| | | | |
| **Net income from discontinued operations** | **–** | **70,514** | 11 |
| | | | |
| **Net income / loss (–)** | **(118,410)** | **33,211** | 12 |
| **Net income / loss (–) attributable to:** | | | |
| Owners of the parent | (118,410) | 33,211 | |
| **Basic and diluted income / loss (–) per share** | **(3.32)** | **1.10** | 12 |
| **Basic and diluted loss per share from continuing operations** | **(3.32)** | **(1.24)** | |
| Weighted average number of shares (in thousands of shares) | 35,700 | 30,108 | 12 |

## Consolidated statement of comprehensive income

| | As at 31 December | | |
|---|---|---|---|
| (thousands of €) | **2015** | 2014 | Notes |
| **Net income / loss (–)** | **(118,410)** | **33,211** | |
| **Items that will not be reclassified subsequently to profit or loss:** | | | |
| Re-measurement of defined benefit obligation | 202 | (267) | 29 |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Translation differences, arisen from translating foreign activities | 690 | 460 | 21 |
| Translation differences, arisen from the sale of service division | | (1,787) | 21 |
| **Other comprehensive income, net of income tax** | **892** | **(1,594)** | |
| | | | |
| **Total comprehensive income attributable to:** | | | |
| Owners of the parent | (117,517) | 31,617 | |

# Consolidated statements of financial position

| (thousands of €) | As at 31 December 2015 | 2014 | Notes |
|---|---|---|---|
| **Assets** | | | |
| | | | |
| Intangible assets | 1,550 | 2,015 | 13 |
| Property, plant and equipment | 13,782 | 10,091 | 14 |
| Deferred tax assets | 1,726 | 293 | 22 |
| Non-current R&D incentives receivables | 49,384 | 43,944 | 15 |
| Non-current restricted cash | 1,046 | 306 | 16 |
| Other non-current assets | 557 | 215 | |
| **Non-currents assets** | **68,044** | **56,864** | |
| | | | |
| Inventories | 325 | 281 | |
| Trade and other receivables | 3,931 | 3,211 | 17 |
| Current R&D incentives receivables | 9,161 | 7,351 | 15 |
| Cash and cash equivalents | 340,314 | 187,712 | 18 |
| Current restricted cash | 6,857 | 10,422 | 16 |
| Current financial asset from share subscription agreement | 8,371 | | 8 |
| Other current assets | 5,512 | 4,625 | 17 |
| **Current assets** | **374,470** | **213,603** | |
| **Total assets** | **442,514** | **270,467** | |
| | | | |
| **Equity and liabilities** | | | |
| | | | |
| Share capital | 185,399 | 157,274 | 19 |
| Share premium account | 357,402 | 114,182 | 19 |
| Other reserves | (18) | (220) | 20 |
| Translation differences | (467) | (1,157) | 21 |
| Accumulated losses | (177,317) | (63,944) | |
| **Total equity** | **364,999** | **206,135** | |
| | | | |
| Pension liabilities | 2,693 | 2,865 | 29 |
| Provisions | 55 | 72 | 25 |
| Finance lease liabilities | 63 | 115 | 23 |
| Other non-current liabilities | 2,291 | 923 | 24 |
| **Non-current liabilities** | **5,103** | **3,976** | |

| (thousands of €) | As at 31 December 2015 | 2014 | Notes |
|---|---|---|---|
| Provisions | – | 105 | 25 |
| Finance lease liabilities | 52 | 52 | 23 |
| Trade and other payables | 29,482 | 30,007 | 24 |
| Current tax payable | 2,583 | 2,582 | 10 |
| Accrued charges | 490 | 585 | 24 |
| Deferred income | 39,806 | 27,026 | 24 |
| **Current liabilities** | **72,412** | **60,356** | |
| **Total liabilities** | **77,515** | **64,332** | |
| **Total equity and liabilities** | **442,514** | **270,467** | |

# Consolidated cash flow statements

| (thousands of €) | Year ended 31 December 2015 | 2014 | Notes |
|---|---|---|---|
| **Cash and cash equivalents at beginning of year** | **187,712** | **138,175** | 18 |
| | | | |
| Net income / loss (–) | (118,410) | 33,211 | |
| | | | |
| **Adjustments for:** | | | |
| Tax income (–) / expenses | (1,218) | 2,337 | 10 |
| Other net financial income | (448) | (1,841) | 9 |
| Fair value re-measurement of share subscription agreement | 30,632 | – | 8 |
| Depreciation of property, plant and equipment | 2,372 | 3,582 | 14 |
| Amortization of intangible fixed assets | 1,030 | 1,067 | 13 |
| Net realized loss on foreign exchange transactions | (398) | (261) | |
| Share-based compensation | 5,036 | 2,952 | 30 |
| Increase / decrease (–) in provisions | (125) | 27 | 25 |
| Increase in pension liabilities | 30 | 409 | 29 |
| Gain on sale of fixed assets | (62) | | |
| Gain on sale of service division | | (67,508) | 33 |
| | | | |
| **Operating cash flows before movements in working capital** | **(81,560)** | **(26,025)** | |
| | | | |
| Increase in inventories | (44) | (32) | |
| Increase in receivables | (7,220) | (10,110) | 17 |
| Decrease in payables | (26,728) | (40,311) | 24 |
| | | | |
| **Cash used in operations** | **(115,553)** | **(76,479)** | |
| | | | |
| Interest paid | (49) | (113) | |
| Interest received | 1,106 | 951 | |
| Income taxes paid (–) / received | (94) | 86 | |
| | | | |
| **Net cash flows used in operating activities** | **(114,590)** | **(75,555)** | |
| | | | |
| Purchase of property, plant and equipment | (6,100) | (2,061) | 14 |
| Purchase of and expenditure in intangible fixed assets | (565) | (743) | 13 |
| Proceeds from disposal of property, plant and equipment | 110 | 45 | 14 |
| Disposals of subsidiaries, net of cash disposed | | 130,787 | 33 |
| Increase (–) / decrease in restricted cash | 2,258 | (7,422) | 16 |
| | | | |
| **Net cash flows generated / used (–) in investing activities** | **(4,297)** | **120,606** | |

| (thousands of €) | Year ended 31 December 2015 | 2014 | Notes |
|---|---|---|---|
| Repayment of obligations under finance leases and other debts | (43) | (216) | 23 |
| Proceeds from capital and share premium increases, net of issue costs | 271,413 | 4,430 | 19 |
| **Net cash flows generated in financing activities** | **271,370** | **4,214** | |
| **Effect of exchange rate differences on cash and cash equivalents** | **118** | **271** | |
| **Increase in cash and cash equivalents** | **152,601** | **49,537** | |
| **Cash and cash equivalents at end of year** | **340,314** | **187,712** | |

# Consolidated statements of changes in equity

| (thousands of €) | Share capital | Share premium account | Translation differences | Other reserves | Accumul. losses | Total |
|---|---|---|---|---|---|---|
| **On 1 January 2014** | **154,542** | **112,484** | **170** | **47** | **(100,107)** | **167,137** |
| Net loss | | | | | 33,211 | 33,211 |
| Other comprehensive income | | | (1,327) | (267) | | (1,594) |
| **Total comprehensive income** | | | **(1,327)** | **(267)** | **33,211** | **31,617** |
| Share-based compensation | | | | | 2,952 | 2,952 |
| Exercise of warrants | 2,732 | 1,698 | | | | 4,430 |
| **On 31 December 2014** | **157,274** | **114,182** | **(1,157)** | **(220)** | **(63,944)** | **206,135** |
| Net income | | | | | (118,410) | (118,410) |
| Other comprehensive income | | | 690 | 202 | | 892 |
| **Total comprehensive income** | | | **690** | **202** | **(118,410)** | **(117,517)** |
| Share-based compensation | | | | | 5,036 | 5,036 |
| Issue of new shares | 40,751 | 237,952 | | | | 278,703 |
| Share issue costs | (19,360) | | | | | (19,360) |
| Exercise of warrants | 6,734 | 5,269 | | | | 12,002 |
| **On 31 December 2015** | **185,399** | **357,402** | **(467)** | **(18)** | **(177,317)** | **364,999** |

# Notes to the consolidated financial statements

## 1. General information

Galapagos NV is a limited liability company incorporated in Belgium and has its registered office at Generaal De Wittelaan L11 A3, 2800 Mechelen, Belgium. In the notes to the consolidated financial statements, references to "we", "us," "the Group" or "Galapagos" include Galapagos NV together with its subsidiaries.

### R&D

The R&D operations are specialized in the discovery and development of small molecules. Our ambition is to become a leading global biotechnology company focused on the development and commercialization of novel medicines. Our strategy is to leverage our unique and proprietary target discovery platform, which facilitates our discovery and development of therapies with novel modes of action.

The components of the operating result for continuing operations presented in the financial statements include the following companies: Galapagos NV (Mechelen, Belgium); Galapagos SASU (Romainville, France); Galapagos BV (Leiden, The Netherlands); Fidelta d.o.o. (Zagreb, Croatia); BioFocus, Inc. and its subsidiaries, BioFocus DPI LLC, and Xenometrix, Inc.; BioFocus DPI AG (Basel, Switzerland) and its subsidiary Discovery Partners International GmbH (Heidelberg, Germany); and Inpharmatica Ltd. (Saffron Walden, UK).

Our continuing operations have around 425 employees working in the operating facilities in Mechelen (the Belgian headquarters), The Netherlands, France, and Croatia.

### Services

We sold our service division to Charles River Laboratories International, Inc. on 1 April 2014.

The legal entities that were sold as part of this transaction were BioFocus DPI (Holdings) Ltd., BioFocus DPI Ltd., Argenta Discovery 2009 Ltd. and Cangenix Ltd. Galapagos BV was not sold; its service division operations were carved out by means of an asset deal.

As a result of this sale, the service division is reported as discontinued operations.

## 2. Significant accounting policies

Our principal accounting policies are summarized below.

### Basis of preparation and going concern assumption

The consolidated financial statements are prepared in accordance with the International Financing Reporting Standards (IFRS), issued by the International Accounting Standard Board (IASB) and the interpretations issued by the IASB's International Financial Reporting Interpretation Committee. The consolidated financial statements provide a general overview of our activities and the results achieved. They give a true and fair view of our financial position, our financial performance and cash flows, on a going concern basis.

### New standards and interpretations applicable for the annual period beginning on 1 January 2015

- Improvements to IFRS (2011-2013) (applicable for annual periods beginning on or after 1 January 2015)
- IFRIC 21 *Levies* (applicable for annual periods beginning on or after 17 June 2014)

## Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2015

- IFRS 9 *Financial Instruments* and subsequent amendments (applicable for annual periods beginning on or after 1 January 2018, but not yet endorsed in the EU)
- IFRS 15 *Revenue from Contracts with Customers* (applicable for annual periods beginning on or after 1 January 2018, but not yet endorsed in EU)
- IFRS 16 *Leases* (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in EU)
- Improvements to IFRS (2010-2012) (applicable for annual periods beginning on or after 1 February 2015)
- Improvements to IFRS (2012-2014) (applicable for annual periods beginning on or after 1 January 2016)
- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception* (applicable for annual periods beginning on or after 1 January 2016, but not yet endorsed in EU)
- Amendments to IAS 1 *Presentation of Financial Statements – Disclosure Initiative* (applicable for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 7 *Statement of Cash Flows – Disclosure Initiative* (applicable for annual periods beginning on or after 1 January 2017, but not yet endorsed in EU)
- Amendments to IAS 12 *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses* (applicable for annual periods beginning on or after 1 January 2017, but not yet endorsed in EU)
- Amendments to IAS 16 and IAS 38 Property, Plant and Equipment and Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization (applicable for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 19 *Employee Benefits – Employee Contributions* (applicable for annual periods beginning on or after 1 February 2015)

The new standards applicable did not have any impact on our financials.

Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2015, and mainly new IFRS 15 Revenue from contracts with customers (applicable for annual periods beginning on or after 1 January 2018, but not yet endorsed by EU), and IFRS 16 Leases (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed by EU), could have an impact on our future financials. The evaluation of this impact is currently under assessment.

## Consolidated reporting

The consolidated financial statements comprise the financial statements of Galapagos NV and entities controlled by Galapagos NV. Control is achieved where Galapagos NV has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities. The results of subsidiaries are included in the income statement and statement of comprehensive income from the effective date of acquisition up to the date when control ceases to exist. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with our accounting policies. All intra-group transactions, balances, income and expenses are eliminated when preparing the consolidated financial statements.

## Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by us in exchange for control of the acquired entity.

The acquired entity's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair value at the acquisition date.

Goodwill arising on business combinations is recognized as an asset and initially measured as excess of the cost of acquisition over our interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary less the value of the non-controlling interests at date of the acquisition. Goodwill is not amortized

but tested for impairment on an annual basis and whenever there is an indication that the cash generating unit to which goodwill has been allocated may be impaired. Goodwill is stated at cost less accumulated impairment losses. An impairment loss recognized for goodwill is not reversed in a subsequent period.

In cases in which the acquirer's interest in the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities less the value of the non-controlling interests exceeds cost, all fair values and cost calculations are reassessed. In the event that an excess still exists, it is immediately recognized in the profit or loss statement.

## Intangible assets

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally generated intangible asset arising from our development activities is recognized only if all of the following conditions are met:

- Technically feasible to complete the intangible asset so that it will be available for use or sale
- We have the intention to complete the intangible assets and use or sell it
- We have the ability to use or sell the intangible assets
- The intangible asset will generate probable future economic benefits, or indicate the existence of a market
- Adequate technical, financial and other resources to complete the development are available
- We are able to measure reliably the expenditure attributable to the intangible asset during its development

The amount capitalized as internally generated intangible assets is the sum of the development costs incurred as of the date that the asset meets the conditions described above.

Internally generated intangible assets are amortized on a straight-line basis over their estimated useful lives. If the recognition criteria for accounting as an intangible asset are not met, development costs are recognized as an expense in the period in which they are incurred.

Intellectual property, which comprises patents, licenses and rights, is measured internally at purchase cost and is amortized on a straight-line basis over the estimated useful life on the following bases:

- Customer relationships: 1 – 10 years
- In process technology: 3 – 5 years
- Software & databases: 3 – 5 years
- Brands, licenses, patents & know how: 5 – 15 years

In the event an asset has an indefinite life, this fact is disclosed along with the reasons for being deemed to have an indefinite life.

## Property, plant and equipment

Property, plant and equipment are recognized at cost less accumulated depreciation and any impairment loss. Depreciation is recognized so as to write off the cost or valuation of assets over their useful lives, using the straight-line method, on the following bases:

- Installation & machinery: 4 – 15 years
- Furniture, fixtures & vehicles: 4 – 10 years

Any gain or loss incurred at the disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset, and is recognized in profit or loss.

## Leasehold improvements

Leasehold improvements are depreciated over the term of the lease, unless a shorter useful life is expected.

### Assets held under finance lease

Assets held under finance leases are depreciated over their useful lives on the same bases as owned assets or, where shorter, over the term of the related lease agreement.

### Inventories

Inventories are valued at the lower of cost and net realizable value. The net realizable value represents the estimated sales price less all estimated costs for completion and costs for marketing, sales and logistics.

Cost of raw materials comprises mainly purchase costs. Raw materials are not ordinarily interchangeable, and they are as such accounted for using the specific identification of their individual cost.

### Financial instruments

Financial assets and financial liabilities are recognized on our balance sheet when we become a party to the contractual provisions of the instrument. Hedging and derivatives have never been used: we do not actively use currency derivatives to hedge planned future cash flows, nor do we make use of forward foreign exchange contracts. However, at year-end 2015 an embedded derivative existed under the terms of the Gilead contract (see note 8).

### Research and development incentives receivables

The R&D incentives receivables relate to refunds resulting from R&D incentives on research and development expenses in France and Belgium. Non-current research and development incentives receivables are discounted over the period until maturity date according to the appropriate discount rates.

### Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value reduced by appropriate allowances for irrecoverable amounts.

### Cash and cash equivalents

Cash and cash equivalents are measured at nominal value. For the purposes of the cash flow statements, cash and cash equivalents comprise cash on hand, deposits held on call with banks, other short term deposits and highly liquid investments. Cash and cash equivalents exclude restricted cash which is presented separately in the statement of financial position.

### Trade payables

Trade payables bear no interest and are measured at their nominal value.

### Taxation

Income tax in the profit or loss accounts represents the sum of the current tax and deferred tax.

Current tax is the expected tax payable on the taxable profit of the year. The taxable profit of the year differs from the profit as reported in the financial statements as it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Our liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability-method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. As such, a deferred tax asset for the carry forward of unused tax losses will be recognized to the extent that is probable that future taxable profits will be available.

## Foreign currencies

- Functional and presentation currency

  Items included in the financial statements of each of our entities are valued using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Euros, which is our functional and presentation currency.

- Transactions and balances in foreign currency

  Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transaction. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at closing rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

  Non-monetary assets and liabilities measured at historical cost that are denominated in foreign currencies are translated using the exchange rate at the date of the transaction.

- Financial statements of foreign group companies

  The results and financial position of all our entities that have a functional currency different from Euro are translated as follows:

  - Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
  - Income and expenses for each income statement are translated at average exchange rates
  - All resulting cumulative exchange differences are recognized as a separate component of equity
  - Such cumulative exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of

## Revenue recognition

Revenues to date have consisted principally of milestones, license fees and upfront payments received in connection with collaboration and alliance agreements. We also generate revenue from our fee-for-service activities, and various research and development incentives and grants.

Collaboration and alliance agreements with our commercial partners for research and development activities generally include non-refundable upfront fees; costs reimbursements; milestone payments, the receipt of which is dependent upon the achievement of certain clinical, regulatory or commercial milestones; license fees and royalties on sales.

The revenue recognition policies can be summarized as follows:

### Upfront payments

Non-refundable, upfront payments received in connection with research and development collaboration agreements are deferred and recognized over the relevant, required periods of our involvement. The payments and our involvement relate to a contractually defined phase of the project. At inception Management estimates the period of our involvement as well as the cost involved in the project. Upfront payments are recognized over the estimated period of involvement, either on a straight line basis or based on the cost incurred under the project if such cost can be reliably estimated. Periodically we reassess the estimated time and cost to complete the project phase and adjust the time period over which the revenue is deferred accordingly.

### Milestone payments
Research milestone payments are recognized as revenues when achieved. In addition, the payments have to be acquired irrevocably and the milestone payment amount needs to be substantive and commensurate with the magnitude of the related achievement. Milestone payments that are not substantive, not commensurate or that are not irrevocable are recorded as deferred revenue. Revenue from these activities can vary significantly from period to period due to the timing of milestones.

### Costs reimbursements
Costs reimbursements foreseen in our collaboration agreements are recognized in revenue at the time of their invoicing upon agreement by the parties involved.

### Licenses
Revenues from term licenses are spread over the period to which the licenses relate, reflecting the obligation over the term, to update content and provide ongoing maintenance. Revenues from perpetual licenses are recognized immediately upon sale to the extent that there are no further obligations.

### Royalties
Royalty revenues are recognized when we can reliably estimate such amounts and collectability is reasonably assured. As such, we generally recognize royalty revenues in the period in which the licensees are reporting the royalties to us through royalty reports, that is, royalty revenues are generally recognized in arrears, i.e. after the period in which sales by the licensees occurred. Under this accounting policy, the royalty revenues we report are not based upon our estimates and such royalty revenues are typically reported in the same period in which we receive payment from our licensees.

### Grants and R&D incentives
As we carry out extensive research and development activities, we benefit from various grants and R&D incentives from certain governmental agencies. These grants and R&D incentives generally aim to partly reimburse approved expenditures incurred in our research and development efforts and are credited to the income statement, under other income, when the relevant expenditure has been incurred and there is reasonable assurance that the grants or R&D incentives are receivable.

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

When we undertake our activities under joint operations, we as a joint operator recognize in relation to our interest in a joint operation:

- Our assets, including our share of any assets held jointly
- Our liabilities, including our share of any liabilities incurred jointly
- Our revenue from the sale of our share of the output arising from the joint operation
- Our share of the revenue from the sale of the output by the joint operation
- Our expenses, including our share of any expenses incurred jointly

We account for the assets, liabilities, revenues and expenses relating to our interest in a joint operation in accordance with IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When we transact with a joint operation in which we are a joint operator (such as sale or contribution of assets), we are considered to be concluding the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in our consolidated financial statements only to the extent of other parties' interests in the joint operation.

When we transact with a joint operation in which we are a joint operator (such as purchase of assets), we do not recognize our share of the gains and losses until we resell those assets to a third party.

## Equity instruments

Equity instruments issued by us are measured by the fair value of the proceeds received, net of direct issue costs.

## Employee benefits

### a/ Defined contribution plans

Contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred.

### b/ Defined benefit plans

For defined retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Re-measurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Re-measurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements)
- Net interest expenses or income
- Re-measurement

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in our defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or a reduction in future contributions to the plans. A liability for a termination benefit is recognized at the earlier of when we can no longer withdraw the offer of the termination benefit and when we recognize any related restructuring costs.

### c/ Staff bonus plan

We recognize an expense in the income statement for staff bonus plans.

### d/ Management bonus plan

The Executive Committee members, together with other senior managers, are eligible to receive bonuses under the Senior Management Bonus Scheme established in 2006. Pursuant to the rules of the Senior Management Bonus Scheme, 50% of the bonus is paid immediately around year-end and the payment of the remaining 50% is deferred for three years. The deferred 50% component is dependent on the Galapagos share price change relative to the Next Biotech Index (which tracks Euronext-listed biotech companies). The Galapagos share price and Index at the start and end of the 3-year period is calculated by the average price over the preceding and last month of the 3-year period, respectively.

- If the Galapagos share price change is better than or equal to the change in the Next Biotech Index, the deferred bonus will be adjusted by the share price increase/decrease and paid out
- If the Galapagos share price change is up to 10% worse than the change in the Next Biotech Index, 50% of the deferred bonus will be adjusted by the share price increase/decrease and paid out, and the remainder will be forfeited
- If the Galapagos share price change is more than 10% worse than the change in the Next Biotech Index the deferred bonus will be forfeited

We recognize the possible payment of the deferred component of the Senior Management bonus schemes within three years at the moment that the bonus amount is determined, based on the fair value of the liability at each reporting period. The fair value of the liability is measured by use of the Monte Carlo valuation model taking into consideration

(a) the average reference price of the Galapagos share and Next Biotech Index, (b) the average price of the reporting period of the Galapagos share and the Next Biotech Index, (c) the simulation of the evolution of the Galapagos share price and the Next Biotech Index based on their volatility and correlation until maturity of the bonus, (d) the applicable discount rates at the end of the reporting period and (e) the probability of the number of beneficiaries assumed to stay with us until maturity of the bonus. The changes in fair value are recognized in profit or loss for the period.

### Share-based payments

We grant equity-settled incentives to certain employees, Directors and consultants in the form of warrants. Equity-settled warrants are measured at fair value at the date of acceptance. The fair value determined at the acceptance date of the warrants is expensed over the vesting period, based on our estimate of warrants that are expected to be exercised. Fair value is measured by use of the Black & Scholes model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

### Provisions

Provisions are recognized on the balance sheet when we have a present obligation as a result of a past event; when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligations. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of the money and, when appropriate, the risk specified to the liability.

### Finance and operating leases

Leases are classified as finance leases whenever the terms of the lease substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as our assets at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. The payments are divided proportionally between the financial costs and a diminution of the outstanding balance of the obligation, so that the periodic interest rate on the outstanding balance of the obligation would be constant. Interest is recognized in the income statement, unless it is directly attributable to the corresponding asset, in which case they are capitalized.

Rents paid on operating leases are charged to income 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.

### Impairment of tangible and intangible assets

At each balance sheet date, we review the carrying amount of our tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. 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). Where the asset does not generate cash flows that are independent from other assets, we estimate the recoverable amount of the cash-generating unit to which the asset belongs.

An intangible asset with an indefinite useful life is tested for impairment annually, and whenever there is an indication that the asset might be impaired. The recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset or cash generating unit is estimated to be less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss resulting from a sale of a subsidiary is recognized as income. In other cases impairment losses of goodwill are never reversed.

### Net income/loss per share

Basic net income/loss per share is computed based on the weighted average number of shares outstanding during the period. Diluted net income per share is computed based on the weighted average number of shares outstanding including the dilutive effect of warrants, if any.

### Discontinued operations

A discontinued operation is a component of us that either has been disposed of or is classified as held for sale and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or (c) is a subsidiary acquired exclusively with a view to resale.

### Segment reporting

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of revenue and expenses that can be allocated on a reasonable basis to a segment. Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets and liabilities do not include income tax items. We have only two segments (see note 4).

## 3. Critical accounting estimates and judgments

In the application of the accounting policies, we are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Our estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revisions and future periods if the revision affects both current and future periods.

Drafting financial statements in accordance with IFRS requires management to make judgments and estimates and to use assumptions that influence the reported amounts of assets and liabilities, the notes on contingent assets and liabilities on the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates.

The following are the critical judgments and estimates that we have made in the process of applying the accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements presented elsewhere in this Annual Report.

### Critical judgments in applying accounting policies

#### Share subscription agreement with Gilead – classification as derivative financial asset or equity instrument

As described in note 8, Gilead Sciences, Inc. ("Gilead") committed itself on 16 December 2015 to make a $425 million equity investment in Galapagos by subscribing to new shares at a fixed price of €58 per share, including issuance premium upon completion of the license and collaboration agreement with Galapagos that took place on 19 January 2016.

Significant judgment had to be applied in assessing whether this forward subscription commitment of Gilead over the own shares of Galapagos shall be classified as an own equity instrument of Galapagos or as a derivative financial asset. IAS 32 requires that for a derivative to meet the definition of equity it must be settled only by the issuer (Galapagos) exchanging a "fixed amount of cash or another financial asset for a fixed number of its own equity instruments". Because the above mentioned commitment of Gilead was made in $, the actual number of shares finally issued by Galapagos varied with the fluctuation in the $/€ exchange rate until the settlement date on 19 January 2016.

Despite the fact that this foreign exchange exposure is limited, management judged that this variability prevents the instrument from being classified as equity under IAS 32 and is therefore treated as a derivative at fair value through profit and loss.

### Revenue recognition

Evaluating the criteria for revenue recognition with respect to our research and development and collaboration agreements requires management's judgment to ensure that all criteria have been fulfilled prior to recognizing any amount of revenue. In particular, such judgments are made with respect to determination of the nature of transactions, whether simultaneous transactions shall be considered as one or more revenue-generating transactions, allocation of the contractual price (upfront and milestone payments in connection with a collaboration agreement) to several elements included in an agreement, and the determination of whether the significant risks and rewards have been transferred to the buyer. Collaboration agreements are reviewed carefully to understand the nature of risks and rewards of the arrangement. All of our revenue-generating transactions have been subject to such evaluation by management.

## Critical accounting estimates

### Fair value re-measurement of the Gilead share subscription agreement (derivative financial asset instrument)

(thousands of €)

| | |
|---|---|
| **Fair value at inception** | **39,003** |
| Movement of the period (recognized in the income statement) | (30,632) |
| **Fair value per 31 December 2015** | **8,371** |

The fair value measurement of this derivative financial asset is categorized as a level 3 in the fair value hierarchy of IFRS 13 Fair Value Measurement.

Its measurement is based on computing the difference between the strike price (€58/ share) and the anticipated Galapagos forward price, discounted to the valuation date. The notional is converted from USD to EUR by the currency exchange forward rate and the number of shares is computed by dividing the EUR notional by the strike.

Input data are taken from Bloomberg as of 16 December 2015 and 31 December 2015, including:

- EUR OIS Discount rates (curve 133)
- Implied forward rate of the GLPG share at 31 January 2016
- Implied FX Forward rate at 31 January 2016

This computation is based on the following unobservable assumptions:

- Between the date that the deal is signed (16 December 2015) until the date the deal is complete, the two counterparties cannot back off from the deal and it is 100% certain that the U.S. Federal Trade Commission will give the green light
- At the two valuation dates, it is assumed that the date when the deal will be complete will be 31 January 2016. This is the forward date from where all the market data is taken from
- It is assumed that the effect of the correlation between the Galapagos share price and the EUR/USD currency exchange rate is negligible. This is reasonable given the very short maturity of the deal

Relationship of unobservable inputs to the fair value measurement:

- If one would have assumed that the closing date of the deal was 19 January 2016 (the actual closing date) the fair value of the derivative financial asset at 31 December 2015 would have been €8,367 thousand.

### Recognition of clinical trial expenses

We recognize expenses incurred in carrying out clinical trials during the course of each clinical trial in line with the state of completion of each trial. This involves the calculation of clinical trial accruals at each period end to account for incurred expenses. This requires estimation of the expected full cost to complete the trial as well as the current stage of trial completion.

Clinical trials usually take place over extended time periods and typically involve a set-up phase, a recruitment phase and a completion phase which ends upon the receipt of a final report containing full statistical analysis of trial results. Accruals are prepared separately for each clinical trial in progress and take into consideration the stage of completion of each trial including the number of patients that have entered the trial and whether the final report has been received. In all cases, the full cost of each trial is expensed by the time the final report is received. There have not been any material adjustments to estimates based on the actual costs incurred for each period presented.

### Share-based payments plans

We determine the costs of the share-based payments plans (warrant plans) on the basis of the fair value of the equity instrument at grant date. Determining the fair value assumes choosing the most suitable valuation model for these equity instruments, by which the characteristics of the grant have a decisive influence. This assumes also the input into the valuation model of some relevant judgments, like the estimated expected life of the warrant and the volatility. The judgments made and the model used are further specified in note 30.

### Pension obligations

The cost of a defined pension arrangement is determined based on actuarial valuations. An actuarial valuation assumes the estimation of discount rates, estimated returns on assets, future salary increases, mortality figures and future pension increases. Because of the long term nature of these pension plans, the valuation of these is subject to important uncertainties. See note 29 for additional details.

### Corporate income taxes

Significant judgment is required in determining the use of tax loss carry forwards. Deferred tax assets arising from unused tax losses or tax credits are only recognized to the extent that there are sufficient taxable temporary differences or there is convincing evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized. Management's judgment is that such convincing evidence is currently not sufficiently available except for two subsidiaries operating intercompany on a cost plus basis and as such a deferred tax asset is therefore recognized. As of 31 December 2015, we had a total of approximately €265 million of statutory tax losses carried forward which can be compensated with future taxable statutory profits for an indefinite period except for an amount of €17 million in Switzerland, Croatia, the United States and The Netherlands with expiry date between 2018 and 2030. As of 31 December 2015, the available tax losses carried forward in Belgium amounted to €184 million.

## 4. Segment information

In 2014, following the sale of the service division on 1 April 2014, the continuing operations related primarily to R&D activities. Consequently, there was one reportable segment as at 31 December 2014.

In 2015, the IFRS 8 threshold of 10% of the combined revenues, external and inter-segment, of all segments was met by the external and internal revenues reported by our fee-for-service business located in Croatia. Consequently, there are two reportable segments in 2015, R&D and fee-for-service business.

## Segment information for the year 2015

| (thousands of €) | R&D | Fee-For-Services | Inter-segment elimination | Group |
|---|---|---|---|---|
| Revenue | 34,129 | 10,893 | (5,459) | 39,563 |
| Other income | 20,778 | 238 | | 21,017 |
| **Revenues & other income** | **54,907** | **11,131** | **(5,459)** | **60,579** |
| | | | | |
| **Segment result** | **(82,024)** | **(2,690)** | | **(84,713)** |
| Unallocated expenses (1) | | | | (4,731) |
| **Operating loss** | | | | **(89,444)** |
| Financial (expenses) / income (2) | | | | (30,184) |
| **Result before tax** | | | | **(119,627)** |
| Incomes taxes (2) | | | | 1,218 |
| **Net loss from continuing operations** | | | | **(118,410)** |
| Net income from discontinued operations | | | | – |
| **Net income / loss (–)** | | | | **(118,410)** |

(1) Unallocated expenses consist mainly of expenses for warrant plans under IFRS2
(2) Cash and taxes are handled at the Group level and are therefore presented under unallocated (expenses) / income

## Segment information for the year 2014

| (thousands of €) | R&D | Fee-For-Services | Inter-segment elimination | Group |
|---|---|---|---|---|
| Revenue | 65,642 | 7,809 | (4,083) | 69,368 |
| Other income | 20,437 | 217 | | 20,653 |
| **Revenues & other income** | **86,079** | **8,025** | **(4,083)** | **90,021** |
| | | | | |
| **Segment result** | **(30,369)** | **(4,704)** | | **(35,073)** |
| Unallocated expenses (1) | | | | (1,551) |
| **Operating loss** | | | | **(36,624)** |
| Financial (expenses) / income (2) | | | | 1,424 |
| **Result before tax** | | | | **(35,201)** |
| Incomes taxes (2) | | | | (2,103) |
| **Net loss from continuing operations** | | | | **(37,303)** |
| Net income from discontinued operations | | | | 70,514 |
| **Net income / loss (–)** | | | | **33,211** |

(1) Unallocated expenses consist mainly of expenses for warrant plans under IFRS2
(2) Cash and taxes are handled at the Group level and are therefore presented under unallocated (expenses) / income

## Geographical information

In 2015 our operations were located in Belgium, Croatia, France and The Netherlands.

In 2015 our top 10 customers represented 97% of the revenues. Our client base in 2015 and 2014 included six of the top 20 pharmaceutical companies in the world.

Following table summarizes our revenues by destination of customer:

| | As at 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| United States | 17,077 | 31,100 |
| Europe | 22,446 | 38,169 |
| Asia Pacific | 40 | 100 |
| **Total revenues** | **39,563** | **69,368** |

Following table summarizes our revenues by major customers:

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | (thousands of €) | % | (thousands of €) | % |
| **AbbVie** | **29,870** | **75%** | **54,092** | **78%** |
| Europe | 13,640 | 34% | 24,054 | 35% |
| United States | 16,229 | 41% | 30,038 | 43% |
| **Janssen Pharmaceutica** | **566** | **1%** | **8,662** | **12%** |
| Europe | 112 | 0% | 8,662 | 12% |
| United States | 454 | 1% | | |
| **Total revenues** | **30,436** | **77%** | **62,754** | **90%** |

Following table summarizes our revenues of the continuing operations by destination of our entity:

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Galapagos NV (Belgium) | 34,082 | 65,448 |
| Galapagos SASU (France) | 25 | 108 |
| Fidelta d.o.o. (Croatia) | 5,440 | 3,726 |
| Xenometrix, Inc. (United States) | 16 | 86 |
| **Total revenues** | **39,563** | **69,368** |

In 2015, we held €68 million of non-current assets (€57 million in 2014) distributed as follows:

- France: €29 million (€26 million in 2014)
- Belgium: €30 million (€25 million in 2014)
- Croatia: €5 million (€4 million in 2014)
- The Netherlands: €4 million (€1 million in 2014)

The increase in non-current assets is explained by the increase in non-current R&D incentives receivables (see note 15).

# 5. Total revenues and other income

## Revenues

The following table summarizes the revenues for the years ended 31 December 2015 and 2014.

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Recognition of non-refundable upfront payments | 26,419 | 45,838 |
| Milestone payments and costs reimbursements | 7,643 | 19,768 |
| Other revenues | 5,501 | 3,762 |
| **Total revenues** | **39,563** | **69,368** |

Total revenues decreased by €29.8 million, or 43%, to €39.6 million for the year ended 31 December 2015, from €69.4 million for the year ended 31 December 2014. This decrease was mainly driven by lower recognition of non-refundable upfront payments and reduced milestone payments, as explained below.

Revenue from non-refundable upfront payments related to the deferred recognition of upfront payments received under the agreements with AbbVie, amounting to €111.6 million in 2012 and €49.6 million in 2013, which were amortized over a period ranging from 21 to 42 months, based on the estimated period of our involvement.

Milestone revenues and costs reimbursements decreased by €12.1 million, or 61%, to €7.6 million for the year ended 31 December 2015 compared to €19.8 million for the year ended 31 December 2014. This decrease was primarily related to fewer milestones achieved in 2015 compared to 2014 as a result of the increasing proprietary nature of our pipeline programs. For the year ended 31 December 2015 €2.2 million and €1.2 million of costs were reimbursed in relation with respectively the CF and Filgotinib Collaboration Agreement with AbbVie, and €3.8 million of milestones related to partnered programs with Servier were recognized. For the year ended 31 December 2014 €8.3 million of milestones were recognized in relation with the CF Collaboration Agreement with AbbVie and €11.5 million of milestones primarily related to partnered programs with Janssen Pharmaceutica, Servier and GSK.

Other revenues increased by €1.7 million, or 46%, to €5.5 million for the year ended 31 December 2015 compared to €3.8 million for the year ended 31 December 2014, principally due to higher revenues from fee-for-service activities.

## Other income

The following table summarizes other income for the years ended 31 December 2015 and 2014.

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Grant income | 3,095 | 5,646 |
| Other income | 17,922 | 15,008 |
| **Total other income** | **21,017** | **20,653** |

Total other income was composed of grant income and other income and increased by €0.4 million, or 2%, from €20.7 million for the year ended 31 December 2014 to €21.0 million for the year ended 31 December 2015.

Grant income decreased by €2.6 million, or 45%, from €5.6 million for the year ended 31 December 2014 to €3.1 million for the year ended 31 December 2015. The majority of this grant income was related to grants from a Flemish agency, representing approximately 94% of all reported grant income in both years. In many cases these carry clauses which require us to maintain a presence in the same region for a number of years and invest according to pre-agreed budgets.

The decrease in grant income was compensated by an increase in other income of €2.9 million, or 19%, from €15.0 million for the year ended 31 December 2014 to €17.9 million for the year ended 31 December 2015. Other income was primarily composed of:

- Income from an innovation incentive system of the French government, which represented €8.7 million of other income for the year ended 31 December 2015 compared to €7.8 million for the year ended 31 December 2014
- Income from Belgian R&D incentives with regard to incurred R&D expenses, which represented €5.3 million of other income for the year ended 31 December 2015 compared to €4.3 million for the year ended 31 December 2014
- Tax rebates on payroll withholding taxes of R&D personnel in Belgium and The Netherlands, representing €3.0 million of other income for the year ended 31 December 2015 compared to €2.4 million for the year ended 31 December 2014

# 6. Operating costs

Operating result has been calculated after charging (–) / crediting:

## Research and development expenditure

The following table summarizes research and development expenditure for the years ended 31 December 2015 and 2014.

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Personnel costs | (35,875) | (31,038) |
| Subcontracting | (65,883) | (54,293) |
| Disposables and lab fees and premises costs | (18,696) | (16,830) |
| Other operating expenses | (9,260) | (8,949) |
| **Total research and development expenditure** | **(129,714)** | **(111,110)** |

R&D expenditure increased by €18.6 million, or 17%, to €129.7 million for the year ended 31 December 2015, from €111.1 million for the year ended 31 December 2014. This increase was principally due to:

- Increased R&D personnel costs of €4.8 million, or 16%, from €31.0 million for the year ended 31 December 2014 to €35.9 million for the year ended 31 December 2015, which was explained by an enlarged workforce, higher warrant costs and a higher provision for short term and long term management bonus, mainly as a result of the evolution of our share price change relative to the Next Biotech Index on Euronext
- Increased subcontracting costs of €11.6 million, or 21%, from €54.3 million for the year ended 31 December 2014 to €65.9 million for the year ended 31 December 2015. This cost increase was mainly driven by increased subcontracting costs of €8.4 million for the CF collaboration with AbbVie and to a lesser extent by the increase of €4.2 million in subcontracting costs for our other partnered and internal programs
- Intensified use of lab consumables was the main driver of the increase in disposables, lab fees and premises costs of €1.9 million, or 11%, from €16.8 million for the year ended 31 December 2014 to €18.7 million for the year ended 31 December 2015
- Other operating expenses slightly increased by €0.3 million, or 3%, from €8.9 million for the year ended 31 December 2014 to €9.3 million for the year ended 31 December 2015

The table below summarizes our research and development expenditure for the years ended 31 December 2015 and 2014, broken down by research and development expenses under alliance and own funded research and development expenses.

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| R&D under alliance | (80,832) | (76,297) |
| Galapagos funded R&D | (48,882) | (34,813) |
| **Total R&D expenditure** | **(129,714)** | **(111,110)** |

We tracked all research and development expenditures against detailed budgets and allocated them by individual project.

Research and development expenditure under alliance increased by €4.5 million, or 6%, from €76.3 million for the year ended 31 December 2014 to €80.8 million for the year ended 31 December 2015, mainly due to our CF program in collaboration with AbbVie. We also increased our investments in our own funded portfolio by €14.1 million, or 40%, from €34.8 million for the year ended 31 December 2014 to €48.9 million for the year ended 31 December 2015, primarily because GLPG1205 and GLPG1690 programs became own funded.

## General and administrative expenses

The following table summarizes the general and administrative expenses for the years ended 31 December 2015 and 2014.

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Personnel costs and directors fees | (12,739) | (8,087) |
| Other operating expenses | (6,388) | (5,788) |
| **Total general and administrative expenses** | **(19,127)** | **(13,875)** |

General and administrative expenses amounted to €13.9 million for the year ended 31 December 2014 and increased by €5.2 million, or 38%, to €19.1 million for the year ended 31 December 2015. This increase was principally due to personnel costs and directors fees, which increased by €4.6 million, or 58%, from €8.1 million for the year ended 31 December 2014 to €12.7 million for the year ended 31 December 2015, resulting from various effects, such as increased costs of share-based payments plans (warrant plans) and increased provision for short and long term management bonus, mainly as a result of the evolution of our share price change relative to the Next Biotech Index on Euronext. In addition, other operating expenses increased by €0.6 million, or 10%, from €5.8 million for the year ended 31 December 2014 to €6.4 million for the year ended 31 December 2015, mainly due to higher professional fees.

## Sales and marketing expenses

The following table summarizes the sales and marketing expenses for the years ended 31 December 2015 and 2014.

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Personnel costs | (785) | (579) |
| Other operating expenses | (397) | (412) |
| **Total sales and marketing expenses** | **(1,182)** | **(992)** |

Sales and marketing expenses increased by €0.2 million, or 19%, from €1.0 million for the year ended 31 December 2014 to €1.2 million for the year ended 31 December 2015.

## Restructuring costs

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Restructuring costs | – | (669) |
| **Total restructuring and integration costs** | **–** | **(669)** |

The restructuring and integration costs amounted to €0.7 million for the year ended 31 December 2014 and were entirely related to workforce reductions within certain of the R&D operations.

## 7. Staff costs

The table below describes the evolution of our employees between the years 2015 and 2014.

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Number of employees on 31 December | 435 | 417 |
| **Total** | **435** | **417** |

The average number of employees of the continuing operations during the years 2015 and 2014 was:

| | Year ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| Key Management | 4 | 4 |
| Laboratory staff | 355 | 353 |
| Administrative staff | 66 | 64 |
| **Total** | **425** | **421** |

Their aggregate remuneration comprised:

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | **2015** | 2014 |
| Wages and salaries | (33,676) | (26,891) |
| Social security costs | (7,328) | (7,468) |
| Pension costs | (1,456) | (1,454) |
| Other personnel costs | (4,574) | (2,635) |
| **Total personnel costs** | **(47,034)** | **(38,447)** |

The other personnel costs mainly relate to costs for warrants granted of €2.9 million (2014: €2.2 million). For the costs of warrants granted, see note 30.

## 8. Fair value re-measurement of share subscription agreement

On 16 December 2015, Gilead Sciences, Inc. and Galapagos NV entered into a global collaboration for the development and commercialization of filgotinib, in the framework of which Gilead committed to an upfront payment of $725 million consisting of a license fee of $300 million and a $425 million equity investment in Galapagos NV by subscribing to new shares at a price of €58 per share, including issuance premium. This agreement was effectively completed and entered into force on 19 January 2016 and the full payment was received.

In connection with the agreement, we recognized a deferred income and an offsetting short term financial asset (derivative) of €39 million upon signing of the share subscription agreement with Gilead as required under IAS 39. This financial asset initially reflects the share premium that Gilead committed to pay above our closing share price on the day of entering into the subscription agreement. Under IAS 39 the fair value of the financial asset is re-measured at year-end and again upon entering into force of the share subscription agreement on 19 January 2016, when the financial asset expired. Variations in fair value of the financial asset are recorded in the income statement.

The decrease in the fair value of the financial asset resulting from the increase in the Galapagos share price between signing of the subscription agreement and 31 December 2015 resulted in a negative, non-cash fair value charge of €30.6 million in the financial results. The subsequent increase in the fair value of the financial asset resulting from the decrease in our share price between 1 January 2016 and 19 January 2016 will result in a positive non-cash gain of €57.5 million in the financial result of the first quarter of 2016.

## 9. Other financial income/expenses

The following table summarizes other finance income and expense for the years ended 31 December 2015 and 2014.

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| **Other financial income:** | | |
| Interest on bank deposit | 1,246 | 1,155 |
| Effect of discounting long term R&D incentives receivables | 99 | 920 |
| Currency exchange gain | 636 | 198 |
| Other financial income | 7 | 17 |
| **Total other financial income** | **1,987** | **2,291** |
| | | |
| **Other financial expenses:** | | |
| Interest expenses | (46) | (110) |
| Currency exchange loss | (1,310) | (652) |
| Other finance charges | (182) | (105) |
| **Total other financial expense** | **(1,539)** | **(867)** |
| | | |
| **Total other net financial income** | **448** | **1,424** |

Other financial income decreased slightly by €0.3 million, or 13%, from €2.3 million for the year ended 31 December 2014 to €2.0 million for the year ended 31 December 2015. The €0.8 million decrease in the effect of discounting long term R&D incentives receivables was partly compensated by a €0.4 million increase in currency exchange gains.

Other financial expenses increased by €0.6 million, or 77% from €0.9 million for the year ended 31 December 2014 to €1.5 million for the year ended 31 December 2015. Net exchange loss amounts to € 0.7 million for the year ended 31 December 2015, as compared to €0.5 million for the year ended 31 December 2014. Interest expenses are related to interests paid on financial lease.

## 10. Taxes

### Income taxes relating to continuing operations

The following table summarizes the income tax recognized in profit or loss for the years ended 31 December 2015 and 2014.

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Current tax | (215) | (2,396) |
| Deferred tax | 1,433 | 293 |
| **Total income taxes** | **1,218** | **(2,103)** |

Current tax representing €0.2 million for the year ended 31 December 2015 was related to taxes for subsidiaries operating on cost plus basis.

Current tax recorded in 2014 for an amount of €2.4 million related to a tax provision for subsidiaries operating under cost plus transfer pricing arrangements, triggered by a tax audit.

Deferred tax income of €1.4 million for the year ended 31 December 2015 and €0.3 million for the year ended 31 December 2014 both related to subsidiaries working on a cost plus basis.

## Tax liabilities

The below table illustrates the tax liabilities related captions in the balance sheet as at 31 December 2015 and 2014.

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Current tax payable | 2,583 | 2,582 |
| **Total tax liabilities** | **2,583** | **2,582** |

The tax liabilities amounting to €2.6 million on 31 December 2015 and 2014 are primarily related to the recognition of tax liabilities for one of the subsidiaries operating on a cost plus basis for €2.1 million, as a consequence of a tax audit. In addition, taxes on gain on the sale of the service division in 2014 are included in the tax liabilities for €0.4 million. The income tax expense in connection with the sale of the service division was only €0.4 million, since the gain is considered as a capital gain under Belgian tax law, which is subject to a tax rate of less than 1%.

Corporation tax is calculated at 34% (2014: 34%) – which is the tax rate applied in Belgium – of the estimated assessable profit for the year. The applied tax rate for other territorial jurisdictions is the tax rate that is applicable in these respective territorial jurisdictions on the estimated taxable result of the accounting year.

The tax of the year can be reconciled to the accounting result as follows:

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Loss before tax from continuing operations | (119,627) | (35,201) |
| Income before tax from discontinued operations | | 70,748 |
| **Income / loss (–) before tax** | **(119,627)** | **35,548** |
| Income tax debit / credit (–), calculated using the Belgian statutory tax rate (34%) on the accounting income / loss (–) before tax (theoretical) | (40,661) | 12,083 |
| Tax expenses / income (–) in income statement (effective) from continuing operations | (1,218) | 2,103 |
| Tax expenses in income statement (effective) from discontinued operations | – | 234 |
| **Tax expenses / income (–) in income statement (effective)** | **(1,218)** | **2,337** |
| **Difference in tax expenses / income to explain** | **39,444** | **(9,746)** |
| | | |
| Effect of tax rates in other jurisdictions | 328 | 6 |
| Effect of non taxable revenues | (5,934) | (41,249) |
| Effect of consolidation entry without tax impact | 57 | 12,786 |
| Effect of non tax deductible expenses | 1,966 | 1,459 |
| Effect of recognition of previously non recognized deferred tax assets | (1,307) | (293) |
| Effect of change in tax rates | | (165) |
| Effect of tax losses (utilized) reversed | (597) | (1,549) |
| Effect from under or over provisions in prior periods | 58 | 2,144 |
| Effect of non recognition of deferred tax assets | 45,195 | 17,688 |
| Effect of R&D tax credit claims | (322) | (572) |
| Effect of derecognition of previously recognized deferred tax assets | | |
| **Total explanations** | **39,444** | **(9,746)** |

The main difference between the theoretical tax and the effective tax for the year 2015 is primarily explained by the unrecognized deferred tax assets on tax losses carried forward for which we conservatively assess that it is not likely that these will be realized in the foreseeable future.

The main difference between the theoretical tax and the effective tax for the year 2014 is primarily explained by low capital gain tax (less than 1%) under Belgian tax law, on the gain on sale of the service division (see line non-taxable revenues and effect of consolidation entries), and by the unrecognized deferred tax assets on tax losses carried forward for which we conservatively assess that it is not likely that these will be realized in the foreseeable future.

Non-taxable revenues for the years ended 31 December 2014 and 2015 are related to non-taxable subsidies and tax credits.

## 11. Discontinued operations

The following table summarizes the results from discontinued operations for the year ended 31 December 2014.

| | Year ended 31 December |
|---|---|
| (thousands of €, except share and per share data) | 2014 |
| Service revenues | 17,502 |
| Other income | 669 |
| **Total revenues and other income** | **18,171** |
| | |
| Services cost of sales | (11,283) |
| General and administrative expenses | (3,772) |
| Sales and marketing expenses | (255) |
| Restructuring and integration costs | (38) |
| Gain on sale of service division | 67,508 |
| **Operating income** | **70,331** |
| | |
| Finance result | 417 |
| | |
| **Income before tax** | **70,748** |
| | |
| Income taxes | (234) |
| | |
| **Net income from discontinued operations** | **70,514** |
| | |
| **Basic and diluted income per share from discontinued operations** | **2.34** |
| Weighted average number of shares (in thousands of shares) | 30,108 |

The service division was sold on 1 April 2014. The above table illustrates the results of the discontinued operations included in the consolidated results of operations for the years ended 31 December 2015 and 2014. For the year ended 31 December 2014, results only relate to the period from 1 January 2014 through the disposal on 1 April 2014.

Net income amounting to €70.5 million in 2014 was mainly driven by the €67.5 million gain on disposal of the service division.

Cash flows from discontinued operations can be summarized as follows:

| | Year ended 31 December |
|---|---|
| (thousands of €) | 2014 |
| Net cash flows used in operating activities | (1,722) |
| Net cash flows generated in investing activities | 122,580 |
| Net cash flows generated / used (–) in financing activities | |
| **Net cash generated** | **120,858** |

## 12. Result per share

Basic result per share and diluted result per share are calculated by dividing the net result attributable to shareholders by the weighted average number of ordinary shares issued during the year:

Income / loss per share

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2014 |
| **Result for the purpose of basic income / loss (–) per share (thousands of €)** | **(118,410)** | **33,211** |
| | | |
| **Number of shares (thousands)** | | |
| Weighted average number of shares for the purpose of basic income / loss per share | 35,700 | 30,108 |
| | | |
| **Basic income / loss (–) per share (€)** | **(3.32)** | **1.10** |
| | | |
| **Result for the purpose of diluted income / loss (–) per share (thousands of €)** | **(118,410)** | **33,211** |
| | | |
| **Number of shares (thousands)** | | |
| Weighted average number of shares for the purpose of diluted income / loss per share | 35,700 | 30,108 |
| Number of dilutive potential ordinary shares | – | – |
| | | |
| **Diluted income / loss (–) per share (€)** | **(3.32)** | **1.10** |

As our continuing operations report a net loss, the outstanding warrants (specified in note 30) have an anti-dilutive effect rather than a dilutive effect. Consequently, basic and diluted loss per share are the same.

## 13. Intangible assets

| (thousands of €) | Customer relationships | In process technology | Software & databases | Brands, licenses, patents & know-how | Total |
|---|---|---|---|---|---|
| **Acquisition value** | | | | | |
| **On 1 January 2014** | **2,055** | **5,561** | **7,681** | **17,698** | **32,993** |
| Additions | | | 728 | 15 | 743 |
| Sales and disposals | | | (503) | | (503) |
| Sale of the service division | (2,055) | | | (16,227) | (18,282) |
| Translation differences | | | 183 | 26 | 209 |
| **On 31 December 2014** | **0** | **5,561** | **8,088** | **1,512** | **15,161** |
| Additions | | | 565 | – | 565 |
| Sales and disposals | | | (1,512) | – | (1,512) |
| Reclassifications | | | – | – | – |
| Translation differences | | | 177 | 0 | 177 |
| **On 31 December 2015** | **0** | **5,561** | **7,318** | **1,512** | **14,392** |
| **Amortization and impairment** | | | | | |
| **On 1 January 2014** | **912** | **5,561** | **6,321** | **12,366** | **25,161** |
| Amortization | 25 | | 748 | 294 | 1,067 |
| Sales and disposals | | | (500) | | (500) |
| Sale of the service division | (937) | | | (11,853) | (12,790) |
| Reclassifications | | | (666) | 666 | – |
| Translation differences | | | 184 | 24 | 208 |
| **On 31 December 2014** | **–** | **5,561** | **6,087** | **1,497** | **13,147** |
| Amortization | | | 1,026 | 4 | 1,030 |
| Sales and disposals | | | (1,512) | | (1,512) |
| Reclassifications | | | – | | – |
| Translation differences | | | 177 | | 177 |
| **On 31 December 2015** | **–** | **5,561** | **5,777** | **1,501** | **12,841** |
| **Carrying amount** | | | | | |
| On 31 December 2014 | | | 2,000 | 15 | 2,015 |
| **On 31 December 2015** | | | **1,540** | **11** | **1,550** |

The intangible assets decreased by €0.5 million from €2 million as at 31 December 2014, to €1.5 million as at 31 December 2015. The amortization of €1.0 million was partly compensated by new additions of €0.5 million.

## 14. Property, plant and equipment

| (thousands of €) | Land & building improvements | Installation & machinery | Furniture, fixtures & vehicles | Other tangible assets | Total |
|---|---|---|---|---|---|
| **Acquisition value** | | | | | |
| **On 1 January 2014** | **13,898** | **52,251** | **4,455** | **3,565** | **74,169** |
| Additions | 117 | 1,155 | 104 | 685 | 2,061 |
| Sales and disposals | (1,733) | (4,549) | (73) | | (6,355) |
| Sale of the service division | (4,022) | (23,677) | (1,919) | (370) | (29,988) |
| Reclassifications | | 3,543 | 16 | (3,559) | |
| Translation differences | 26 | 97 | 11 | | 134 |
| **On 31 December 2014** | **8,286** | **28,820** | **2,594** | **321** | **40,021** |
| Additions | 2,158 | 2,250 | 285 | 1,407 | 6,100 |
| Sales and disposals | (6,395) | (5,041) | (188) | (11) | (11,635) |
| Reclassifications | – | 540 | 3 | (543) | – |
| Translation differences | – | 19 | 1 | (1) | 20 |
| **On 31 December 2015** | **4,049** | **26,588** | **2,695** | **1,174** | **34,506** |
| **Depreciations and impairment** | | | | | |
| **On 1 January 2014** | **12,715** | **36,720** | **3,086** | **2,123** | **54,644** |
| Amortization | 639 | 2,531 | 243 | 168 | 3,581 |
| Sales and disposals | (1,700) | (4,011) | (42) | | (5,753) |
| Sale of the service division | (3,694) | (17,404) | (1,247) | (299) | (22,644) |
| Reclassifications | | 1,884 | | (1,884) | |
| Translation differences | 24 | 70 | 6 | 2 | 102 |
| **On 31 December 2014** | **7,984** | **19,790** | **2,046** | **110** | **29,930** |
| Amortization | 164 | 1,873 | 272 | 63 | 2,372 |
| Sales and disposals | (6,395) | (4,996) | (188) | (7) | (11,587) |
| Reclassifications | | 44 | | (44) | – |
| Translation differences | – | 8 | | | 8 |
| **On 31 December 2015** | **1,753** | **16,718** | **2,130** | **122** | **20,724** |
| **Carrying amount** | | | | | |
| On 31 December 2014 | 302 | 9,031 | 547 | 210 | 10,091 |
| **On 31 December 2015** | **2,296** | **9,870** | **565** | **1,051** | **13,782** |

The property, plant and equipment increased from €10.1 million as at 31 December 2014 to €13.8 million as at 31 December 2015. This increase is mainly the result of new additions of €6.1 million, partly compensated by a depreciation charge of €2.4 million. The sales and disposals in 2015 relate to the move to new premises in France and the Netherlands.

There are no pledged items of property, plant and equipment. There are also no restrictions in use on any items of property, plant and equipment.

## 15. Research and Development incentives receivables

The table below illustrates the R&D incentives receivables related captions in the balance sheet as at 31 December 2015 and 2014.

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Non-current R&D incentives receivables | 49,384 | 43,944 |
| Current R&D incentives receivables | 9,161 | 7,351 |
| **Total R&D incentives receivables** | **58,545** | **51,296** |

Total R&D incentives receivables increased by €7.2 million compared to 31 December 2014. This increase is explained by new R&D incentives reported in 2015 for €14.0 million (€8.7 million related to French R&D incentives and €5.3 million related to Belgian R&D incentives) less the payment received related to French R&D incentives amounting to €6.7 million. The R&D incentives receivables relate to future refunds resulting from R&D incentives on research expenses in France and Belgium. Non-current R&D incentives receivables are discounted over the period until maturity date.

The table below provides detailed information on the maturity of the non-current R&D incentives receivables reported in the balance sheet at 31 December 2015.

**Non-current R&D incentives receivables**

| | Year ended 31 December 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Maturity date | | | | | |
| (thousands of €) | 2017 | 2018 | 2019 | 2020 | 2021–2025 | Total |
| French non-current R&D incentives receivables – nominal value | 8,185 | 8,214 | 8,621 | | | 25,020 |
| French non-current R&D incentives receivables – discounted value | 8,185 | 8,214 | 8,621 | | | 25,020 |
| | | | | | | |
| Belgian non-current R&D incentives receivables – nominal value | 1,392 | 2,176 | 3,068 | 3,933 | 13,796 | 24,364 |
| Belgian non-current R&D incentives receivables – discounted value | 1,392 | 2,176 | 3,068 | 3,930 | 13,697 | 24,262 |
| | | | | | | |
| **Total non-current R&D incentives receivables – nominal value** | **9,577** | **10,390** | **11,689** | **3,933** | **13,796** | **49,384** |
| **Total non-current R&D incentives receivables – discounted value** | **9,577** | **10,390** | **11,689** | **3,930** | **13,697** | **49,282** |

## 16. Restricted cash

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Non-current restricted cash | 1,046 | 306 |
| Current restricted cash | 6,857 | 10,422 |
| **Total restricted cash** | **7,903** | **10,728** |

Restricted cash amounted to €10.7 million on 31 December 2014, and decreased to €7.9 million on 31 December 2015. This decrease is related to (a) the release of the €3 million bank guarantee issued in 2013 for the rental of the new premises in France which expired on 30 June 2015 following the move to the new offices, (b) the payment of a claim to Charles River by decrease of the escrow account, and (c) a €0.7 million bank guarantee issued in September 2015 for the rental of new premises in the Netherlands (to replace the current premises) which will expire on 1 October 2025. Restricted cash on 31 December 2015 is related to €0.3 million and €0.7 million bank guarantees on real estate lease obligations in Belgium and in the Netherlands respectively, and to €6.9 million escrow account containing part of the proceeds from the sale of the service division in 2014 for which the release will be possible after final agreement between the parties on the exposure regarding one outstanding claim. An amount of €0.3 million has been accrued in March 2015 based on a preliminary estimate of the exposure.

## 17. Trade and other receivables and other current assets

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Trade receivables | 1,494 | 1,340 |
| Prepayments | 11 | 9 |
| Other receivables | 2,426 | 1,862 |
| **Trade and other receivables** | **3,931** | **3,211** |
| Accrued income | 2,976 | 3,242 |
| Deferred charges | 2,536 | 1,384 |
| **Other current assets** | **5,512** | **4,625** |
| **Total trade and other receivables & other current assets** | **9,443** | **7,836** |

We consider that the carrying amount of trade and other receivables approximates their fair value. The other current assets mainly include accrued income from subsidy projects and deferred charges.

## 18. Cash and cash equivalents

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Bank balances | 340,291 | 187,711 |
| Cash at hand | 22 | 1 |
| **Total cash and cash equivalents** | **340,314** | **187,712** |

We reported a cash position of €340.3 million at the end of December 2015 compared to €187.7 million at year-end 2014. Our operating and investing activities reported use of respectively €114.6 million and €4.3 million of cash in 2015 while the financing activities brought €271.4 million of cash in-flow mainly due to the proceeds of a recent global offering and concurrent listing on NASDAQ (€259.4 million) and due to warrant exercises (€12 million).

Cash and cash equivalents comprise cash in hand and short term bank deposits or short term highly liquid investments that are readily convertible to cash and are subject to an insignificant risk of changes in value. Our cash management strategy monitors and optimizes our liquidity position. Our cash management strategy may allow short term deposits with an original maturity exceeding 3 months while monitoring all liquidity aspects. Cash and cash equivalents comprise €100 million of term deposits with an original maturity longer than 3 months. All cash and cash equivalents are available upon maximum one month notice period.

## 19. Share capital

The share capital of Galapagos NV, as set forth in the articles of association, reconciles to 'Share capital' on the balance sheet as follows:

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| **On 1 January** | **157,274** | **154,542** |
| Share capital increase | 47,485 | 2,732 |
| Costs of capital increase | (19,360) | |
| **Share capital on 31 December** | **185,399** | **157,274** |
| | | |
| Aggregate share capital | 211,389 | 163,904 |
| Costs of capital increase (accumulated) | (25,990) | (6,629) |
| **Share capital on 31 December** | **185,399** | **157,274** |

Costs of capital increases are netted against the proceeds of capital increases, in accordance with IAS 32 Financial instruments: disclosure and presentation.

## History of share capital

The history of the share capital of Galapagos NV between 1 January 2014 and 31 December 2015 is as follows:

| Date | Share capital increase new shares (in thousands of €) | Share capital increase warrants (in thousands of €) | Number of shares issued (in thousands of shares) | Aggregate number of shares after transaction (in thousands of shares) | Aggregate share capital after transaction (in thousands of €) |
|---|---|---|---|---|---|
| **1 January 2014** | | | | **29,794** | **161,171** |
| 10 April 2014 | | 1,649 | 305 | | |
| 4 July 2014 | | 982 | 182 | | |
| 25 September 2014 | | 66 | 12 | | |
| 9 December 2014 | | 35 | 7 | | |
| **31 December 2014** | | | | **30,299** | **163,904** |
| 26 March 2015 | | 3,092 | 572 | | |
| 19 May 2015 | 40,751 | | 7,532 | | |
| 19 June 2015 | | 2,659 | 491 | | |
| 25 September 2015 | | 640 | 118 | | |
| 4 December 2015 | | 344 | 64 | | |
| **31 December 2015** | | | | **39,076** | **211,389** |

On 1 January 2014, Galapagos NV's share capital amounted to €161,171.6 thousand, represented by 29,794,046 shares. All shares were issued, fully paid up and of the same class.

On 10 April 2014, warrants were exercised at various exercise prices (with an average exercise price of €7.81 per warrant) resulting in a share capital increase (including issuance premium) of €2,381.2 thousand and the issuance of 304,791 new ordinary shares. The closing price of the Galapagos share at this date was €16.80.

On 4 July 2014, warrants were exercised at various exercise prices (with an average exercise price of €10.26 per warrant), resulting in a share capital increase (including issuance premium) of €1,862.3 thousand and the issuance of 181,507 new ordinary shares. The closing price of the Galapagos share on 4 July 2014, was €15.13.

On 25 September 2014, warrants were exercised at various exercise prices (with an average exercise price of €10.60 per warrant), resulting in a share capital increase (including issuance premium) of €130.0 thousand and the issuance of 12,260 new ordinary shares. The closing price of the Galapagos share at this date was €12.19.

On 9 December 2014, warrants were exercised at various exercise prices (with an average exercise price of €8.61 per warrant), resulting in a share capital increase (including issuance premium) of €56.2 thousand and the issuance of 6,525 new ordinary shares. The closing price of the Galapagos share on 9 December 2014, was €14.77.

On 31 December 2014, Galapagos NV's share capital amounted to €163,904.1 thousand, represented by 30,299,129 shares. All shares were issued, fully paid up and of the same class.

On 26 March 2015, warrants were exercised at various exercise prices (with an average exercise price of €10.18 per warrant), resulting in a share capital increase (including issuance premium) of €5,819 thousand and the issuance of 571,548 new ordinary shares. The closing price of the Galapagos share at this date was €21.26.

On 19 May 2015, Galapagos completed a global offering of 7,532,499 ordinary shares consisting of a concurrent public offering in the United States and private placement in Europe and countries other than the United States and Canada. Galapagos NV offered 5,746,000 ordinary shares through a public offering in the United States in the form of American Depositary Shares, or ADSs, at a price of $42.05 per ADS, before underwriting discounts. The ADSs are evidenced by

American Depositary Receipts, or ADRs, and each ADS represents the right to receive one ordinary share. The ADSs are listed on the NASDAQ Global Select Market under the symbol "GLPG." Galapagos offered 1,786,499 ordinary shares through a private placement in Europe and countries other than the United States and Canada at price of €37.00 per share, before underwriting discounts.

Galapagos received €278.7 million of gross proceeds from the global offering, decreased by €19.4 million of underwriter discounts and commission, and offering expenses, of which €19.3 million has been paid at 31 December 2015 and €0.1 million remains to be settled in cash. The total net cash proceeds from the global offering after remaining settlements will amount to €259.3 million.

On 19 June 2015, warrants were exercised at various exercise prices (with an average exercise price of €8.94 per warrant), resulting in a share capital increase (including issuance premium) of €4,395 thousand and the issuance of 491,406 new ordinary shares. The closing price of the Galapagos share on 19 June 2015 was €46.73.

On 25 September 2015, warrants were exercised at various exercise prices (with an average exercise price of €10.13 per warrant), resulting in a share capital increase (including issuance premium) of €1,198 thousand and the issuance of 118,260 new ordinary shares. The closing price of the Galapagos share at this date was €44.75.

On 4 December 2015, warrants were exercised at various exercise prices (with an average exercise price of €9.30 per warrant), resulting in a share capital increase (including issuance premium) of €590.8 thousand and the issuance of 63,500 new ordinary shares. The closing price of the Galapagos share on 4 December 2015, was €44.78.

On 31 December 2015, Galapagos NV's share capital amounted to €211,388.9 thousand, represented by 39,076,342 shares. All shares were issued, fully paid up and of the same class.

All of the share issuances listed above were for cash consideration.

The below table summarizes our capital increases for the years 2015 and 2014.

Issued capital

| (thousands of €, except share data) | Number of shares | Share capital | Share premium | Share capital and share premium |
|---|---|---|---|---|
| **On 1 January 2014** | **29,794,046** | **154,542** | **112,484** | **267,026** |
| **10 April 2014 : Exercise of Warrants** | **304,791** | **1,649** | **732** | **2,381** |
| **4 July 2014 : Exercise of Warrants** | **181,507** | **982** | **880** | **1,862** |
| **25 September 2014 : Exercise of Warrants** | **12,260** | **66** | **64** | **130** |
| **9 December 2014 : Exercise of Warrants** | **6,525** | **35** | **21** | **56** |
| **On 1 January 2015** | **30,299,129** | **157,274** | **114,182** | **271,456** |
| **26 March 2015: Exercise of Warrants** | **571,548** | **3,092** | **2,727** | **5,819** |
| **19 May 2015: Global Offering** | | | | |
| Ordinary shares (fully paid) | 1,786,499 | 9,665 | 56,436 | 66,100 |
| ADSs (fully paid) | 5,746,000 | 31,086 | 181,516 | 212,602 |
| Underwriter discounts and offering expenses (fully paid) | | (19,293) | | (19,293) |
| Offering expenses not yet settled in cash at 31 December 2015 | | (67) | | (67) |
| **Total Global Offering** | **7,532,499** | **21,391** | **237,952** | **259,343** |
| **19 June 2015: Exercise of Warrants** | **491,406** | **2,659** | **1,737** | **4,395** |
| **25 September 2015: Exercise of Warrants** | **118,260** | **640** | **558** | **1,198** |
| **4 December 2015: Exercise of Warrants** | **63,500** | **344** | **247** | **591** |
| **On 31 December 2015** | **39,076,342** | **185,399** | **357,402** | **542,803** |

### Other information

| | Ordinary shares | Total |
|---|---|---|
| Accounting par value of shares (€) | 5.41 | 5.41 |

The Board of Directors is authorized for a period of five years starting from the date of the Shareholders' Meeting that granted the renewed authorization, being 23 May 2011, to increase the share capital of Galapagos NV within the framework of the authorized capital through contributions in kind or in cash, with limitation or cancellation of the shareholders' preferential subscription rights. Said authorization can be renewed. The Board of Directors is currently not authorized to increase the share capital after notification by the FSMA (Financial Services and Markets Authority) of a public takeover bid on Galapagos NV's shares.

The authorized capital as approved by the Extraordinary General Shareholders' Meeting of 23 May 2011 amounted to €142,590.8 thousand. As of 31 December 2015, €72,180 thousand of the authorized capital was used, so that an amount of €70,410.7 thousand still remained available.

## 20. Other reserves

### Actuarial gains or losses recognized through other comprehensive income

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| **On 1 January** | **(220)** | **47** |
| Actuarial gains or losses (–) recognised through OCI | 202 | (267) |
| **Other reserves on 31 December** | **(18)** | **(220)** |

The other reserves amounted to a negative of €18 thousand (2014: €220 thousand) and related to the re-measurement of defined benefit obligations booked through OCI in line with IAS19R.

### Derivative financial instruments: currency derivatives

We do not actively use currency derivatives to hedge planned future cash flows. On the balance sheet date, total notional amount of outstanding forward foreign exchange contracts that we have committed are nil (2014: nil).

On 31 December 2015 the fair value of our currency derivatives is nil (2014: nil).

We do not designate our foreign currency denominated debt as a hedge instrument for the purpose of hedging the translation of our foreign operations.

See note 34 for further information on how we manage financial risks.

## 21. Translation differences

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| **On 1 January** | **(1,157)** | **170** |
| Translation differences, arisen from translating foreign activities | 690 | 460 |
| Translation differences, arisen from the sale of the service division | | (1,787) |
| **Translation differences on 31 December** | **(467)** | **(1,157)** |

Translation differences increased from a negative €1.2 million at the end of December 2014 to a negative of €0.5 million at the end of December 2015 mainly due to the increase of the GB pounds and the U.S. dollar exchange rates.

## 22. Deferred tax

| (thousands of €) | Year ended 31 December 2015 | 2014 |
|---|---|---|
| **Recognized deferred tax assets and liabilities** | | |
| **Assets** | **1,726** | **293** |
| **Liabilities** | | |
| | | |
| Continuing operations | | |
| Assets | 1,726 | 293 |
| Liabilities | | |
| | | |
| **Deferred tax assets unrecognized** | **145,513** | **104,484** |
| Continuing operations | 145,513 | 104,484 |
| Discontinued operations | | |
| | | |
| **Deferred taxes in the consolidated statement of operations** | **1,433** | **496** |
| Continuing operations | 1,433 | 293 |
| Tax benefit arising from previously unrecognized tax assets used to reduce deferred tax expense (+) | 1,433 | 293 |
| Deferred tax expenses relating to write down of previously recognized deferred tax assets | | |
| | | |
| Discontinued operations | | 203 |
| Deferred tax expenses net relating to origination and reversal of temporary differences | | 203 |
| Tax benefit arising from previously unrecognized tax assets used to reduce deferred tax expense (+) | | |

The notional interest deduction for an amount of €2.6 million (2014: €2.6 million) and the investment deduction of €1 million (2014: €1 million) could give rise to deferred tax assets. The amount of notional interest deduction that has been accumulated in the past can be carried forward for maximum seven years, the notional interest deduction of 2012 and following years will not be carried forward according to a change in the Belgian tax legislation. There is no limit in time for the investment deduction.

The consolidated unused tax losses carried forward at 31 December 2015 amounted to €434 million (2014: €315 million), €19.3 million were related to unrecognized tax losses with expiry date between 2018 and 2030.

The available statutory tax losses carried forward that can be offset against future statutory taxable profits amounted to €265 million on 31 December 2015. These statutory tax losses can be compensated with future statutory profits for an indefinite period except for an amount of €17 million in Switzerland, Croatia, the United States and The Netherlands with expiry date between 2018 and 2030. On 31 December 2015, the available tax losses carried forward in Galapagos NV (Belgium) amounted to €184 million.

For two subsidiaries operating on a cost plus basis a deferred tax asset was set up for an amount of €1.7 million in 2015 (2014: €0.3 million).

We have a history of losses. Excluding the impact of possible upfront or milestone payments to be received from collaborations, we forecast to continue incurring taxable losses in the foreseeable future as we continue to invest in clinical and pre-clinical development programs and discovery platforms. Consequently, no deferred tax asset has been set up as at 31 December 2015, except for two subsidiaries operating on a cost plus basis for which a deferred tax asset was set up (of €1.7 million as explained above).

## 23. Finance lease liabilities

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | Year ended 31 December | | Year ended 31 December | |
| (thousands of €) | 2015 | 2014 | 2015 | 2014 |
| **Amounts payable under finance lease** | | | | |
| Within one year | 56 | 58 | 52 | 52 |
| In the second to fifth years inclusive | 65 | 121 | 63 | 115 |
| After five years | | | | |
| | **121** | **179** | **115** | **167** |
| | | | | |
| Less future finance charges | 6 | 12 | | |
| **Present value of lease obligation** | **115** | **167** | | |
| | | | | |
| Less amount due for settlement within 12 months | | | 52 | 52 |
| **Amount due for settlement after 12 months** | | | **63** | **115** |

| | Net book value | | Acquisition cost | |
|---|---|---|---|---|
| | Year ended 31 December | | Year ended 31 December | |
| (thousands of €) | 2015 | 2014 | 2015 | 2014 |
| **Leased assets** | | | | |
| Installation & machinery | 109 | 161 | 251 | 295 |
| **Total leased assets** | **109** | **161** | **251** | **295** |

We lease certain of our installation and machinery under finance leases. For the year ended 31 December 2015, the average borrowing rate was 4.30% (2014: 6.27%). The interest rates were fixed at the date of the contracts. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of our lease obligations approximates their carrying value.

## 24. Trade and other liabilities

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Trade and other payables | 29,113 | 29,344 |
| Other current liabilities | 369 | 663 |
| Other non-current liabilities | 2,291 | 923 |
| Accrued charges | 490 | 585 |
| Deferred income | 39,806 | 27,026 |
| **Total trade and other liabilities** | **72,068** | **58,541** |
| | | |
| Included in current liabilities | 69,777 | 57,618 |
| Included in non-current liabilities | 2,291 | 923 |
| **Total trade and other liabilities** | **72,068** | **58,541** |

Our trade and other liabilities, amounting to €72.1 million as of 31 December 2015, increased by €13.5 million compared to the €58.5 million reported as of 31 December 2014.

The trade and other payables amounting to €29.1 million as of 31 December 2015 remained stable compared to the €29.3 million as of 31 December 2014. Nevertheless, trade payables decreased by €2.7 million compared to the same period last year which fully compensated the increase in other payables by €2.5 million as a result of higher bonus provisions.

Deferred income amounted to €39.8 million at 31 December 2015 and increased by €12.8 million compared to 31 December 2014. On the one hand we had an increase of €39 million due to the booking of the financial asset upon signing of the share subscription agreement with Gilead (see note 8). On the other hand we had a substantial decrease of €26.4 million, which can mainly be explained by revenues from non-refundable upfront payments recognized in the income statement. For the year ended 31 December 2014, €15.0 million revenue was deferred for the filgotinib program for rheumatoid arthritis and Crohn's disease with AbbVie, and €11.4 million was deferred for the CF program with AbbVie.

The outstanding deferred income balance at 31 December 2015 included €39.0 million deferred income related to the Gilead share subscription agreement, €0.8 million of discounting effects on non-current R&D incentives receivables and deferred revenues from grants.

## 25. Provisions

| (thousands of €) | Post-employment benefits (non-current) | Other provisions (non-current) | Restructuring provision (current) | Other provisions (current) | Total |
|---|---|---|---|---|---|
| **On 1 January 2015** | **14** | **57** | **32** | **73** | **176** |
| Additional provisions | – | – | – | – | – |
| Provisions utilized amounts | (7) | (10) | (35) | (73) | (125) |
| Translation differences | – | – | 4 | – | 4 |
| **On 31 December 2015** | **8** | **47** | **–** | **–** | **55** |

The decrease in provisions in 2015 is mainly due to the use of the provision for decontamination of the building in France (€0.1 million).

## 26. Operating lease obligations

We entered into lease agreements for office and laboratories which qualify as operating leases.

**Minimum lease payments under operating leases recognized in the income statement for the year**

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Continuing operations | 4,020 | 3,676 |
| Discontinued operations | | 643 |
| **Total minimum lease payments under operating leases** | **4,020** | **4,319** |

Regarding outstanding commitments for future minimum lease payments under operating leases, see off-balance sheet arrangements as explained in note 27.

## 27. Off-balance sheet arrangements

### Contractual obligations and commitments

We entered into lease agreements for office and laboratories which qualify as operating leases. We also have certain purchase commitments with CRO subcontractors principally.

On 31 December 2015, we had outstanding obligations for future minimum rent payments and purchase commitments, which become due as follows:

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| (thousands of €) | Total | Less than 1 year | 1–3 years | 3–5 years | More than 5 years |
| Operating lease obligations | 31,210 | 4,002 | 7,253 | 5,683 | 14,273 |
| Purchase commitments | 20,079 | 17,898 | 2,180 | – | – |
| **Total contractual obligations & commitments** | **51,289** | **21,901** | **9,433** | **5,683** | **14,273** |

## 28. Contingent assets and liabilities

On 13 March 2014, we announced the signing of a definitive agreement to sell the service division operations to Charles River Laboratories International, Inc. (the "Buyer") for a total consideration of up to €134 million. Charles River agreed to pay us an immediate cash consideration of €129 million. The potential earn-out of €5 million due upon achievement of a revenue target 12 months after transaction closing has not been obtained. Approximately 5% of the total consideration, including price adjustments, is being held on an escrow account. To date, four claims have been introduced by the Buyer, of which three claims have been settled for a total amount of €1.0 million. One claim is still being investigated. An amount of €0.3 million has been accrued in March 2015 based on a preliminary estimate of the exposure. The release of the escrow account will be possible after final agreement between the parties on the amounts at stake.

Following the divestment, we remain guarantor for a limited transitional period in respect of the lease obligations for certain U.K. premises amounting to £4 million future rent payments. The Buyer will fully indemnify us against all liabilities arising in connection with the lease obligation. We evaluated the risk to be remote. Finally, following common practice, we have given customary representations and warranties which are capped and limited in time.

In the course of 2008, a former director of one of the subsidiaries sued for wrongful termination and seeks damages of €1.1 million. We believe that the amount of damages claimed is unrealistically high. In 2014, the court requested an external advisor to evaluate the exact amount of damages. Considering the defense elements provided and the recent judgment in the court in our favor, our Board and management evaluated the risk to be remote to possible, but not likely. Accordingly, it was decided not to record any provision in 2015 as the exposure was considered to be limited.

# 29. Retirement benefit plans

## Defined contribution plans

We operate defined contribution systems for all of our qualifying employees. The assets of the schemes are held separately from ours in designated pension plans. For defined contribution systems, we pay contributions to publicly or privately administered pension or insurance funds. Once the contribution is paid, we do not have any remaining obligation.

Our personnel in Belgium participates in a defined contribution plan (extra-legal pension). The Belgian defined contribution pension plans are by law subject to minimum guaranteed rates of return, currently 3.25% on employer contributions and 3.75% on employee contributions. These rates, which apply as an average over the entire career, may be modified by Royal Decree. Therefore, those plans were basically accounted for as defined contribution plans.

The contributions for those plans that were due by the employer for 2015 and 2014 amounted to respectively €476.3 thousand and €465.6 thousand, of which €35.9 thousand was paid after 31 December 2015 (2014: €32.9 thousand). No contributions were made by the employees.

The plan assets as at 31 December 2015 consisted of €1,063.7 thousand individual insurance reserves, which benefit from a weighted average guaranteed interest rate of 3.0%.

As a consequence of the law of 18 December 2015, minimum returns are guaranteed by the employer as follows: (a) for the contributions paid as from 1 January 2016, a new variable minimum return based on OLO rates, with a minimum of 1.75% and a maximum of 3.75%. In review of the low rates of the OLO in the last years, the return has been initially set to 1.75%; (b) for the contributions paid until end of December 2015, the previously applied legal returns as mentioned above, continue to apply until retirement date of the employees.

In view of the minimum returns guarantees, the Belgian defined contribution plans will classify as defined benefit plans.

As at 31 December 2015 no net liability was recognized (2014: nil) in the balance sheet as the minimum rates of return to be guaranteed by the employer are closely matched by the rates of return guaranteed by the insurer.

Similar pension schemes apply to our entities in other countries, except in France. The amounts due by our continuing operations to these pension plans in 2015 were €1.5 million in total (2014: €1.5 million).

## Defined benefit plans

We use two defined benefit plans for the employees of our French entity. The defined benefit plans are not supported by funds.

The Chemical and Pharmaceutical Industry's collective bargaining agreements require that our French entity pays a retirement allowance depending on the seniority of the employees at the moment they retire. The benefit obligations for these retirement allowances amounted to €1,520.9 thousand for 2015 (2014: €1,622.3 thousand). This decrease is mainly due to changed actuarial assumptions (increase of discount rate from 1.75% to 2%).

Additionally, there are also seniority premiums paid in France. The provisions for these premiums amounted to €1,172.0 thousand in 2015 (2014: €1,242.9 thousand).

Total obligation included in the balance sheet related to the defined benefit plans amounts to €2,692.9 thousand for the year ended 31 December 2015 (2014: €2,865.2 thousand).

Actuarial gains and losses are recognized immediately on the balance sheet, with a charge or credit to other comprehensive income (OCI), in accordance with IAS 19R. They are not recycled subsequently. Actuarial gains of €201.5 thousand have been booked through other comprehensive income (OCI) at the end of 2015 (2014: €266.6 thousand of actuarial losses).

**Obligations included in the balance sheet**

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | **2015** | 2014 |
| Present value of funded defined benefit obligation | | |
| Plan assets | (1,064) | |
| Deficit / surplus | (1,064) | |
| Present value of unfunded defined benefit obligation | 2,693 | 2,865 |
| Reclassification – Belgian contribution plans | 1,064 | |
| **Liability included in the balance sheet** | **2,693** | **2,865** |

The present value of the gross obligation developed as follows:

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | **2015** | 2014 |
| Opening balance | 2,865 | 2,189 |
| | | |
| Current service cost | 194 | 228 |
| Interest cost | 50 | 65 |
| Benefits paid | (44) | (48) |
| Reclassification – Belgian contribution plans | 1,064 | |
| Actuarial gains (–) or losses due to experience adjustments | (27) | 82 |
| Actuarial gains (–) or losses due to experience adjustments related to new financial assumptions | (99) | 347 |
| Actuarial gains (–) or losses due to experience adjustments related to new demographic assumptions | (247) | 3 |
| **Closing balance** | **3,757** | **2,865** |

The fair value of the plan assets developed as follows:

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | **2015** | 2014 |
| Opening balance | | |
| Reclassification – Belgian contribution plans | (1,064) | |
| **Closing balance** | **(1,064)** | – |

Amounts recognized in profit or loss for defined benefit plans are as follows:

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Current service cost | 194 | 228 |
| Interest cost | 50 | 65 |
| Revaluations of net liability / net asset | (171) | 165 |
| **Total expense** | **73** | **457** |

Obligation included in the balance sheet reconciles as follows:

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Opening balance | 2,865 | 2,189 |
| Total expense recognized in the income statement | 73 | 457 |
| Re-measurement on the net defined benefit liability | (202) | 267 |
| Benefits paid | (44) | (48) |
| **Closing balance** | **2,693** | **2,865** |

The most important actuarial assumptions are:

| | Year ended 31 December | |
|---|---|---|
| (%) | 2015 | 2014 |
| Discount rate | 2.00% | 1.75% |
| Expected salary increase | 2.25% | 2.25% |
| Inflation rate | 1.75% | 1.75% |

The discount rate is based on the Corporate AA10+ index (first-class private sector bonds in Euro with maturity dates which correspond with the commitments).

Breakdown of defined benefit obligation by type of plan participants:

| | Year ended 31 December | |
|---|---|---|
| (number of participants) | 2015 | 2014 |
| Active plan participants | 254 | 125 |

Breakdown of defined benefit obligation by type of benefits:

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Retirement and death benefits | 2,585 | 1,622 |
| Other post-employment benefits | 1,172 | 1,243 |

Major categories of plan assets: fair value plan of assets:

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Equity | 74 | |
| Debt | 979 | |
| Cash | 11 | |

**Sensitivity analysis on discount rate: effect on obligation**

| | Year ended 31 December |
|---|---|
| Obligation (thousands of €) | 2015 |
| Discount rate 1.50% | 2,868 |
| Discount rate 1.75% | 2,779 |
| Discount rate 2.00% | 2,693 |
| Discount rate 2.25% | 2,612 |
| Discount rate 2.50% | 2,534 |

**Sensitivity analysis on discount rate: effect on obligation**

| | Year ended 31 December |
|---|---|
| Obligation (thousands of €) | 2014 |
| Discount rate 1.25% | 3,068 |
| Discount rate 1.50% | 2,964 |
| Discount rate 1.75% | 2,865 |
| Discount rate 2.00% | 2,772 |
| Discount rate 2.25% | 2,682 |

## 30. Warrant plans

Presented below is a summary of warrant plans activities for the reported periods. Various warrant plans were approved for the benefit of our employees, and for Directors and independent consultants of Galapagos NV. For warrant plans issued prior to 2011, the warrants offered to the employees and independent consultants vest according to the following schedule: 10% of the warrants vest on the date of the grant; an additional 10% vest at the first anniversary of the grant; an additional 20% vest at the second anniversary of the grant; an additional 20% vest at the third anniversary of the grant; and an additional 40% vest at the end of the third calendar year following the grant. The warrants granted under warrant plans created from 2011 up to (and including) Warrant Plan 2015 vest at the end of the third calendar year following the year of the grant, with no intermediate vesting. The warrants granted under Warrant Plan 2015 (B) and Warrant Plan 2015 RMV vest on the third anniversary of the notary deed enacting the acceptance of the warrants. The warrants offered to Directors vest over a period of 36 months at a rate of $1/36^{th}$ per month. Warrants cannot be exercised before the end of the third calendar year following the year of the grant, except for warrants granted under Warrant Plan 2015 (B) and Warrant Plan 2015 RMV, which become exercisable on the third anniversary of the notary deed enacting the acceptance of the warrants. Pursuant to a resolution adopted at the Extraordinary Shareholders'

Meeting held on 23 May 2011, a provision has been incorporated in the warrant plans, which provides that in the event of a change of control over Galapagos NV, all outstanding warrants vest immediately and will be immediately exercisable.

After the reverse 4:1 share split approved by the Shareholders' Meeting held on 29 March 2005, four warrants under Warrant Plan 2002 Belgium entitle the warrant holder to subscribe for one ordinary share. For the warrant plans created from 2005 onwards, one warrant entitles the warrant holder to subscribe for one ordinary share. In the summaries and tables below, the numbers of warrants issued under Warrant Plan 2002 Belgium are divided by four to avoid confusion in entitlements and rights.

The summaries and tables below do not take into account the warrants granted under Warrant Plan 2015 (B) (i.e. 399,000 warrants) and Warrant Plan 2015 RMV (i.e. 97,500 warrants). The warrants under these plans were offered on 22 December 2015 and per 31 December 2015 their issuance was still subject to acceptance by the beneficiaries. As per 31 December 2015, they were not yet formally accepted nor issued.

The table below sets forth a summary of warrants outstanding and exercisable at 31 December 2015, per warrant plan:

| Warrants | Allocation date | Expiry date | Exercise price (€) | Outstanding per 1 January 2015 | Granted during the year | Exercised during the year | Forfeited during the year | Expired during the year | Outstanding per 31 December 2015 | Exercisable per 31 December 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2002 B | 09.07.2004 | 01.02.2017 | 4 | 31,250 | | | | | 31,250 | 31,250 |
| 2002 B | 31.01.2005 | 01.02.2017 | 6.76 | 45,000 | | (15,000) | | | 30,000 | 30,000 |
| 2005 | 04.07.2005 | 03.07.2018 | 6.91 | 131,000 | | (11,000) | | | 120,000 | 120,000 |
| 2005 | 23.11.2005 | 22.11.2018 | 8.35 | 32,500 | | (32,500) | | | 0 | 0 |
| 2005 | 15.12.2005 | 14.12.2018 | 8.6 | 12,500 | | | | | 12,500 | 12,500 |
| 2005 | 22.11.2006 | 21.11.2019 | 8.65 | 525 | | (525) | | | 0 | 0 |
| 2006 BNL | 13.02.2006 | 12.02.2019 | 8.61 | 35,098 | | (35,098) | | | 0 | 0 |
| 2006 BNL | 04.05.2007 | 03.05.2020 | 9.22 | 7,500 | | | | | 7,500 | 7,500 |
| 2006 BNL | 28.06.2007 | 27.06.2020 | 8.65 | 735 | | | | | 735 | 735 |
| 2006 BNL | 21.12.2007 | 20.12.2020 | 7.12 | 2,100 | | (525) | | | 1,575 | 1,575 |
| 2007 | 28.06.2007 | 27.06.2015 | 8.65 | 108,126 | | (108,126) | | | 0 | 0 |
| 2007 | 28.06.2007 | 27.06.2020 | 8.65 | 104,644 | | (55,735) | | | 48,909 | 48,909 |
| 2007 RMV | 25.10.2007 | 24.10.2020 | 8.65 | 49,350 | | (5,225) | | | 44,125 | 44,125 |
| 2008 | 26.06.2008 | 25.06.2021 | 5.6 | 130,615 | | (40,700) | | | 89,915 | 89,915 |
| 2009 | 01.04.2009 | 31.03.2017 | 5.87 | 158,250 | | (115,750) | | | 42,500 | 42,500 |
| 2010 | 27.04.2010 | 26.04.2018 | 11.55 | 246,000 | | (149,700) | | | 96,300 | 96,300 |
| 2010 (B) | 27.04.2010 | 26.04.2015 | 11.55 | 185,020 | | (185,020) | | | 0 | 0 |
| 2010 (C) | 23.12.2010 | 26.04.2018 | 11.74 | 75,000 | | (75,000) | | | 0 | 0 |
| 2011 | 23.05.2011 | 22.05.2019 | 9.95 | 482,500 | | (405,000) | | | 77,500 | 77,500 |
| 2011 (B) | 23.05.2011 | 22.05.2016 | 9.95 | 127,750 | | (9,810) | | | 117,940 | 117,940 |
| 2012 | 03.09.2012 | 02.09.2020 | 14.19 | 375,490 | | | (5,000) | | 370,490 | |
| 2013 | 16.05.2013 | 15.05.2021 | 19.38 | 453,240 | | | (7,500) | | 445,740 | |
| 2013 (B) | 18.09.2013 | 17.09.2021 | 15.18 | 75,000 | | | (45,000) | | 30,000 | |
| 2014 | 25.07.2014 | 24.07.2022 | 14.54 | 571,660 | | | (15,000) | | 556,660 | |
| 2014 (B) | 14.10.2014 | 13.10.2022 | 11.93 | 150,000 | | | | | 150,000 | |
| 2015 | 30.04.2015 | 29.04.2023 | 28.75 | | 532,053 | | | | 532,053 | |
| **Total** | | | | **3,590,853** | **532,053** | **(1,244,714)** | **(72,500)** | **–** | **2,805,692** | **720,749** |

| | Warrants | Weighted average exercise price (€) |
|---|---|---|
| **Outstanding on 31 December 2013** | **3,627,076** | **11.50** |
| Exercisable on 31 December 2013 | 1,138,438 | |
| | | |
| Granted during the period | 721,660 | |
| Forfeited during the year | (252,800) | |
| Exercised during the period | (505,083) | |
| Expired during the year | | |
| **Outstanding on 31 December 2014** | **3,590,853** | **12.06** |
| Exercisable on 31 December 2014 | 1,355,213 | |
| | | |
| Granted during the period | 532,053 | |
| Forfeited during the year | (72,500) | |
| Exercised during the period | (1,244,714) | |
| Expired during the year | – | |
| **Outstanding on 31 December 2015** | **2,805,692** | **16.22** |
| Exercisable on 31 December 2015 | 720,749 | |

The table below sets forth the inputs into the valuation of the warrants.

## Warrant Plans

| | 2015 | 2014 | 2014 |
|---|---|---|---|
| | 30 Apr | 14 Oct | 25 Jul |
| Exercise price (€) | 28.75 | 11.93 | 14.54 |
| Current share price (€) | 46.09 | 10.95 | 14.38 |
| Fair value on the grant date (€) | 26.05 | 4.35 | 6.14 |
| Estimated volatility (%) | 39.2 | 38.03 | 38.76 |
| Time to expiration (years) | 8 | 8 | 8 |
| Risk free rate (%) | 0.39 | 0.58 | 0.58 |
| Expected dividends | None | None | None |

The exercise price of the warrants is determined pursuant to the applicable provisions of the Belgian Companies Code.

The estimated volatility is calculated on the basis of the historical volatility of the share price over the expected life of the warrants, validated by reference to the volatility of a representative biotech index.

The time to expiration of the warrant is calculated as the estimated duration until exercise, taking into account the specific features of the plans.

The warrants have been accounted for in accordance with International Financial Reporting Standard 2 on Share Based Payments. IFRS 2 takes effect for all warrants offered after 7 November 2002.

Our warrants expense in 2015 amounted to €5,036 thousand (2014: €2,952 thousand).

The following table provides an overview of the outstanding warrants per category of warrant holders at 31 December 2015 and 31 December 2014.

### Category

| | Year ended 31 December | |
|---|---|---|
| (number of warrants) | 2015 | 2014 |
| Non-executive directors | 115,730 | 199,070 |
| Executive team | 1,376,874 | 1,445,000 |
| Other | 1,313,088 | 1,946,783 |
| **Total warrants outstanding** | **2,805,692** | **3,590,853** |

The outstanding warrants at the end of the accounting period have an average exercise price of €16.22 (2014: €12.06) and a weighted average remaining expected life of 1,469 days (2014: 1,639 days).

## 31. Related parties

Intercompany transactions between Galapagos NV and its subsidiaries, and amongst the subsidiaries, have been eliminated in the consolidation and are not disclosed in this note.

### Trading transactions

In 2015 and 2014, Galapagos NV and its affiliates had no trading transactions with parties that are considered as related parties as defined in IAS24.

### Potential conflicts of interest between the Company and its directors

Pursuant to the decision of the Annual Shareholders' Meeting of 28 April 2015, the total maximum amount of the annual remuneration for all Directors together (other than Dr. Parekh and the CEO) for the exercise of their mandate as a Director of Galapagos NV is fixed, on an aggregate basis, at €200,000 (plus expenses). The same Annual Shareholders' Meeting granted a power of attorney to the Board to determine the remuneration of the individual Board members within the limits of said aggregate amount. Pursuant to this power of attorney, the Board determined, after discussion within the Nomination and Remuneration Committee, the allocation of the aggregate annual remuneration for Directors as follows: (a) annual remuneration for each non-executive Director (Dr. Cautreels, Dr. Van Barlingen, Mr. Rowe and Ms. Bosley): €40 thousand; and (b) additional remuneration for the chairman of the Audit Committee (Dr. Cautreels): €5 thousand. Dr. Mummery, being appointed as non-executive Director as from 30 September 2015, received €10 thousand as remuneration for the performance of her mandate during the last quarter of 2015. Dr. Parekh, the Chairman of the Board, is compensated through a consultancy agreement only (see remuneration of key management).

There are no loans between Galapagos NV and the members of its Board of Directors or its Executive Committee.

The remuneration of key management (including the CEO) is set out further below.

In 2015 (as in 2014), there were no arrangements or understandings with major shareholders pursuant to which a representative of such shareholder became a member of Galapagos NV's Board of Directors or its Executive Committee.

In 2015, a total of 116,740 warrants were issued to the Directors, of which 100,000 for the CEO; these warrants were issued by the Board of Directors within the framework of the authorized capital, in accordance with the resolution of the Shareholders' Meeting of 28 April 2015. In 2014, the total number of warrants issued to Directors was 119,260 (of which 100,000 for the CEO); these warrants were issued by the Board of Directors within the framework of the authorized capital, in accordance with the resolution of the Shareholders' Meeting of 29 April 2014. The above does not take into consideration the 152,500 warrants offered to the Directors, of which 100,000 to the CEO, under Warrant Plan 2015 (B), as these warrants were offered on 22 December 2015 subject to acceptance by the beneficiaries; as per 31 December 2015, they were not yet formally accepted nor issued.

## Remuneration of key management personnel

On 31 December 2015, the Executive Committee comprised four members: Mr. Onno van de Stolpe, Mr. Bart Filius, Dr. Piet Wigerinck and Dr. Andre Hoekema. The remuneration package of the members of the Executive Committee who were in function in the course of 2015 comprises:

| | Year ended 31 December | |
|---|---|---|
| (thousands of €, except for the number of warrants) | 2015 | 2014 |
| Short-term employee benefits (*) | 2,938 | 1,506 |
| Post-employment benefits | 144 | 184 |
| **Total benefits excluding warrants** | **3,082** | **1,690** |
| Number of warrants offered in the year | 175,000 (**) | 330,000 |

(*) includes: salaries, employer social security contributions, other short term benefits.
(**) excludes 240,000 warrants offered to the members of the Executive Committee under Warrant Plan 2015 (B), as these warrants were offered on 22 December 2015 subject to acceptance of the beneficiaries; as per 31 December 2015, they were not yet formally accepted nor issued.

The members of the Executive Committee provide their services to us on a full-time basis. Their remuneration includes all costs, including retirement contributions.

The 175,000 warrants granted in 2015 to the members of the Executive Committee were granted under Warrant Plan 2015.

The retirement benefits to the members of the Executive Committee are part of the retirement benefit scheme to which all qualified personnel are entitled; the contributions are paid as a percentage of the gross annual salary.

The Executive Committee members, together with other senior managers, are eligible to receive bonuses under the Senior Management Bonus Scheme established in 2006. Pursuant to the rules of the Senior Management Bonus Scheme, 50% of the bonus is paid immediately around year-end and the payment of the remaining 50% is deferred for three years. The deferred 50% component is dependent on the Galapagos share price change relative to the Next Biotech Index (which tracks Euronext-listed biotech companies). The Galapagos share price and Index at the start and end of the 3-year period is calculated by the average price over the preceding and last month of the 3-year period, respectively.

- If the Galapagos share price change is better than or equal to the change in the Next Biotech Index, the deferred bonus will be adjusted by the share price increase/decrease and paid out
- If the Galapagos share price change is up to 10% worse than the change in the Next Biotech Index, 50% of the deferred bonus will be adjusted by the share price increase/decrease and paid out, and the remainder will be forfeited
- If the Galapagos share price change is more than 10% worse than the change in the Next Biotech Index the deferred bonus will be forfeited

To be entitled to any deferred payment under the bonus scheme, the beneficiary must still be in our employ.

The four members of the Executive Committee (including the CEO) who were in function in the course of 2015 were paid an aggregate amount of €1,245.5 thousand in remuneration and received an aggregate amount of €1,629.5 thousand in bonuses. The aggregate bonus amount was composed of 3 parts: (a) an aggregate bonus of €488.5 thousand, being 50% of the bonus for performance over 2015 (paid in early January 2016), with the other 50% being deferred for 3 years, (b) an aggregate amount of €628.5 thousand as deferred part of the bonus for performance over 2012 (paid in early January 2016) and (c) an aggregate amount of €512.5 thousand, being 50% of the exceptional special bonus awarded for the success of the NASDAQ listing (paid in June 2015), with the other 50% being deferred for 3 years.

The six members of the Executive Committee (including the CEO) who were in function in the course of 2014 were paid an aggregate amount of €1,151.6 thousand in remuneration and received an aggregate amount of €268.6 thousand in bonuses. The aggregate bonus amount was composed of 2 parts: (a) an aggregate bonus of €234 thousand, being 50%

of the bonus for performance over 2014 (paid in early January 2015), with the other 50% being deferred for 3 years, (b) an aggregate amount of €34.6 thousand as an exceptional special bonus granted to Mr. Smith in connection with his instrumental role in the divestment of the Group's services division. No performance bonus was awarded for the year 2011, as three out of five of the corporate objectives for 2011 were not achieved. Therefore, no deferred part of the bonus for the year 2011 was paid out in 2014.

Other components of the remuneration of the Executive Committee members included contributions to our pension and health insurance schemes, company cars and certain fringe benefits of non-material value.

Only the CEO is a member of both the Executive Committee and the Board of Directors. The CEO does not receive any special remuneration for his Board membership, as this is part of his total remuneration package in his capacity as member of the Executive Committee.

No loans, quasi-loans or other guarantees were given to members of the Board and of the Executive Committee.

### Transactions with non-executive directors

Pursuant to the decision of the Annual Shareholders' Meeting of 28 April 2015, the total maximum amount of the annual remuneration for all Directors together (other than Dr. Parekh and the CEO) for the exercise of their mandate as a Director of Galapagos NV is fixed, on an aggregate basis, at €200 thousand (plus expenses). The same Annual Shareholders' Meeting granted a power of attorney to the Board to determine the remuneration of the individual Board members within the limits of said aggregate amount. Pursuant to this power of attorney, the Board determined, after discussion within the Nomination and Remuneration Committee, the allocation of the aggregate annual remuneration for Directors as follows: (a) annual remuneration for each non-executive Director (Dr. Cautreels, Dr. Van Barlingen, Mr. Rowe and Ms. Bosley): €40 thousand; and (b) additional remuneration for the chairman of the Audit Committee (Dr. Cautreels): €5 thousand. Dr. Mummery, being appointed as non-executive Director as from 30 September 2015, received €10 thousand as remuneration for the performance of her mandate during the last quarter of 2015.

In 2015, a total amount of €135 thousand was paid to the independent Directors as Board fees (2014: €145 thousand) and €5.7 thousand as expenses (2014: €17 thousand). In addition, in 2015, a total amount of €6.3 thousand was paid to a former independent Director as reimbursement of expenses disbursed during the previous financial year (no such payment was made in 2014).

In 2015 an aggregate amount of €40 thousand in Board fees was paid to the Directors who are not independent Directors and who do not represent a shareholder (2014: €20 thousand) and €5.9 thousand as expenses (2014: €6 thousand).

In case a Director attends less than 75% of the meetings of the Board of Directors, the annual compensation set out above shall be reduced pro rata the absence score of such director. This rule did not require implementation in 2015 or 2014.

Directors who represent a shareholder on the Board of Directors will only receive reimbursement for the expenses they incur for attending meetings of the Board of Directors and no other compensation or fees for their Board membership. There were no such directors in 2015 or 2014.

As of 1 August 2005, the Chairman of the Board, Dr. Parekh, receives an annual consulting fee of £50 thousand as compensation for his specific assignment to assist us in strategic positioning, financing and acquisitions, including, amongst others, the evaluation of several alternative corporate transactions, including potential company and compound acquisitions, as well as strategic alliance opportunities. Dr. Parekh does not receive other cash compensation from us, except for cash reimbursement of incurred expenses.

In 2015, 8,820 warrants were granted to independent Directors (2014: 11,340) and 7,920 warrants were granted to the other non-executive Directors (2014: 7,920). The above does not take into consideration the warrants offered to the Directors under Warrant Plan 2015 (B), as these warrants were offered on 22 December 2015 subject to acceptance by the beneficiaries; as of 31 December 2015, they were not yet formally accepted nor issued.

# 32. Consolidated companies as of 31 December 2015

| Name of the subsidiary | Country | % voting right Galapagos NV (directly or indirectly through subsidiaries) | Change in % voting right previous period (2015 vs 2014) |
|---|---|---|---|
| **Continuing operations** | | | |
| BioFocus DPI AG | Switzerland | 100% | |
| BioFocus DPI LLC | United States | 100% | |
| BioFocus, Inc. | United States | 100% | |
| Discovery Partners International GmbH | Germany | 100% | |
| Galapagos BV | The Netherlands | 100% | |
| Galapagos NV | Belgium | parent company | |
| Fidelta d.o.o. | Croatia | 100% | |
| Galapagos SASU | France | 100% | |
| Inpharmatica Ltd. | United Kingdom | 100% | |
| Xenometrix, Inc. | United States | 100% | |
| **Discontinued operations *** | | | |
| Argenta Discovery 2009 Ltd. | United Kingdom | 0% | 0% |
| BioFocus DPI (Holdings) Ltd. | United Kingdom | 0% | 0% |
| BioFocus DPI Ltd. | United Kingdom | 0% | 0% |
| Cangenix Ltd. | United Kingdom | 0% | 0% |

* On 1 April 2014 these entities were sold to Charles River.

There are no significant restrictions on the Group's ability to access or use assets, and settle liabilities of one of the Group's subsidiaries.

# 33. Company acquisitions and disposals

## Company disposals: sale of service division

On 1 April 2014, we sold our service division, comprising all service operations of BioFocus and Argenta in the UK and The Netherlands, to Charles River Laboratories International, Inc. In particular, we disposed of following companies which were previously fully consolidated: BioFocus DPI (Holdings) Ltd. and BioFocus DPI Ltd. (Saffron Walden, UK), Argenta Discovery 2009 Ltd. (Harlow, UK) and its subsidiary Cangenix Ltd. (Canterbury, UK). In addition, also certain assets from Galapagos BV (Leiden, The Netherlands) have been acquired by Charles River Laboratories International, Inc.

| (thousands of €) | 1 April 2014 |
|---|---|
| Consideration received in cash and cash equivalents | 137,760 |
| Correction on consideration still to settle | (650) |
| **Total consideration** | **137,110** |

| (thousands of €) | 1 April 2014 |
|---|---|
| Cash | 6,115 |
| Trade and other receivables | 18,165 |
| **Current assets** | **24,280** |

| (thousands of €) | 1 April 2014 |
|---|---|
| Goodwill | 39,246 |
| Fixed assets | 13,397 |
| Deferred tax assets | 4,588 |
| **Non-current assets** | **57,231** |
| Trade payables | (2,569) |
| Other payables | (5,263) |
| **Current liabilities** | **(7,832)** |
| Provisions | (604) |
| Deferred tax liabilities | (1,996) |
| Other non-current liabilities | (549) |
| **Non-current liabilities** | **(3,149)** |
| **Net assets disposed of** | **70,531** |

| (thousands of €) | 1 April 2014 |
|---|---|
| Total consideration | 137,110 |
| Net assets disposed of | (70,531) |
| Effect from Cumulative Translation Adjustments reclassified from equity | 1,787 |
| Costs associated to sale | (858) |
| **Gain on disposal** | **67,508** |

The gain on the sale is included in the income from discontinued operations for the year ended 31 December 2014.

| (thousands of €) | 1 April 2014 |
|---|---|
| Consideration received in cash and cash equivalents | 137,760 |
| Less: cash and cash equivalent balances disposed | (6,115) |
| **Total consideration received** | **131,645** |
| Costs associated to sale | (858) |
| **Cash in from disposal of subsidiaries, net of cash disposed** | **130,787** |

# 34. Financial risk management

See "Risk factors" for additional details on general risk factors.

## Financial risk factors

Our financial risks are managed centrally. Our finance department coordinates the access to national and international financial markets and considers and manages continuously the financial risks concerning our activities. These relate to the financial markets risk, credit risk, liquidity risk and currency risk. There are no other important risks, such as interest rate risk, because we have nearly no financial debt and have a strong cash position. We do not buy or trade financial instruments for speculative purposes.

Categories of material financial assets and liabilities:

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| **Financial assets** | | |
| Cash at bank and in hand | 340,314 | 187,712 |
| Restricted cash (current and non-current) | 7,903 | 10,728 |
| Trade receivables | 1,494 | 1,340 |
| R&D incentives receivables (current and non-current) | 58,545 | 51,296 |
| Current financial asset from share subscription agreement | 8,371 | |
| Other amounts receivable | 2,426 | 1,862 |
| **Total financial assets** | **419,052** | **252,937** |
| | | |
| **Financial liabilities** | | |
| Trade and other payables | 29,482 | 30,007 |
| Other non-current liabilities | 2,291 | 923 |
| Leasing debts | 115 | 167 |
| Tax payable | 2,583 | 2,582 |
| **Total financial liabilities** | **34,471** | **33,679** |

## Share subscription agreement with Gilead

We have been temporarily exposed to financial market and currency risk through our share subscription agreement with Gilead.

On 16 December 2015, Gilead Sciences, Inc. and Galapagos NV entered into a global collaboration for the development and commercialization of filgotinib, in the framework of which Gilead committed to an upfront payment of $725 million consisting of a license fee of $300 million and a $425 million equity investment in Galapagos NV by subscribing to new shares at a price of €58 per share, including issuance premium. This agreement was effectively completed and entered into force 19 January 2016 and full payment was received.

In connection with the agreement, we recognized a deferred income and an offsetting short term financial asset (derivative) of €39 million upon signing of the share subscription agreement with Gilead as required under IAS 39. This financial asset initially reflects the share premium that Gilead committed to pay above the closing stock price of Galapagos on the day of entering into the subscription agreement. This amount also represents a deferred income that will be recognized in revenues at the same rhythm than the $300 million upfront payment for the license.

The fair value of this derivative financial asset was initially measured on 16 December 2015, based on the implied value of the Galapagos share at the end of January 2016, the implied volatility of the EUR/USD currency exchange rates and applicable discount rates.

Under IAS 39 the fair value of the derivative financial asset is re-measured at year end and again upon entering into force of the subscription agreement on 19 January 2016, when the financial asset expired. Variations in fair value of the financial asset are recorded in the income statement.

The decrease in the fair value of the financial asset resulting from the increase in the Galapagos share price between signing of the subscription agreement and 31 December 2015 resulted in a non-cash, fair value re-measurement of €30.6 million in the financial results. On 31 December 2015, the fair value of the financial asset was re-measured based on the implied value of the Galapagos share at the end of January 2016, the implied volatility of the EUR/USD currency exchange rates and applicable discount rates.

On 19 January 2016, the transaction was officially completed materialized by the share subscription of Gilead Biopharmaceutics Ireland Unlimited Company, of 6,760,701 new ordinary shares of Galapagos NV at a price of € 58.00 per share including share premium, amounting to $425 million converted to € 392,120,658 at a EUR/USD exchange rate of 1.0839.

The increase in the fair value of the financial asset resulting from the decrease in the Galapagos share price between 1 January 2016 and 19 January 2016 will result in a positive non-cash gain of €57.5 million in the financial result of the first quarter of 2016.

## Liquidity risk

Our consolidated balance sheet shows an amount of €177.3 million as incurred losses at the end of 2015. Management forecasts our liquidity requirements to ensure that we have sufficient cash to meet operational needs. We have no credit lines. Such forecasting is based on realistic assumptions with regards to milestone and upfront payments to be received, taking into account our past track record, including the assumption that not all new projects that are being planned will be realized.

## Credit risk

The term "credit risk" refers to the risk that counterparty will default on its contractual obligations resulting in financial loss for us.

The trade receivables consist of a limited amount of creditworthy customers, many of which are large pharmaceutical companies, spread over different geographical areas. To limit the risk of financial losses, we have developed a policy of only dealing with creditworthy counterparties.

We grant credit to our clients in the framework of our normal business activities. Usually, we require no pledge or other collateral to cover the amounts due. Management continuously evaluates the client portfolio for creditworthiness. All receivables are considered collectable, except for these for which a provision for doubtful debtors has been established.

**Aging balance of receivables that are due, but that are still considered collectable**

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| 60–90 days | 86 | 17 |
| 90–120 days | | |
| more than 120 days | 17 | 45 |

Our cash and cash equivalents are invested primarily in saving and deposit accounts. Saving and deposit accounts generate a small amount of interest income. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted at the beginning of the term.

### Interest rate risk

We are not currently exposed to significant interest rate risk. The only variable interest-bearing financial asset is cash at banks. The effect of an increase or decrease in interest rates would only have an immaterial effect in profit or loss.

### Foreign exchange risk

We are exposed to foreign exchange risk arising from various currency exposures. Our functional currency is euro, but we receive payments from our main business partner AbbVie in U.S. dollar and acquire some consumables and materials in U.S. dollars, Swiss francs, GB pounds and Croatian kuna.

To limit this risk, we attempt to align incoming and outgoing cash flows in currencies other than EUR. In addition, contracts closed by our different entities are mainly in the functional currencies of that entity, except for the alliance agreements signed with AbbVie for which payments are denominated in U.S. dollars.

In order to further reduce this risk, we implemented a netting system in the course of 2012, which restrains intra-group payments between entities with a different functional currency.

The exchange rate risk in case of a 10% change in the exchange rate amounts to:

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| **Net book value** | | |
| Increase in Euros – US Dollars | 506 | 589 |
| Increase in Euros – GB Pounds | 164 | 138 |
| Increase in Euros – CH Francs | 169 | 181 |
| Increase in Euros – HR Kunas | (50) | 215 |
| Increase in CH Francs – GB Pounds | – | |
| Increase in HR Kunas – GB Pounds | – | |
| Increase in US Dollars – GB Pounds | (907) | (807) |

## Capital risk factors

We manage our capital to safeguard that we will be able to continue as a going concern. At the same time, we want to ensure the return to our shareholders through the results from our research and development activities.

Our capital structure consists of cash at bank and in hand and cash equivalents, financial debt (which currently we barely have: as of 31 December 2015, we have no financial debt other than finance leases and advances from Oseo, a French public organization for innovation support, for €0.4 million), and equity attributed to the holders of our equity instruments, such as capital, reserves and results carried forward, as mentioned in the consolidated statement of changes in equity.

We manage our capital structure and make the necessary adjustments in the light of changes of economic circumstances, the risk characteristics of underlying assets and the projected cash needs of the current research and development activities.

The adequacy of the capital structure will depend on many factors, including scientific progress in the research and development programs, the magnitude of those programs, the commitments to existing and new clinical CROs, the ability to establish new alliance or collaboration agreements, the capital expenditures, market developments and any future acquisition.

Neither Galapagos NV nor any of its subsidiaries are subject to any externally imposed capital requirements, other than those imposed by generally applicable company law requirements.

## 35. Auditor's remuneration

The Auditor's fees for carrying out his mandate at Group level amounted to €235.0 thousand in 2015 (2014: €80.0 thousand). The fees for audit-related services executed by the Auditor, in particular other assurance engagements primarily related to the Nasdaq IPO, amounted to €538.4 thousand in 2015 (2014: €117.3 thousand). Fees for persons related to the Auditor for carrying out an auditor's mandate at Group level amounted to €45.0 thousand in 2015 (2014: €40.8 thousand). The fees paid in 2015 for non-audit services for the Group by persons related to the auditor for tax and advisory services amounted to €7.9 thousand (2014: €9.8 thousand). The Audit Committee and the Board of Directors are of the opinion that these non-audit services do not affect the independence of the Auditor in the performance of his audit. The abovementioned additional fees were fully approved by the Audit Committee in accordance with article 133 §6 of the Belgian Companies Code.

## 36. Events after balance sheet date

On 16 December 2015, we entered into a global partnership with Gilead Sciences, Inc. for the development and commercialization of the JAK1-selective inhibitor filgotinib for inflammatory indications. On 19 January 2016, we completed the closing of the global collaboration agreement with Gilead Sciences, Inc. in the framework of which Gilead Biopharmaceutics Ireland Unlimited Company made a $425 million (or €392 million) equity investment in Galapagos NV by subscribing to new shares at a price of €58 per share, including issuance premium. This resulted in Gilead owning 6,760,701 shares of Galapagos NV, representing 14.75% of the then outstanding share capital of Galapagos. We also received a license fee of $300 million. In addition, we are eligible for development and regulatory milestone-based payments of up to $755 million and sales-based milestone payments of up to $600 million, with tiered royalties starting at 20% and a profit split in co-promotion territories.

The subsequent increase in the fair value of the derivative financial asset initially recognized upon signing of the subscription agreement with Gilead, resulting from the decrease in the Galapagos share price between 1 January 2016 and 19 January 2016 will result in a positive, non-cash fair value re-measurement of €57.5 million in the financial result of the first quarter of 2016 (see note 8 and 34).

On 26 January 2016, we announced the results of the ORIGIN Phase 2a study with GLPG1205, which confirmed good pharmacokinetics, safety and tolerability. The endpoints for efficacy in patients with ulcerative colitis (UC), however, were not met and we resolved to discontinue clinical development of GLPG1205 in UC.

On 21 December 2015, our Board of Directors conditionally issued up to 700,000 warrants (subject to acceptance by the beneficiaries) within the framework of the authorized capital, for the benefit of our Directors and an independent consultant, and of our employees under new warrant plans ("Warrant Plan 2015 (B)" and "Warrant Plan 2015 RMV"). The offer of warrants to the Directors and to the members of the Executive Committee under Warrant Plan 2015 (B) was approved by the Special Shareholders' Meeting of 22 December 2015. The warrants to be issued under Warrant Plan 2015 (B) and Warrant Plan 2015 RMV have a term of eight years and an exercise price of €49.00. The acceptance of 496,500 warrants in the aggregate under these two warrant plans was enacted on 2 March 2016.

Our consolidated financial statements were approved by the Board of Directors and authorized for publication, on 21 March 2016. They were signed on behalf of the Board of Directors by:

(signed)
**Onno van de Stolpe**
Managing Director and CEO
21 March 2016

# Non-consolidated financial statements

Statement of profit and loss

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2015 | 2014 |
| Turnover | 59,871 | 63,033 |
| Internally generated intangible assets | 118,010 | 94,295 |
| Other operating income | 15,196 | 15,332 |
| **Operating income** | **193,076** | **172,661** |
| Raw materials, consumables and goods for resale | (4,441) | (3,706) |
| Services and other goods | (131,678) | (96,690) |
| Remuneration, social security costs and pensions | (15,684) | (13,689) |
| Depreciation, impairment and other amounts written off on constitution costs, intangible and tangible assets | (82,597) | (76,847) |
| Other operating charges | (8,471) | (6,628) |
| **Operating profit / loss (–)** | **(49,795)** | **(24,899)** |
| Finance income | 1,551 | 108,110 |
| Finance cost | (1,247) | (1,118) |
| **Profit / loss (–) on ordinary activities before taxes** | **(49,491)** | **82,093** |
| Extraordinary income | 0 | 6 |
| Extraordinary cost | (13,510) | (19,705) |
| **Profit / loss (–) before taxes** | **(63,001)** | **62,394** |
| Taxes | | (436) |
| **Profit / loss (–) for the year** | **(63,001)** | **61,958** |
| Loss brought forward | (69,756) | (131,714) |
| **Accumulated losses to be carried forward** | **(132,756)** | **(69,756)** |

Balance sheet

| (thousands of €) | As at 31 December 2015 | 2014 |
|---|---|---|
| **Assets** | | |
| | | |
| **Non-current assets** | **192,641** | **168,717** |
| Intangible fixed assets | 154,455 | 131,423 |
| Tangible fixed assets | 3,379 | 3,227 |
| Financial fixed assets | 34,807 | 34,067 |
| | | |
| **Current assets** | **375,857** | **219,266** |
| Inventories | 317 | 276 |
| Trade and other receivables | 8,034 | 1,898 |
| Deferred costs | 469 | 429 |
| Accrued income | 27,626 | 22,615 |
| Cash and cash equivalents | 339,411 | 194,046 |
| **Total assets** | **568,498** | **387,983** |
| | | |
| **Equity and liabilities** | | |
| | | |
| **Equity** | **434,758** | **207,276** |
| Share capital and reserves | 211,389 | 163,904 |
| Share premium account | 351,442 | 108,222 |
| Accumulated losses | (132,756) | (69,756) |
| Investment grants | 4,683 | 4,906 |
| | | |
| **Liabilities** | **133,740** | **180,707** |
| **Non-current liabilities** | **1,234** | **413** |
| Obligations under finance lease (non-current) | 63 | 115 |
| Other liabilities | 1,171 | 298 |
| **Current liabilities** | **132,506** | **180,294** |
| Trade and other payables | 56,466 | 53,178 |
| Obligations under finance lease (current) | 52 | 52 |
| Tax, payroll and social security liabilities | 3,619 | 2,723 |
| Accrued costs | 369 | 468 |
| Deferred income | 72,000 | 123,873 |
| **Total equity and liabilities** | **568,498** | **387,983** |

The non-consolidated annual accounts of Galapagos NV were prepared in accordance with Belgian accounting rules as well as with the legal and regulatory requirements. They show a negative result. The financial year 2015 closed with a loss of €63.0 million compared to a profit of €62.0 million in 2014. The recorded net profit in 2014 can entirely be explained by a substantial gain on the sale of the service division. Overall, the result of Galapagos NV is largely affected by the fact that, as from financial year 2010, Galapagos NV capitalizes some of its R&D expenses and revenues that are

eligible for such capitalization under Belgian GAAP. This capitalization positively impacted the net result of Galapagos NV by €55.0 million in 2015, compared to a positive impact of €12.1 million in 2014. The non-consolidated annual accounts of Galapagos NV show accumulated losses of €132.8 million as at 31 December 2015; we refer to the Going Concern Statement for justification for the application of the valuation rules under the going concern assumption.

# Report of the statutory auditor

## Statutory auditor's report to the shareholders' meeting on the consolidated financial statements for the year ended 31 December 2015

### To the shareholders

As required by law, we report to you in the context of our appointment as the company's statutory auditor. This report includes our report on the consolidated financial statements together with our report on other legal and regulatory requirements. These consolidated financial statements comprise the consolidated statements of financial position as at 31 December 2015, the consolidated income statement and statement of comprehensive income, the consolidated cash flow statements and the consolidated statements of changes in equity for the year then ended, as well as the summary of significant accounting policies and other explanatory notes.

## Report on the consolidated financial statements – Unqualified opinion

We have audited the consolidated financial statements of Galapagos NV ("the company") and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium. The consolidated statement of financial position shows total assets of 442,514 (000) EUR and the consolidated income statement shows a consolidated loss for the year then ended of 118,410 (000) EUR.

### Board of directors' responsibility for the preparation of the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Statutory auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the group's preparation and fair presentation of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements. We have obtained from the group's officials and the board of directors the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Unqualified opinion

In our opinion, the consolidated financial statements of Galapagos NV give a true and fair view of the group's net equity and financial position as of 31 December 2015, and of its results and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

## Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements.

As part of our mandate and in accordance with the Belgian standard complementary to the International Standards on Auditing applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we make the following additional statement, which does not modify the scope of our opinion on the consolidated financial statements:

- The directors' report on the consolidated financial statements includes the information required by law, is consistent with the consolidated financial statements and is free from material inconsistencies with the information that we became aware of during the performance of our mandate.

Diegem, 23 March 2016
**The statutory auditor**

**DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises**
BV o.v.v.e. CVBA / SC s.f.d. SCRL
Represented by Gert Vanhees

# Glossary of terms

## ACR

American College of Rheumatology

## ACR20 (ACR 20/50/70)

American College of Rheumatology 20% response rate signifies a 20% or greater improvement in the number of swollen and tender joints as well as a 20% or greater improvement in three out of five other disease-activity measures. ACR 50 and ACR70 reflect the same, for 50% and 70% response rates, respectively

## ADR

American Depositary Receipt; Galapagos has a Level 3 ADR listed on NASDAQ with ticker symbol GLPG and CUSIP number 36315X101. One ADR is equivalent to one ordinary share in Galapagos NV

## Atherogenic index

Total cholesterol over HDL ratio. Improvement of the atherogenic index may be a forecast of cardiovascular health

## Attrition rate

The historical success rate for drug discovery and development, based on publicly known development paths. Statistically seen, investment in at least 12 target-based programs is required to ensure that at least one of these will reach a Phase 3 study. Most new drug R&D programs are discontinued before reaching Phase 3 because they are not successful enough to be approved

## BID dosing

Twice daily dosing (*bis in die*)

## Bioavailability

Assessment of the amount of (candidate) drug that reaches a body's systemic circulation after (oral) administration

## Biomarker

Substance used as an indicator of a biological process, particularly to determine whether a candidate drug has a (desired) biological effect

## Black & Scholes model

A mathematical description of financial markets and derivative investment instruments that is widely used in the pricing of European options and warrants

## Candidate drug

Substance that has satisfied the requirements of early pre-clinical testing and has been selected for development, starting with formal preclinical safety evaluation followed by clinical testing for the treatment of a certain disorder in humans

## Crohn's disease (CD)

An inflammatory bowel disease involving inflammation of the small and large intestines, leading to pain, bleeding, and ultimately in some cases surgical removal of parts of the bowel

## CFTR

**C**ystic **F**ibrosis **T**ransmembrane conductance **R**egulator protein. CFTR is an ion channel that transports chloride and thiocyanate ions across epithelial cell membranes. Mutations in the CFTR gene, that codes for the CFTR protein, cause cystic fibrosis

## CIR

*Crédit d'Impôt Recherche,* or research credit. Under the CIR, the French government refunds up to 30% of the annual investment in French R&D operations, over a period of three years. Galapagos benefits from the CIR through its operations in Romainville, just outside Paris

## Class II mutation

A genetic mutation in cystic fibrosis resulting in errors in CFTR folding, transport of functional CFTR to the cell membrane, and CFTR channel opening, whereby chloride ion flow at the cell surface in the membrane of affected organs is impacted negatively. More than 90% of cystic fibrosis patients are carriers of the Class II mutation. It is believed that a potentiator and multiple correctors will be needed to address the CFTR malfunction of Class II mutation patients. Orkambi is the only approved disease-modifying therapy for Class II mutation patients today

## Class III mutation

A genetic mutation in cystic fibrosis resulting in errors in CFTR channel opening, whereby chloride ion flow at the cell surface in the membrane of affected organs is impacted negatively. Approximately 4% of cystic fibrosis patients are carriers of the Class III mutation. It is believed that a potentiator is needed to address the malfunction of Class III mutation patients. Kalydeco is the only approved disease-modifying therapy for Class III mutation patients today

## Clinical Proof of Concept (PoC)

Point in the drug development process where the candidate drug shows efficacy in a therapeutic setting

## Compound

A chemical substance, often a small molecule with drug-like properties

## Contract research organization

Organization which provides drug discovery and development services

## Corrector drug

Drug that restores the correct protein formation in cystic fibrosis patients. In most CF patients, a potentiator and corrector drug are needed in combination to restore the channel function of the CFTR. Galapagos and AbbVie are planning to combine a potentiator with two correctors to treat CF patients with the most prevalent mutation of CFTR

## CRP

C-reactive protein is a protein found in the blood, the levels of which rise in response to inflammation

## Cystic fibrosis (CF)

A life-threatening genetic disease that affects approximately 80,000 people worldwide. Although the disease affects the entire body, difficulty breathing is the most serious symptom as a result of clogging of the airways due to mucus build-up and frequent lung infections

## DAS28

DAS28 is an RA Disease Activity Score based on a calculation that uses tender and swollen joint counts of 28 defined joints, the physician's global health assessment and a serum marker for inflammation, such as C-reactive protein

## Development

All activities required to bring a new drug to the market. This includes pre-clinical and clinical development research, chemical and pharmaceutical development and regulatory filings of drug candidates

## Discovery

Process by which new medicines are discovered and/or designed. At Galapagos, this is the department that oversees target and drug discovery research through to nomination of pre-clinical candidates

## Disease-modifying

Addresses the cause of disease and modifying the disease progression, not just the symptoms of the disease

## Dose-range finding study

Phase 2 clinical study exploring the trade-offs between efficacy and safety among various doses of treatment in patients. Results are used to determine doses for later studies

## Drug development

See: Development

## Drug discovery

See: Discovery

## Efficacy

Effectiveness for intended use

## EMA

European Medicines Agency, in charge of European market authorization of new medication

## FDA

The U.S. Food and Drug Administration is an agency responsible for protecting and promoting public health and in charge of American market authorization of new medication

## Fee-for-service

Payment system where the service provider is paid a specific amount for each procedure or service performed

## FIH

First-in-human clinical trial, usually conducted in healthy volunteers with the aim to assess the safety, tolerability and pharmacokinetics of the candidate drug

## Filgotinib

Formerly known as GLPG0634. Small molecule selective JAK1 inhibitor which showed excellent efficacy and safety in rheumatoid arthritis and Crohn's disease patients in Phase 2 trials. Currently completing the FITZROY Phase 2 trial, with week 20 topline results expected in April 2016. Filgotinib is partnered with Gilead. Galapagos and Gilead expect to start Phase 3 trials with filgotinib in RA and Crohn's in the course of 2016.

## FSMA

The Belgian market authority: Financial Services and Markets Authority, or Autoriteit voor Financiële Diensten en Markten

## FTE

Full-time equivalent; a way to measure a worker's involvement in a project. For example, an FTE of 1.0 means that the equivalent work of one full-time worker was used on the project

## GLPG0634

Molecule number nowadays known as filgotinib

## GLPG1205

Novel mode-of-action medicine, fully owned by Galapagos. GLPG1205 did not meet the primary endpoint in a Phase 2 proof-of-concept study in ulcerative colitis in 2016. Galapagos is exploring other possible indications for GLPG1205

## GLPG1690

A novel drug targeting autotaxin, with potential applications in idiopathic pulmonary fibrosis. Fully proprietary to Galapagos. Testing in Phase 2 proof-of-concept study in IPF expected to start shortly

## GLPG1837

A potentiator drug currently in Phase 2 in Class III cystic fibrosis mutation patients.

## GLPG1972

A novel mode-of-action drug currently in pre-clinical candidate stage, is part of the osteoarthritis alliance with Servier. GLPG1972 entered Phase 1 in November 2015

## GLPG2222

A corrector drug currently in Phase 1.

## IBD

Inflammatory Bowel Disease. This is a general term for an autoimmune disease affecting the bowel, including Crohn's disease and ulcerative colitis. Crohn's disease affects the small and large intestine, while ulcerative colitis affects the large intestine. Both diseases involve inflammation of the intestinal wall, leading to pain, bleeding, and ultimately in some cases surgical removal of part of the bowel

## IPF

Idiopathic pulmonary fibrosis. A chronic and ultimately fatal disease characterized by a progressive decline in lung function. Pulmonary fibrosis involves scarring of lung tissue and is the cause of shortness of breath. Fibrosis is usually associated with a poor prognosis. The term "idiopathic" is used because the cause of pulmonary fibrosis is still unknown

## Inflammatory diseases

A large, unrelated group of disorders associated with abnormalities in inflammation

## In-/out-licensing

Receiving/granting permission from/to another company or institution to use a brand name, patent, or other proprietary right, in exchange for a fee and/or royalty

## Intellectual property

Creations of the mind that have commercial value and are protected by patents, trademarks or copyrights

## Intersegment

Occurring between the different operations of a company

## Investigational New Drug (IND) application

United States Federal law requires a pharmaceutical company to obtain an exemption to ship an experimental drug across state lines, usually to clinical investigators, before a marketing application for the drug has been approved. The IND is the means by which the sponsor technically obtains this exemption, allowing them to perform clinical studies

## JAK

Janus kinases (JAK) are critical components of signaling mechanisms utilized by a number of cytokines and growth factors, including those that are elevated in rheumatoid arthritis

## Milestone

Major achievement in a project or program; in Galapagos' alliances, this is usually associated with a payment

## MTX

Methotrexate

## Molecule collections

Chemical libraries, usually consisting of drug-like small molecules that are designed to interact with to specific target classes. These collections can be screened against a target to generate initial "hits" in a drug discovery program

## MOR106

A novel mode-of-action antibody currently in pre-clinical candidate stage, is being developed in inflammatory diseases and part of the alliance with MorphoSys. MOR106 is expected to enter Phase 1 in 2016

## NDA

New Drug Application

## Oral dosing

Administration of medicine by the mouth, either as a solution or solid (capsule, pill) form

## Osteoarthritis

The most common form of arthritis, usually occurring after middle age, marked by chronic breakdown of cartilage in the joints leading to pain, stiffness, and swelling

## Outsourcing

Contracting work to a third party

## Pharmacokinetics (PK)

Study of what a body does to a drug; the fate of a substance delivered to a body. This includes absorption, distribution to the tissues, metabolism and excretion. These processes determine the blood concentration of the drug and its metabolite(s) as a function of time from dosing

## Phase 1

First stage of clinical testing of a potential new treatment designed to assess the safety and tolerability, pharmacokinetics of a drug, usually performed in a small number of healthy human volunteers

## Phase 2

Second stage of clinical testing, usually performed in 20-300 patients, in order to determine efficacy, tolerability and the most effective dose to use

## Phase 3

Large clinical trials, usually conducted in 300-3000 patients to gain a definitive understanding of the efficacy and tolerability of the candidate treatment by comparing it to the "gold standard" treatment; serves as the principal basis for regulatory approval

## Placebo-controlled

A clinical study can only show statistical significance when the effect of a candidate drug is measured against that of a placebo, a substance having no pharmacological effect but administered as a control in testing experimentally or clinically the efficacy of a biologically active preparation

## Potentiator drug

Drug that restores the CFTR ion channel opening in cystic fibrosis patients. In most CF patients, a potentiator and corrector drug are needed in combination to restore the genetic defect causing CF. Galapagos and AbbVie are planning to combine a potentiator with two correctors to treat CF patients with the most prevalent mutation of CFTR

## Pre-clinical

Stage of drug research development, undertaken prior to the administration of the drug to humans. Consists of *in vitro* and *in vivo* screening, pharmacokinetics, toxicology, and chemical upscaling

## Pre-clinical candidate (PCC)

A new molecule and potential drug that meets chemical and biological criteria to begin the development process

## Rheumatoid arthritis (RA)

A chronic, systemic inflammatory disease that causes joint inflammation, and usually leads to cartilage destruction, bone erosion and disability

## R&D operations

Research and development operations; unit responsible for discovery and developing new candidate drugs for internal pipeline or as part of risk/reward sharing alliances with partners

## Screening

Method usually applied at the beginning of a drug discovery campaign, where a target is tested in a biochemical assay against a series of small molecules or antibodies to obtain an initial set of "hits" that show activity against the target. These hits are then further tested or optimized

## Service operations

Business unit primarily focused on delivering products and conducting fee-for-service work for clients. Galapagos' service operations included the BioFocus and Argenta business units, which were both sold in April 2014 to Charles River Laboratories

## Target

Protein that has been shown to be involved in a disease process and forms the basis of therapeutic intervention or drug discovery

## Target discovery

Identification and validation of proteins that have been shown to play a role in a disease process

## Technology access fee

License payment made in return for access to specific technology (e.g. compound or virus collections)

## TNF

Tumor necrosis factor

## Ulcerative colitis (UC)

UC is an inflammatory bowel disease (IBD) causing chronic inflammation of the lining of the colon and rectum (unlike CD with inflammation throughout the gastrointestinal tract)

# Financial calendar

## 26 April 2016

Annual Shareholders' Meeting in Mechelen

## 29 April 2016

First Quarter 2016 Results

## 29 July 2016

First Half 2016 Results

## 28 October 2016

Third Quarter 2016 Results

## 3 March 2017

Full Year 2016 Results

# Colophon

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# Contact

**Elizabeth Goodwin**
Vice President Investor Relations & Corporate Communications
Galapagos NV
Generaal De Wittelaan L11 A3
2800 Mechelen, Belgium
Tel. +32 15 34 29 00
Mob. +1 781 460 1784
Email: ir@glpg.com