Galápagos

# Annual Report 2017

# This is just the beginning

# Contents

# The Galapagos group

## An overview of Galapagos, its strategy and portfolio in 2017

All **breakthroughs** have their

# **beginnings**


Hearing aid (1875-1950); Single microscope, Antoni van Leeuwenhoek (1673-1723); Bottle with penicillin, Royal Dutch Yeast and Spiritus factory (1950-1975); Artificial kidney, Willem Johan Kolff (1943); Heart valve prosthesis (1970-1990).

# Letter from the management

Dear shareholder,

We look back on another very successful execution year at Galapagos. Our strategy is to leverage our innovative target discovery platform to develop breakthrough drugs and ultimately deliver these to patients with large unmet need. Our successes with filgotinib in rheumatoid arthritis and Crohn's disease in previous years showed that JAK1 inhibition can make a difference. In 2017, we showed that GLPG1690 (autotaxin inhibitor) halted IPF disease progression in the FLORA trial, as well as a marked reduction of signs and symptoms in atopic dermatitis patients with MOR106 (IL-17C inhibitor). As such, we delivered two new proofs of platform for our approach to finding novel medicines next to filgotinib.

But this is just the beginning. We continue to discover new modes of action, and plan to bring them all the way to patients. We use our proprietary target discovery technology to identify novel target proteins that play a crucial role in diseases with high unmet medical need. These targets are then used as the starting points to develop new mode of action medicines. In this way, we strive to create a leading innovative position in disease areas like inflammation and fibrosis.

The coming year will be data-rich, as we expect the first Phase 3 data with filgotinib in rheumatoid arthritis, along with an interim decision to move to Phase 3 in the ulcerative colitis trial and readouts in our trials in ankylosing spondylitis and psoriatic arthritis. In cystic fibrosis, we will see topline results from the PELICAN trial and a first interim readout with FALCON, a patient trial of our first triple combination therapy in cystic fibrosis. We expect to launch pivotal trials with GLPG1690 in IPF, building our fully proprietary IPF franchise. And by moving GLPG1205, GLPG1972, MOR106, and more CF triple combinations into Phase 2 trials, we set the foundations for the next set of clinical results. Meanwhile, we continue to expand our organization to be able to execute the increasing number of clinical trials and to be ready for market introduction of our candidate medicines.

Galapagos ended 2017 with an extraordinarily strong balance sheet. We are continuing to grow our late stage development organization to execute on our successful programs. Now with the decision to co-promote filgotinib in Europe with Gilead, we have started to build a commercial organization. While key programs are financed by our collaboration partners, the share of proprietary late stage development is expected to grow. During 2018 we expect to be running 13 Phase 2 trials. All of this will contribute to our financial guidance for operational cash burn between €220 – €240 million in 2018.

Proudly we present our annual report 2017, reflecting the substantial progress made last year.

## R&D

### In the field of inflammation:

- We and Gilead initiated patient trials in 8 new indications with our selective JAK1 inhibitor filgotinib
- We opted in to co-promote filgotinib together with Gilead in Germany, France, Italy, Spain, the United Kingdom, Belgium, the Netherlands, and Luxembourg, should filgotinib be approved for commercial sale
- We and Gilead reported consistent safety findings and durable activity with filgotinib treatment up to 84 weeks in the DARWIN 3 long term extension Phase 2b trial in rheumatoid arthritis patients
- We and MorphoSys reported favorable tolerability and promising activity with human monoclonal antibody MOR106 (targeting IL-17C) in a Phase 1b trial in atopic dermatitis patients
- We reported that ADAMTS-5 inhibitor GLPG1972 was well tolerated and showed a dose dependent decrease in ARGS neoepitope, a cartilage breakdown biomarker, in blood serum of osteoarthritis patients
- Servier in-licensed ex-U.S. rights to GLPG1972
- We nominated pre-clinical candidates GLPG3121, GLPG3312, and GLPG3667 in inflammation

### In fibrosis:

- We reported halt of disease progression with 12 weeks' treatment with autotaxin inhibitor GLPG1690 in the FLORA Phase 2a trial in IPF patients
- We disclosed favorable safety and tolerability in Phase 1 trials with C1 corrector GLPG2222, C2 corrector GLPG2737, and potentiators GLPG2451 and GLPG3067
- We reported progress in our CF program, triggering $37.5 million in milestone payments from our collaboration partner AbbVie
- We reported favorable tolerability and promising activity with GLPG2222 in the ALBATROSS and FLAMINGO trials in CF patients

### Corporate:

- We raised €363.9 million in gross proceeds in a U.S. public offering of ADS and €5.3 million from warrant exercises
- We were included in the NASDAQ Biotechnology Index
- We strengthened our team with new Chief Medical Officer Walid Abi-Saab and Senior Vice President Commercial Operations Michele Manto

## 2017: Details of the financial results

### Revenues

Galapagos' revenues and other income for 2017 amounted to €155.9 million, compared to €151.6 million in 2016. Increased revenues and other income were mainly driven by higher revenue recognition and higher R&D incentives in line with increased R&D expenses.

### Operating result

The group realized a net operating loss in 2017 of €89.8 million, compared to a net operating loss of €11.5 million in 2016.

R&D expenses for the group in 2017 were €218.5 million compared to €139.6 million in 2016. This planned increase was due mainly to increased efforts on our clinical and pre-clinical programs, primarily filgotinib, our cystic fibrosis program, and the proprietary pre-clinical programs in inflammation and fibrosis.

G&A and S&M expenses of the group were €27.2 million in 2017, compared to €23.5 million in 2016. This increase was due primarily to a higher liability for short term and long term management bonus and higher costs for warrant plans (non-cash), both mainly as a result of the increase of the Galapagos share price.

### Net result

The group realized a net loss in 2017 of €115.7 million, compared to a net profit of €54.0 million in 2016. The net loss in 2017 was negatively influenced for €27.8 million by currency exchange rate fluctuation on our cash positions held in U.S. dollars.

The result of 2016 was primarily driven by a €57.5 million non-cash fair value gain from the re-measurement of the financial asset triggered by the share subscription agreement with Gilead.

### Cash position

Cash, cash equivalents, and restricted cash totaled €1,152.4 million on 31 December 2017.

A net increase of €171.5 million in cash, cash equivalents and restricted cash was recorded in 2017, compared to an increase of €632.7 million in 2016. Net cash flows from financing activities generated €353.4 million of cash, consisting of €348.1 million net proceeds from the U.S. public offering, and €5.3 million proceeds from warrant exercises. Furthermore, a net cash outflow from operating activities was realized for €147.0 million in 2017. Finally, €7.1 million was used in investing activities (when excluding the movement in restricted cash) and €27.8 million negative exchange rate differences were generated on cash and cash equivalents. The operational cash burn[1] amounted to €154.1 million.

Furthermore, Galapagos' balance sheet holds a receivable from the French government (Crédit d'Impôt Recherche[2]) now amounting to €36.4 million, payable in 4 yearly tranches. Galapagos' balance sheet also holds a receivable from the Belgian Government for R&D incentives now amounting to €39.4 million.

## Outlook 2018

We aim to report topline results with the FINCH 2 (rheumatoid arthritis), EQUATOR (psoriatic arthritis), TORTUGA (ankylosing spondylitis) clinical trials with filgotinib, as well as a decision to continue to Phase 3 in SELECTION (ulcerative colitis). We expect our collaboration partner Gilead to complete recruitment of FINCH 1 and FINCH 3, the remaining RA Phase 3 trials with filgotinib. In cystic fibrosis we anticipate the readout of the PELICAN patient trial and an interim readout in FALCON. We aim to initiate pivotal trials with GLPG1690 (IPF) and Phase 2 trials with GLPG1205 (IPF), an additional CF triple combination, GLPG1972 (osteoarthritis), and MOR106 (atopic dermatitis).

The company expects an operational use of cash of €220 – €240 million in 2018.

I wish to thank our shareholders again for their support last year. Even with all the progress made at Galapagos in 2017, we believe it has only just started. Please stay with us as we take the next steps in our journey to become a fully integrated biopharmaceutical company, breaking innovative ground in inflammation and fibrosis.

Regards,
**Onno van de Stolpe**
CEO

[1] *The operational cash burn* (or operational cash flow if this performance measure is positive) is equal to the sum of the net cash flows generated/used (–) in operating activities and the net cash flows generated/used (–) in investing activities minus (i) the proceeds or cash used, if any, in acquisitions or disposals of businesses; and (ii) the movement in restricted cash, if any. This alternative performance measure is in our view an important metric for a biotech company in the development stage. For 2016, the operational cash flow generated represented €231.9 million, which was significantly impacted by the upfront payment from Gilead of €275.6 million.

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

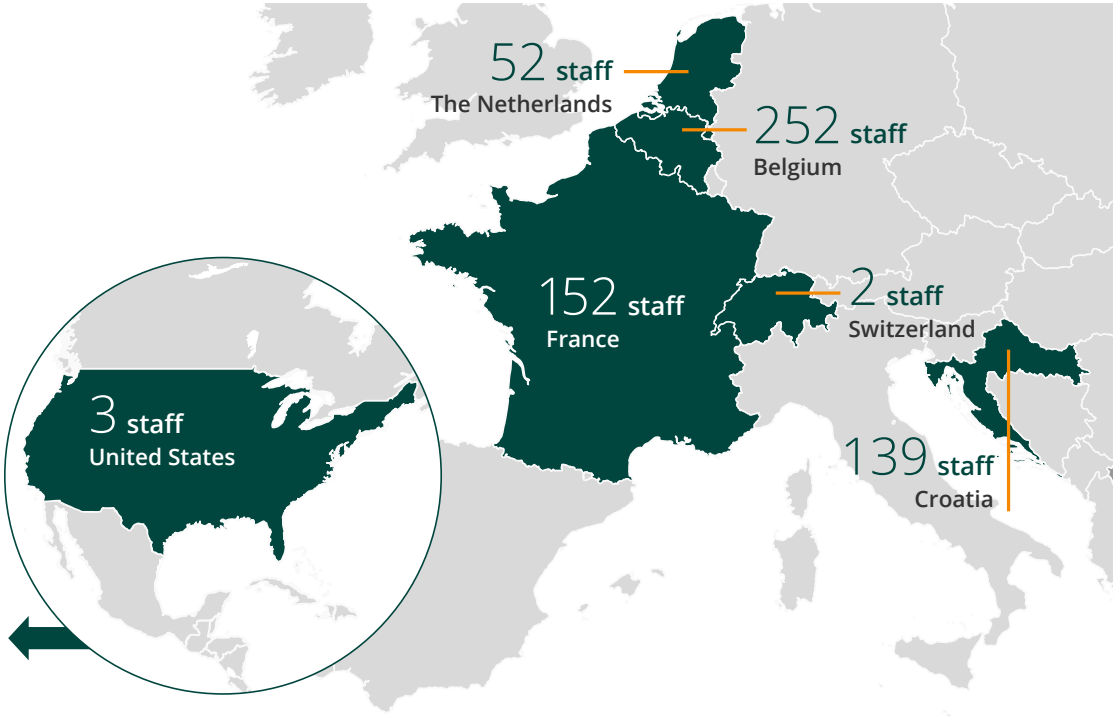
# At a glance

Key figures (IFRS)

| (thousands of €, if not stated otherwise) | 31/12/2017 | 31/12/2016 | 31/12/2015 |
|---|---|---|---|
| **Income Statement** | | | |
| Revenues | 127,087 | 129,519 | 39,563 |
| Other income | 28,830 | 22,093 | 21,017 |
| R&D expenditure | (218,502) | (139,573) | (129,714) |
| S, G&A expenses | (27,218) | (23,530) | (20,308) |
| Operating expenses | (245,720) | (163,103) | (150,023) |
| Operating loss | (89,802) | (11,491) | (89,444) |
| Net financial results | (25,705) | 65,737 | (30,184) |
| Taxes | (198) | (235) | 1,218 |
| Net income / loss (–) | (115,704) | 54,012 | (118,410) |
| | | | |
| **Balance sheet** | | | |
| Cash, cash equivalents and restricted cash | 1,152,369 | 980,909 | 348,216 |
| R&D incentives receivables | 75,783 | 64,342 | 58,545 |
| Assets | 1,286,274 | 1,083,338 | 442,514 |
| Shareholders' equity | 1,011,983 | 758,701 | 364,999 |
| Deferred income | 219,892 | 285,612 | 39,806 |
| Other liabilities | 54,399 | 39,025 | 37,709 |
| | | | |
| **Cash flow** | | | |
| Operational cash burn (–) / operational cash flow[(1)] | (154,089) | 231,881 | (121,145) |
| Cash flow from financing activities | 353,357 | 395,996 | 271,370 |
| Effect of currency exchange rate fluctuation on cash and cash equivalents | (27,808) | 4,816 | 118 |
| Increase in cash, cash equivalent and restricted cash | 171,460 | 632,693 | 150,343 |
| Cash, cash equivalents and restricted cash on 31 December | 1,152,369 | 980,909 | 348,216 |
| | | | |
| **Financial ratios** | | | |
| Number of shares issued on 31 December | 50,936,778 | 46,256,078 | 39,076,342 |
| Basic income / loss (–) per share (in €) | (2.34) | 1.18 | (3.32) |
| Diluted income / loss (–) per share (in €) | (2.34) | 1.14 | (3.32) |
| Share price on 31 December (in €) | 78.98 | 60.94 | 56.76 |
| Total group employees on 31 December (number) | 600 | 508 | 435 |

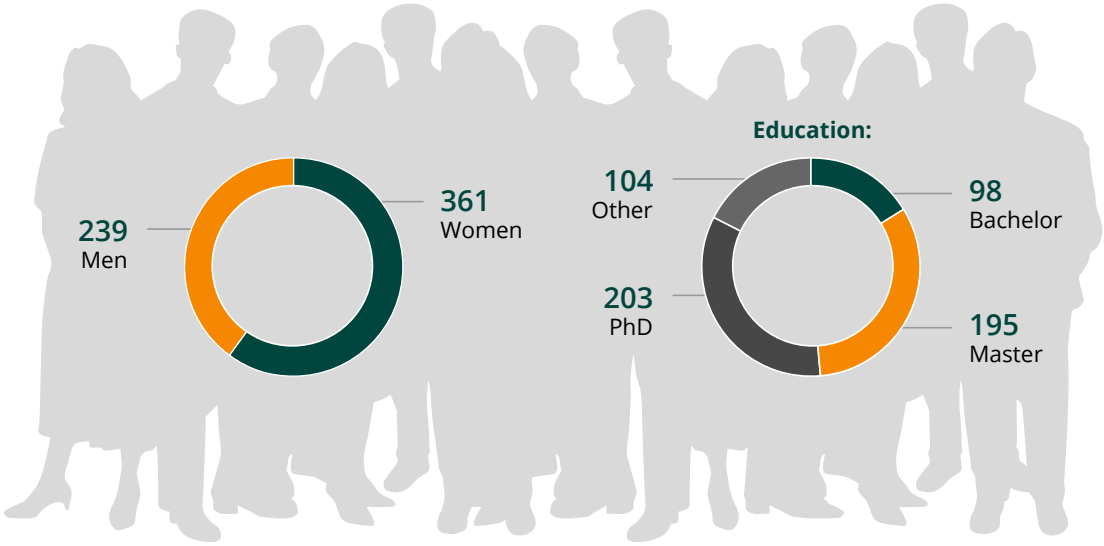
(1) The operational cash burn (or operational cash flow if this performance measure is positive) is equal to the sum of the net cash flows generated / used (–) in operating activities and the net cash flows generated / used (–) in investing activities minus (i) the proceeds or cash used, if any, in acquisitions or disposals of businesses; and (ii) the movement in restricted cash, if any. This alternative performance measure is in our view an important metric for a biotech company in the development stage. For 2016, the operational cash flow generated represented €231.9 million, which was significantly impacted by the upfront payment from Gilead of €275.6 million.

## Employees per site




## Number of employees Galapagos group

# 600




| Average age: | Number of employees older than 45: | Nationalities: | Average years of service: | Employee turnover: |
|---|---|---|---|---|
| 41 | 201 | 25 | 7.8 | 6.5% |

# Strategy

We seek to develop first-in-class medicines based on the discovery of novel targets. Using human primary cells, we discover which proteins ('targets') play a key role in causing diseases. We then aim to develop small molecules that inhibit these targets, restore the balance, and thereby positively influence the course of the disease. This approach addresses the disease itself rather than just treating the symptoms. Our aim is to make a lasting positive contribution to society through discovery of breakthrough therapies for diseases with large unmet medical need.

Our ambition is to become a fully integrated biopharmaceutical company focused on the development and commercialization of novel medicines which will improve people's lives.

Key elements of our strategy include:

- **Rapidly advance the development and commercialization of filgotinib with our collaboration partner Gilead in RA, CD, UC, and other inflammatory diseases**
  Based on the results from our Phase 2 clinical trials, we believe that filgotinib is a promising candidate for the treatment of RA, CD, UC and other inflammatory diseases. Our collaboration partner Gilead initiated Phase 3 clinical programs in RA, CD and UC in 2016 and multiple Phase 2 clinical programs in additional inflammatory diseases in 2017. We initiated Phase 2 clinical programs in psoriatic arthritis and ankylosing spondylitis in 2017. We exercised an option to co-promote filgotinib with Gilead in the UK, Germany, France, Italy, Spain, the Netherlands, Belgium, and Luxembourg. By exercising this option, we aim to build a commercial organization and further progress our ambition to become a fully integrated biopharmaceutical company.

- **Build an IPF franchise**
  We reported positive outcomes with the FLORA Phase 2a trial evaluating GLPG1690 targeting ATX in IPF patients. We directed two additional candidate programs with distinct mechanisms of action toward IPF: we expect to start a Phase 2a trial with GLPG1205 in IPF patients and take GLPG3499 into Phase 1 in 2018. We have worldwide development and commercialization rights for GLPG1690, GLPG1205, and GLPG3499. We intend to commercialize successful candidates from our IPF franchise.

- **Work with our collaboration partner AbbVie to develop a CF franchise of triple combination oral therapies**
  In order to address the unmet need in CF patients with Class II and other mutations in the CFTR gene, we aim to develop a triple combination therapy comprising a potentiator and two corrector molecules. We validated our *in vitro* assays and dosing modelling for developing a triple combination therapy through successful trials (SAPHIRA, ALBATROSS, FLAMINGO) with our potentiator and C1 corrector compounds. We completed Phase 1 trials for certain components and certain combinations of these components in 2017. We plan to initiate an evaluation of a once-daily, oral, triple combination therapy in CF patients in 2018, with additional trials with novel CF compounds and combinations throughout 2018. We have an exclusive collaboration agreement with AbbVie to jointly discover, develop, and commercialize these novel CF modulators.

- **Advance GLPG1972 in OA patient clinical trials in the United States**
  In 2016, we announced that a Phase 1 first-in-human trial of GLPG1972, targeting ADAMTS-5 for the treatment of OA, showed the product candidate was well tolerated and reduced ARGS neoepitope in healthy volunteers up to 60% within two weeks. In early 2018, we disclosed that GLPG1972 showed a similar, dose-dependent ARGS neoepitope reduction in OA patients within four weeks. In 2018, we intend to initiate a global Phase 2 program with GLPG1972 together with Servier, our collaboration partner who elected to exercise the option to license the compound for further development in OA patient trials outside the United States. We retain all development and commercialization rights to this compound in the United States, where we will also lead all clinical development of GLPG1972.

- **Advance MOR106 in AtD patient clinical trials with our collaboration partner MorphoSys**
  We reported successful completion of the healthy volunteer part of a Phase 1a first-in-human trial and further announced that 83% of AtD patients treated in Phase 1b with the highest dose of MOR106 achieved EASI-50, with the effect being sustained for months after stop of treatment. MOR106 targets IL17-C, a novel antibody target discovered by us. MorphoSys and we share costs and potential benefits equally in this collaboration. We expect to start a Phase 2 trial in AtD patients in 2018.

- **Maximize and capture the value of our target discovery platform by becoming a fully integrated biotechnology company**
  Our platform has yielded many new mode-of-action investigational therapies across multiple therapeutic areas. Our most mature pre-clinical programs are GLPG2534, GLPG3121, GLPG3312, and GLPG3667 for inflammation, which we plan to take into Phase 1 trials in 2018. Additionally, we are exploring the potential of pre-clinical product candidates in ankylosing spondylitis, psoriatic arthritis, inflammatory bowel disease, atopic dermatitis, lupus, IPF, systemic sclerosis, nonalcoholic steatohepatitis, type 2 diabetes, and hepatitis B. We aim to initiate a Phase 3 trial every other year, while conducting three proof-of-concept trials, delivering three pre-clinical product candidates and eight new validated targets every year. We aim to select promising programs for internal development and commercialization and establish ourselves as a fully integrated biopharmaceutical company.

### Annual R&D ambition


## Recruitment

**Recruiting talent on our way towards commercialization**

2017 was a turning point for Galapagos, in which the accelerated growth of our pipeline and evolution of the company towards commercialization also triggered the need for massive recruitment of top talents. We recruited locally, but we also have been able to attract people from further afield with the right qualifications, specific knowledge, and expertise.

By the end of 2017 over 100 new talents joined Galapagos, and two-thirds of these filled new positions. Most new employees started in our Drug Development departments such as Clinical Operations, Biometrics, Medical Science, Clinical Pharmacology, and Project Management. The recruitment of new colleagues will enable us to bring our novel therapies further through development, with the ultimate goal to deliver these therapies to patients as quickly as possible.

As we grow, we want to make sure that the way we work today remains in place: with people participating in a workplace where they can develop their skills and knowledge, where they are treated equally and with respect, where their opinions are valued, and where diversity is appreciated. People with the ability to bring their own ideas and innovate are our best asset. We are also aware that older workers represent an essential asset and we therefore wish, as far as possible, to benefit from their skills and experience.

Our Drug Development Departments will continue to grow rapidly and, as of 2018, our Commercial team will expand substantially as well. Next to this, we continue to invest in Drug Discovery and our Shared Services departments. The expansion is foreseen in all sites and includes the opening of satellite offices in Basel and Boston. We are looking for approximately 125 additional colleagues in, amongst others, Clinical Development, Clinical Operations, Regulatory, Biometrics, Drug Discovery, Marketing, Information Systems, and Finance in order to be able to meet our goals.

# Corporate social responsibility

Our commitment to corporate social responsibility (CSR) is incorporated in our company's core purpose and our vision, which is to find new ways to improve healthcare and quality of life for patients and their families with our novel mode of action medicines. We believe we have a responsibility to ensure our actions not only benefit our main stakeholders (patients, shareholders and employees), but also society as a whole. At Galapagos, being socially responsible is already a consideration in everything we do.

Our core business is discovery of breakthrough therapies for diseases with large unmet medical need. On a daily basis, we aim to make a lasting contribution to society with our discovery and clinical development efforts. Filgotinib, GLPG1690, and MOR106 have shown the first clinical examples of how our approach to finding novel mechanism of action medicines may be able to make a difference for patients in many disease areas. We have a substantial pipeline of new mechanism of action candidate medicines in inflammation and fibrosis, which we are committed to developing until we ascertain the impact they could have on patients. We aim to bring impactful medicines to patients ourselves.

In our business operations we strive to comply with all relevant laws, standards, and guidelines. We also consider the well-being of our employees a priority, and we aim to minimize our impact on the environment. We have high ethical standards and aim to conduct business with companies and within countries that share our ethics and respect the protection of internationally proclaimed human rights. We aim to support and respect the protection of human rights through policies that address responsible supplier management, ethical procedures, and health and safety procedures.

The table below provides the references to the sections of our annual report in which the non-financial information required by article 96, §4 and article 119, §2 of the Belgian Companies Code is disclosed. We have the ambition to report in the future according to frameworks such as the Global Reporting Initiative (GRI) Sustainability Reporting Standards (SRS) and European Federation of Financial Analysts Societies Guideline for the Integration of ESG into Financial Analysis and Corporate Valuation.

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## Employee well-being & our ambition to improve lives

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# Going concern statement

To date, we have incurred significant operating losses, which are reflected in the balance sheet showing €211.4 million accumulated losses as at 31 December 2017. We realized a consolidated net loss of €115.7 million for the year ended 31 December 2017. The board of directors has examined the financial statements and accounting policies. Based on conservative assumptions, we believe that our existing cash, cash equivalents and restricted cash of €1,152.4 million at 31 December 2017 will enable us to fund our operating expenses and capital expenditure requirements at least through the next two to three years. The board of directors 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 of directors 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 mid-term needs, the board of directors 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 and internal control

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, our executive committee has set up internal risk management and control systems within Galapagos. The board of directors has delegated an active role to the audit committee members to monitor the design, implementation and effectiveness of these 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 risk management and 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 32 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 company's internal controls over financial reporting are a subset of internal controls and include those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS as adopted by the EU, and that receipts and expenditures of the company are being made only by authorized persons; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Since the company has securities registered with the SEC and is a large accelerated filer within the meaning of Rule 12b-2 of the U.S Securities Exchange Act of 1934, the company needs to assess the effectiveness of the internal controls over financial reporting and provide a report on the results of this assessment.

In 2017 management has reviewed its internal controls over financial reporting based on criteria established in the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and engaged an external advisor to help assess the effectiveness of those controls.

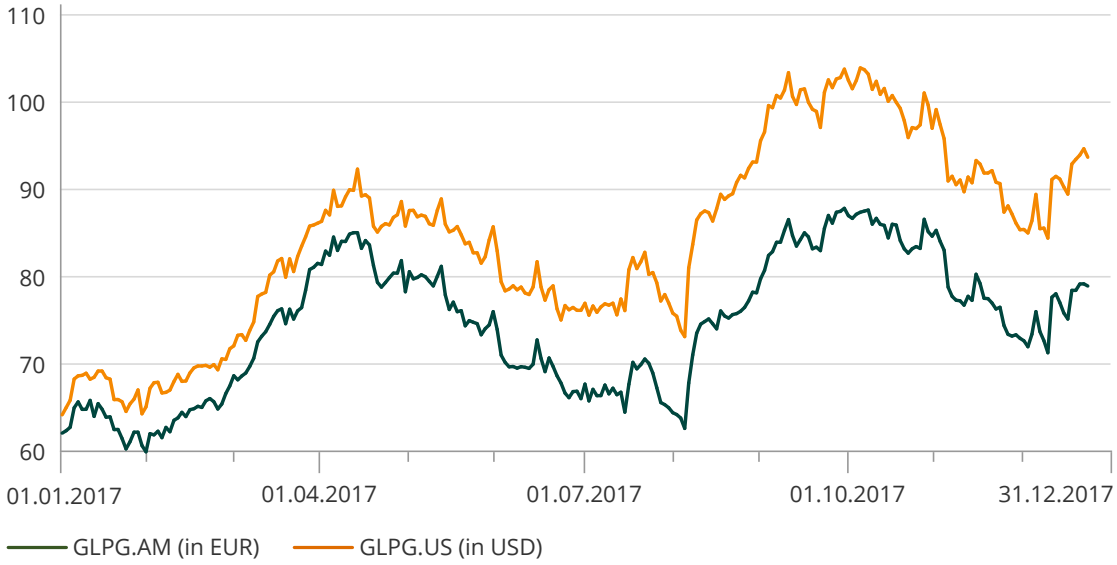
As described in Section 404 of the U.S. Sarbanes-Oxley Act of 2002 and the rules implementing such act, we will include the management and the statutory auditor's assessment of the effectiveness of internal control over financial reporting in our annual report on Form 20-F, which is expected to be filed with the SEC on or around the publication date of the present annual report.

Management as well as the statutory auditor concluded that the group maintained, in all material respects, effective internal control over financial reporting as of 31 December 2017.

# The Galapagos share

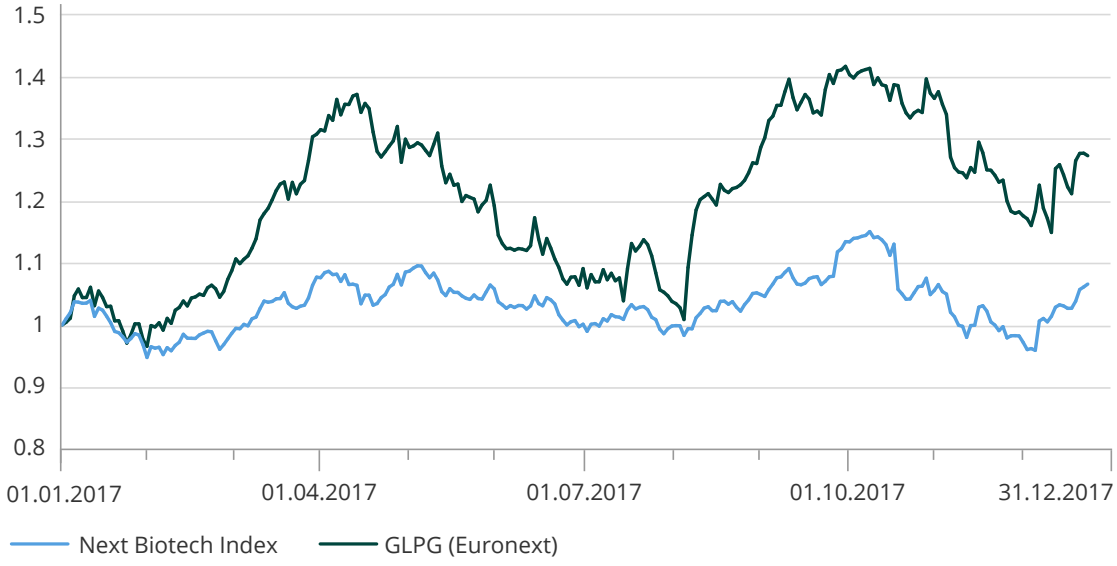
Galapagos NV (ticker: GLPG) has been listed on Euronext Amsterdam and Brussels since 6 May 2005 and on the NASDAQ Global Select Market since 14 May 2015. Galapagos NV forms part of the Bel20 index (top 20 listed companies) on Euronext Brussels, the AEX Index (top 25 listed companies) on Euronext Amsterdam, and the NASDAQ Biotechnology Index on NASDAQ in New York.

## The Galapagos share in 2017

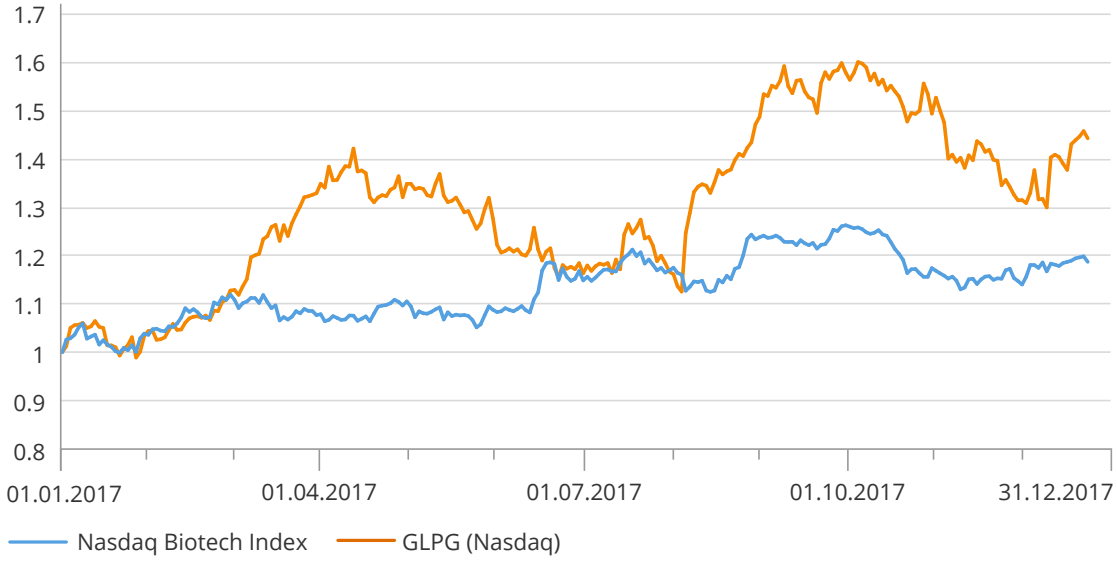



In 2017, the average daily trading volume on Euronext was 426,756 shares and €31.8 million turnover. The daily trading volume on NASDAQ in 2017 was 147,322 ADSs and $12.4 million turnover.

## Galapagos vs Next Biotech Index in 2017



### Galapagos vs Nasdaq Biotechnology Index




## Investor relations activities

We attracted additional sell-side analyst coverage by U.S. and European banks. Our IR team presented at a number of conferences in 2017 and did several of broker-organized and self-organized roadshows throughout the U.S. and Europe. We presented 2016 Full Year, and Q1, Half Year, and Q3 2017 results, the FLORA results, and our R&D Update via webcasts.

The main topics of discussion with investors included the filgotinib programs, our results with GLPG1690 in the FLORA Phase 2a trial in IPF patients and future plans with this fully proprietary asset, and progress toward developing a triple combination therapy for cystic fibrosis patients.

# Subsequent events

On 20 March 2018, 298,184 warrants were exercised (with an average exercise price of €13.16 per warrant) of which 15,000 warrants were exercised by our CEO, 115,000 warrants by other members of our executive committee, and 13,800 warrants by other members of our board of directors. This resulted in a share capital increase (including issuance premium) of €3,9 million and the issuance of 298,184 new ordinary shares. The closing price of our share on 20 March 2018 was €83.72.

# 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 2017 amounted to €350.6 million compared to €303.3 million in 2016. This increase is due to internally generated intangible assets – being capitalized R&D expenses – which contributed by €73.3 million more to operating income than previous year, partially offset by €30.5 million lower turnover due to decreased milestone revenues. The other operating income amounted to €20.8 million, including €2.5 million of grants recognized for R&D projects, €1.4 million of recharges to subsidiaries and €11.2 million (2016: €5.8 million) of income recognized for tax incentives for investments in intangible fixed assets.

The operating costs of 2017 amounted to €490.4 million compared to €355.9 million in 2016. Services and other goods increased substantially to €201.2 million compared to €119.3 million in 2016, primarily due to increased internal and external subcontracting for our pre-clinical studies and clinical trials as well as increased fees for insourced personnel.

Material purchases increased slightly from €4.3 million in 2016 to €4.8 million in 2017.

Personnel costs in 2017 amounted to €24.8 million compared to €16.6 million in 2016. The number of employees at Galapagos NV at the end of 2017 amounted to 214 as compared to 154 at the end of 2016, excluding insourced personnel.

Depreciation increased to €251.4 million in 2017, compared to €203.5 million in 2016.

Non-recurring operating costs amounted to €0.5 million in 2017, compared to €5.9 million in 2016, which consisted of extraordinary write-offs of capitalized R&D costs with regard to research projects which were either placed on hold or stopped.

Galapagos NV's 2017 financial income decreased to €8.4 million compared to €8.9 million in 2016, while financial costs increased significantly to €34.4 million compared to €1.5 million in 2016. This can mainly be explained by increased non-cash currency exchange losses on U.S. dollar.

Taxes recorded in 2017 consist of €34 thousand tax expenses, as compared to €19 thousand in 2016.

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 (e.g. future peak sales, market share, sale prices, 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 (e.g. test results). The achievement of these assumptions is critical and may impact the recoverability of the amounts capitalized. The net book value of capitalized R&D expenditure amounted to €18.7 million in 2017 compared to €70.8 million in 2016. The driver for this decrease was the amortization of internally generated intangible assets prior to 2016. R&D expenses capitalized as from 2016 onwards are fully amortized in the year in which they're capitalized. R&D expenses capitalized in previous years are still amortized over a 3-year period.

Investments in fixed assets in 2017 amounted to €4.1 million, excluding the internally generated assets. They consisted mainly of new laboratory and IT equipment, as well as investments in intangible assets, being software and in process technology.

Accrued income in 2017 included receivables for tax incentives of €39.7 million, as compared to €30.3 million in 2016.

Galapagos NV's cash position at the end of 2017 amounted to €1,145.8 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 2017 closed with a loss of €165.9 million compared to a loss of €45.2 million in 2016. Overall, the result of Galapagos NV is largely affected by the fact that, as from financial year 2010, Galapagos NV capitalized some of its R&D expenses and revenues that were eligible for such capitalization under Belgian GAAP and amortized these costs over a 3-year period until 2015. R&D expenses capitalized as from 2016 onwards are fully amortized in the year itself. This amortization negatively impacted the net result of Galapagos NV by €17.4 million in 2017, compared to a negative impact of €29.9 million in 2016. The non-consolidated annual accounts of Galapagos NV show accumulated losses of €343.9 million as at 31 December 2017; we refer to the Going Concern Statement for justification for the application of the valuation rules under the going concern assumption.

In 2017, neither Galapagos NV nor its affiliates made direct or active use of financial instruments such as hedging instruments.

# Disclaimer and other information

This 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.

This report is published in Dutch and in English. Galapagos is responsible for the translation and conformity between the Dutch and English versions. In case of inconsistency between the Dutch and the English versions, the Dutch version shall prevail.

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

### Galapagos NV

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Belgium
Tel: +32 15 34 29 00
E-mail: ir@glpg.com

A digital version of this 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 digital 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 report to be legally valid. Other information on our website or on other websites does not form a part of this report.

As a 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

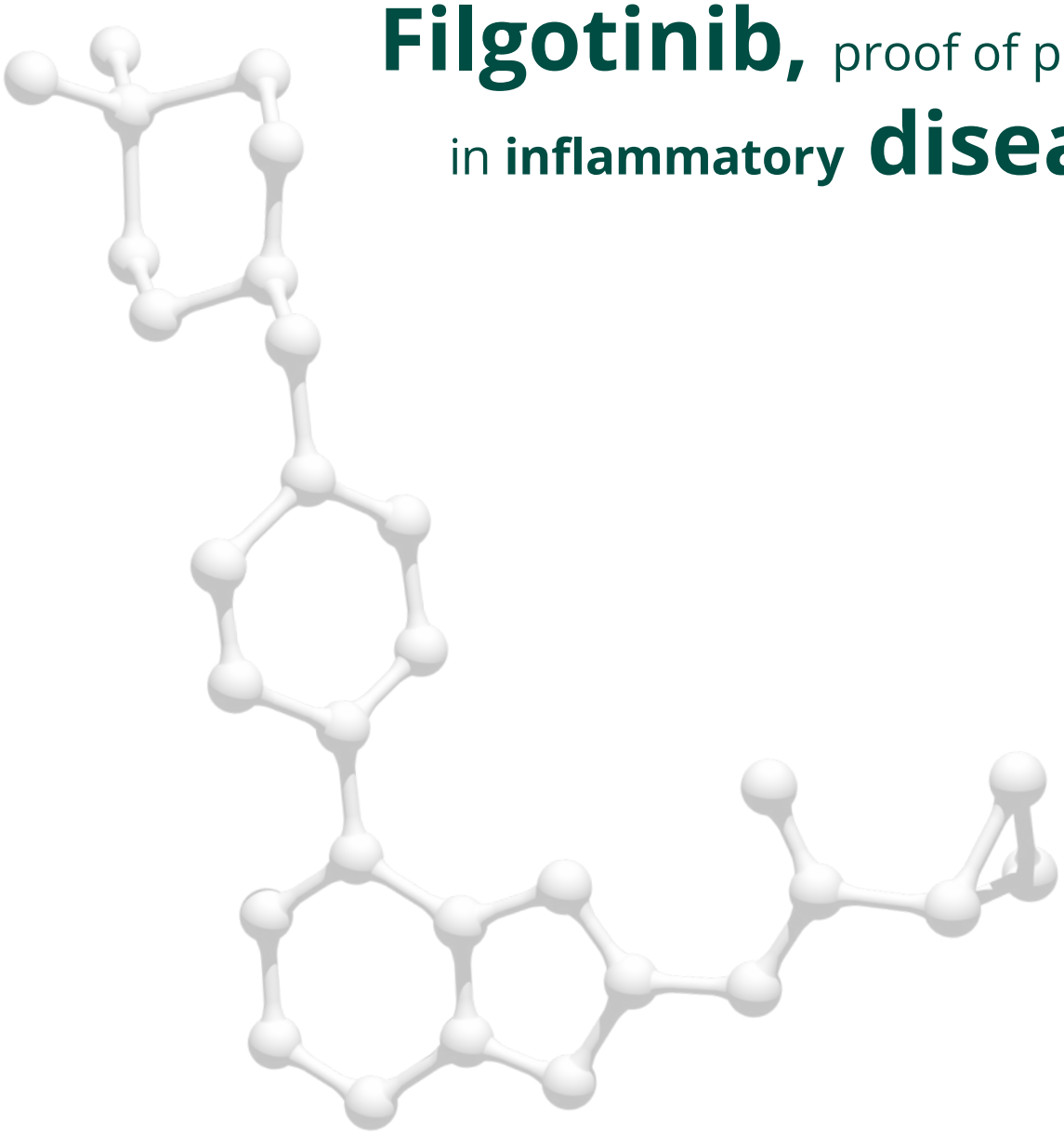
This report contains forward-looking statements, all of which involve certain risks and uncertainties. These statements are often, but are not always, made through the use of words or phrases such as "believe," "anticipate," "expect," "intend," "plan," "seek," "estimate," "may," "will," "could," "stand to," "continue," as well as similar expressions. Forward-looking statements contained in this report include, but are not limited to, statements made in the "Letter from the management", the information provided in the section captioned "Outlook 2018", guidance from management regarding the expected operational use of cash during financial year 2018, 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, and statements regarding the expected timing, design and readouts of ongoing and planned clinical trials (i) with filgotinib in rheumatoid arthritis, Crohn's disease, ulcerative colitis, and other indications (ii) with GLPG1837, GLPG2451, GLPG3067, GLPG2222, GLPG2851, GLPG2737, and GLPG3221 or combinations thereof in cystic fibrosis, (iii) with GLPG1690, GLPG1205, and GLPG3499 in IPF, (iv) with MOR106 in atopic dermatitis 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 2018 revenues and financial results and our 2018 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, ulcerative colitis, psoriatic arthritis, ankylosing spondylitis, 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, our collaboration partner for cystic fibrosis, AbbVie, our collaboration partner for GLPG1972, Servier, and our collaboration partner for MOR106, MorphoSys), 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 subsequent filings and reports filed with the SEC. 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

# **Filgotinib,** proof of platform in **inflammatory diseases**



Filgotinib, a selective JAK1-inhibitor which has shown activity and favorable tolerability in inflammatory diseases.

# The Galapagos pipeline

We aim to discover, develop, and prepare for future commercialization of medicines with novel modes of action, addressing disease areas of high unmet medical need. Our pipeline includes programs ranging from discovery to Phase 3 clinical trials in inflammation, fibrosis, cystic fibrosis (CF), and other indications. Our target discovery platform is applicable across many therapeutic areas. Our clinical late stage programs include: filgotinib, which is currently in Phase 3 trials in rheumatoid arthritis (RA) and Crohn's disease (CD), in Phase 2/3 in ulcerative colitis (UC) and in Phase 2 in multiple additional indications; GLPG1690, our fully proprietary autotaxin inhibitor, which is expected to initiate pivotal trials for idiopathic pulmonary fibrosis (IPF) in 2018; our CF portfolio of drugs aimed at a triple combination therapy for 90% of CF patients, for which we plan to report interim results from a first triple combination therapy in a Phase 2 clinical trial in 2018; GLPG1972 for osteoarthritis (OA), which is expected to be dosed in a global Phase 2 trial in OA patients in 2018; and MOR106, which is expected to be dosed in a Phase 2 trial in atopic dermatitis (AtD) patients in 2018. Most of these programs are based on inhibiting targets which were identified using our target discovery platform.

We have collaborations with Gilead for filgotinib, with AbbVie for CF, with Servier for GLPG1972, and with MorphoSys for MOR106. The following table highlights key aspects of our development programs at the start of 2018:

| Area | Pre-clinical | Ph1 | Ph2 | Ph3 |
|---|---|---|---|---|
| **Filgotinib** | 10+ indications evaluated in Ph2 and Ph 3, pivotal trial completion as of 2018 | | | |
| **IPF** | Multiple late stage trial to start in H1'18 | | | |
| **CF** | Ph2 to start Q1 '18 | | | |
| **AtD** | Ph2 to start H1 '18 | | | |
| **OA** | Ph2 to start H1 '18 | | | |
| **Inflammation & fibrosis** | >20 programs | | | |

# Proprietary target discovery platform

Our target discovery platform provides a significant and substantial competitive advantage in our portfolio of novel mode of action product candidates as it:

- closely mimics the *in vivo* situation through the use of primary human cells 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 analyze rapidly all of the drugable genome and select pharmaceutically tractable protein targets directly by their ability to regulate key disease biology

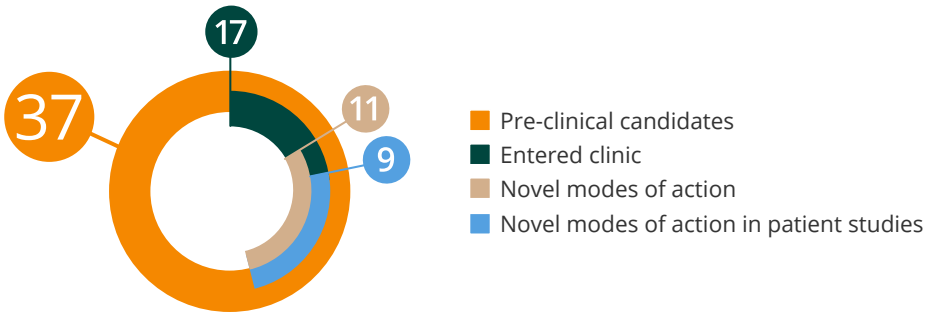
Our product candidate filgotinib acts on a target whose role in the specific disease was discovered by us using our discovery platform and we believe is a proof of success of this approach. Filgotinib acts on JAK1 and we believe has potential for a best-in-class profile. We believe that further proof of this approach was shown in 2017 with autotaxin inhibitor GLPG1690 in IPF patients, and with fully human monoclonal antibody MOR106 directed toward IL-17C in AtD patients. Autotaxin and IL-17C are targets we discovered for these diseases.

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 the industry is to develop molecules 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 discovery and development. Finding these targets is one of the critical steps in the drug discovery process. Our 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.

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. We 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, which 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 built a collection with these adenoviruses, now in excess of 20,000 viruses, that addresses around 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 product candidate in the clinic.

This discovery approach may increase the chances of success in bringing new mode of action drugs to the market. Since 2009, we have generated 37 pre-clinical candidates of which 27 have novel modes of action. Of these, 17 have entered the clinic, 11 with novel modes of action.

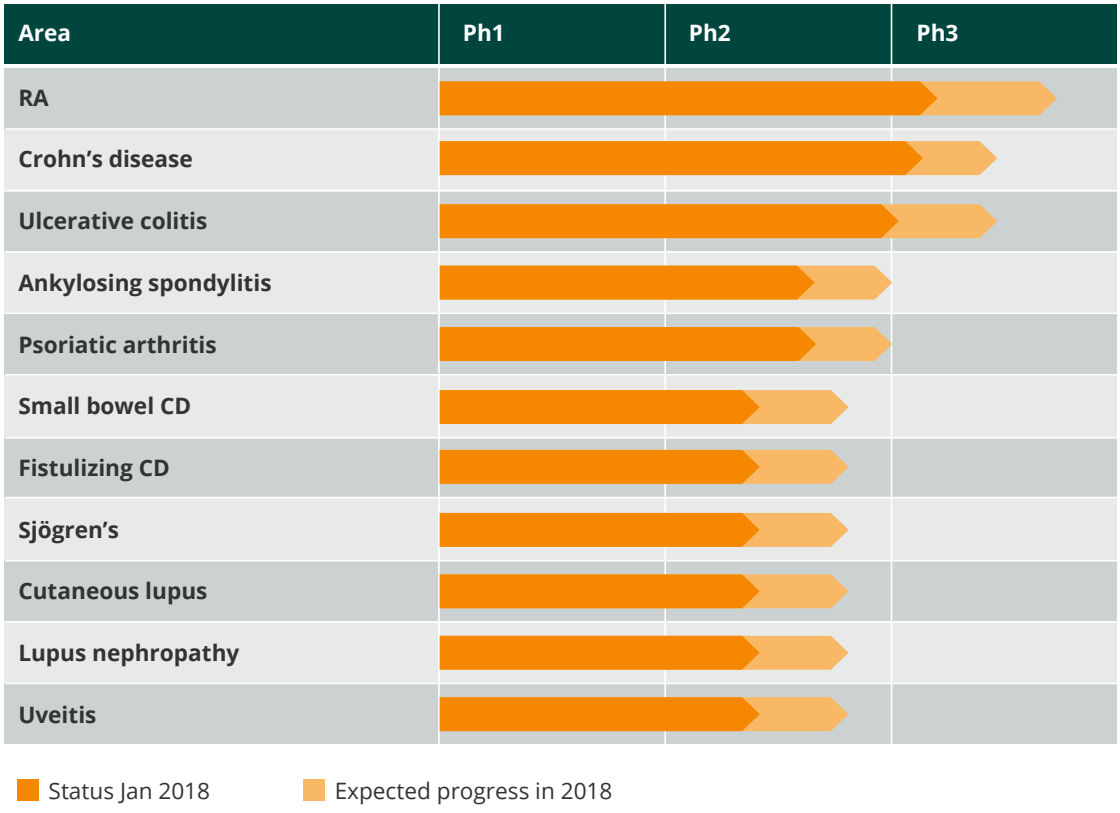



In addition to our pipeline of molecules in the clinic, we have multiple discovery programs which are advancing toward clinical development. We are exploring new modes of action in AS, psoriatic arthritis, IBD, AtD, lupus, IPF, systemic sclerosis, nonalcoholic steatohepatitis, type 2 diabetes, and hepatitis B.

# Filgotinib: selective JAK1 inhibitor with a potential best-in-class product profile

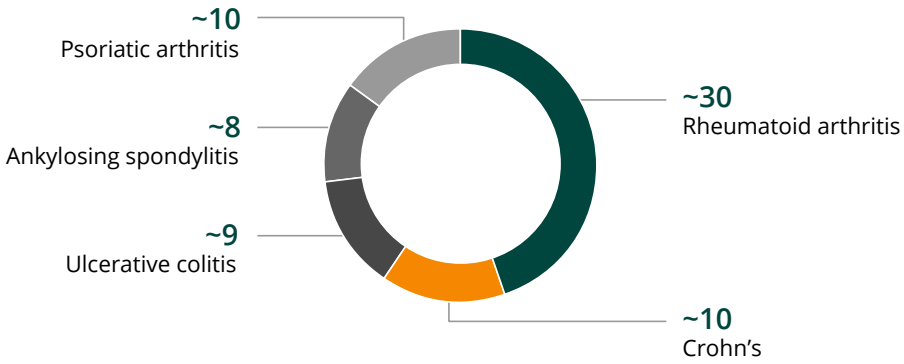
We believe that filgotinib is a promising candidate for the treatment of RA, CD and potentially other inflammatory diseases. We have an exclusive collaboration agreement with Gilead to develop and commercialize filgotinib in multiple diseases. Under the terms of the collaboration, Gilead is primarily responsible for development and seeking regulatory approval of the licensed product. We assist Gilead with certain development activities. Gilead initiated Phase 3 clinical programs in RA and CD and a Phase 2b/3 program in UC in 2016, and we and Gilead initiated multiple Phase 2 trials with filgotinib in additional indications in 2017:

## Building the filgotinib franchise




Markets for inflammation drugs are considerable and growing. We estimate that the inflammation market could grow to ~$65 billion by 2027, driven by new drugs filling the current unmet need for oral, monotherapy treatments with a rapid response, and higher efficacy maintained over time. RA remains the largest market at approximately $30 billion in these forecasts, with the other main markets growing considerably as well:

**Inflammation market in ~2027, $B**




Based on the Phase 2 data observed with filgotinib in RA and CD thus far, we believe that filgotinib has the potential to improve treatment standards substantially in RA and inflammatory bowel diseases. Compared with biologic agents, filgotinib is orally administered, with a rapid onset, sustained response, and potential for monotherapy. ACR scores with filgotinib in Phase 2 trials in RA patients are encouraging, and CDAI remission and SES-CD50 scores are similarly promising with filgotinib in a Phase 2 trial in CD patients who are naïve to TNF therapy. Filgotinib is highly selective for JAK1, resulting in favorable tolerability so far, including low rates of infection.

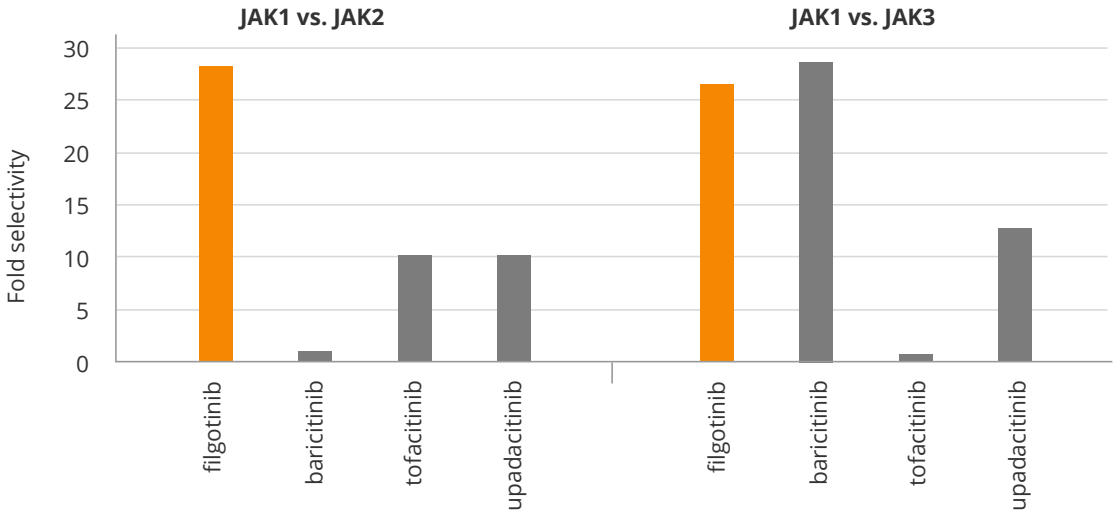
## Our filgotinib program in RA

RA is a chronic autoimmune disease that affects ~3 million patients in the U.S. and the five largest European markets. RA is characterized by inflammation and degeneration of the joints. Patients suffer from pain, stiffness, and restricted mobility due to a persistent inflammation of multiple joints, ultimately resulting in irreversible damage of the joint cartilage and bone. According to GlobalData, sales of RA therapeutics across the 10 main healthcare markets was $21.7 billion in 2017, with the current market being dominated by injectable, biological therapies. Biologics, mostly TNF therapies, need to be injected and often lose their effect over time, so there continues to be a considerable unmet need with regard to efficacy, safety, and convenience of use with existing treatments.

New oral therapies that target the Janus kinase, or JAK, signaling pathway are emerging to treat inflammatory diseases; non-specific JAK inhibitors, however, have a range of side effects, including aberrations in low-density lipoprotein, or LDL, cholesterol and red blood and NK cell counts. We discovered JAK1 in an inflammation target discovery assay in 2003 and subsequently discovered filgotinib as a JAK1 specific inhibitor small molecule. In a human whole blood assay we demonstrated that filgotinib, with a nearly 30-fold selectivity for JAK1 over JAK2 and for JAK1 over JAK3, is more selective for JAK1 than any other JAK inhibitor known to us to be either approved for sale or in clinical development in inflammation; these findings were independently corroborated by Dr. Iain McInnes ("*Ex Vivo* Comparison of Baricitinib, Upadacitinib, Filgotinib, and Tofacitinib for Cytokine Signaling in Human Leukocyte Subpopulations," ACR 2017).

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.

## Filgotinib
### Highly JAK1 selective




Source: Galapagos human whole blood assay

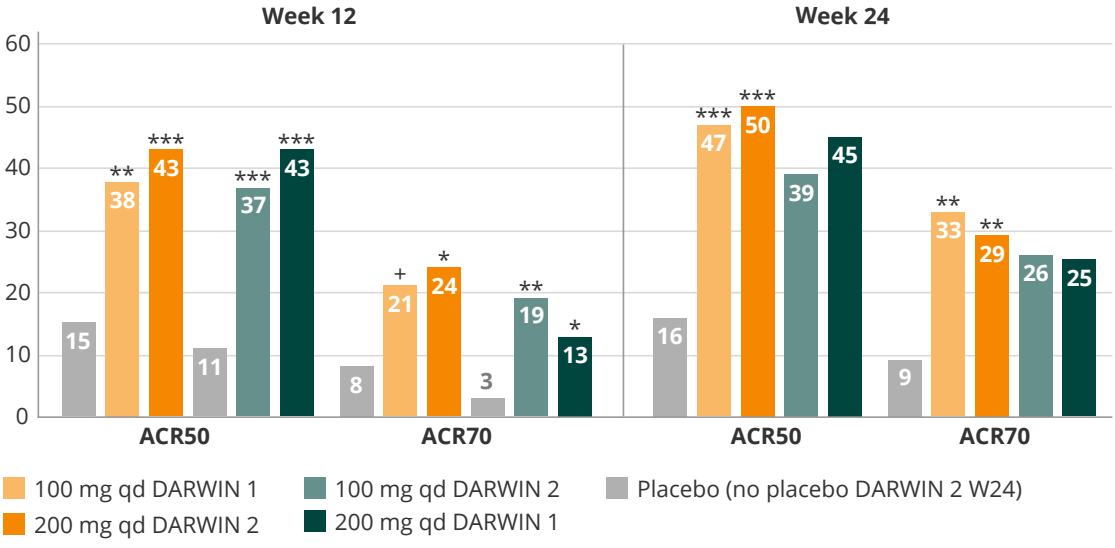
Source: Galapagos biochemical assay

### Our clinical program for filgotinib for RA

Clinical trials to date have shown that filgotinib is well-tolerated, with atherogenic index improvement, absence of anemia, low infection rates and low incidence of deep venous thrombosis and pulmonary embolisms. We believe its once-a-day oral dosage and its low risk for drug-drug interactions make it convenient for patient use.

We reported final 24-week data from DARWIN 1 (594 patients, add-on to methotrexate) and DARWIN 2 (283 patients, monotherapy) Phase 2b dose-range finding clinical trials in insufficient methotrexate responders with moderate to severe RA in 2015. Both trials achieved the primary endpoints (ACR20). Below are the ACR50 and ACR70 scores at 12 and 24 weeks for 100 and 200 mg qd in both DARWIN 1 and DARWIN 2:

% responders



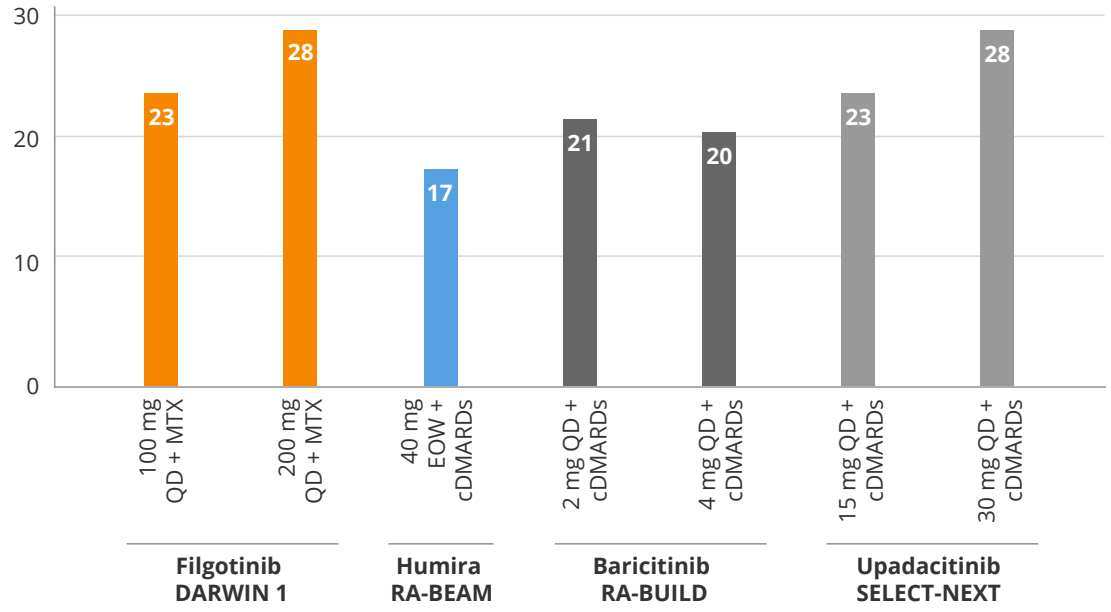

+: p<0.10; *: p<0.05; **: p<0.01; ***: p<0.001

Overall, there was no statistically relevant difference between the once-daily and twice-daily dosing regimens in DARWIN 1. Both trials showed a rapid onset of activity, as of week one for ACR and DAS28(CRP) responses. In DARWIN 1 (200 mg bid) and in DARWIN 2 (100 mg qd) up to 50% of the patients reached low disease activity or remission. The 100 mg and 200 mg qd doses achieved similar levels of activity overall.

Below follows information regarding activity of filgotinib, other JAKs, and another mechanism (anti-TNF) of RA treatment in separate patient trials; JAKs have scored higher on ACR50% in recent trials than the mechanism most often used today:

## Superior activity JAK class in RA

ACR50% (W12, active delta), % responders

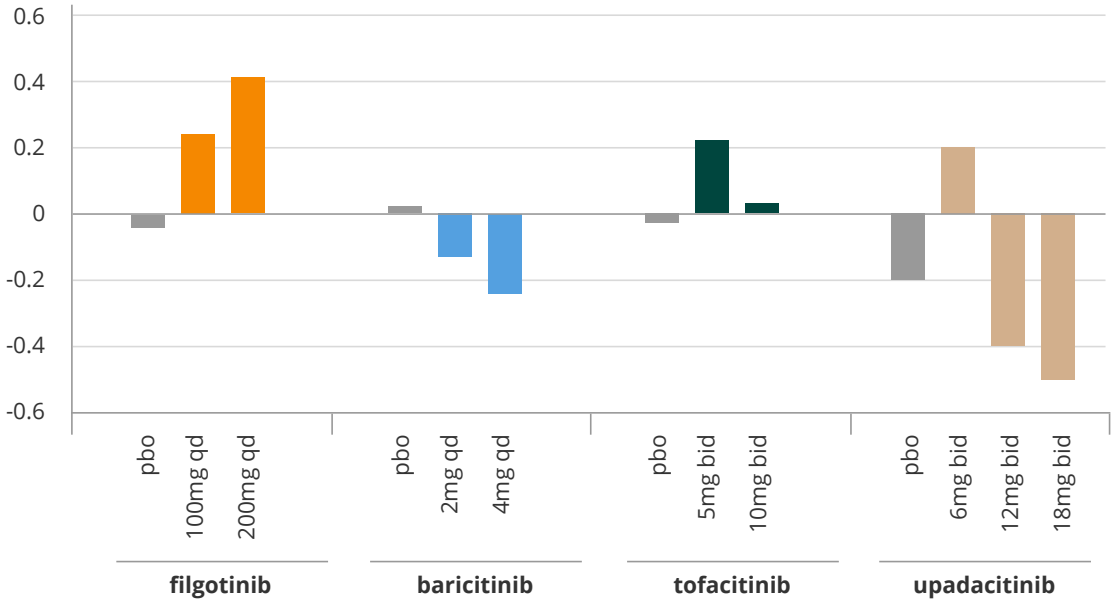



Note: data from separate studies not conducted by the Company

Filgotinib's improvement in hemoglobin shown in DARWIN 1 and 2 potentially differentiates it when compared to impact on hemoglobin shown by other JAK inhibitors in their respective RA trials:

## Hemoglobin

Hb mean CFB (g/dL), W12

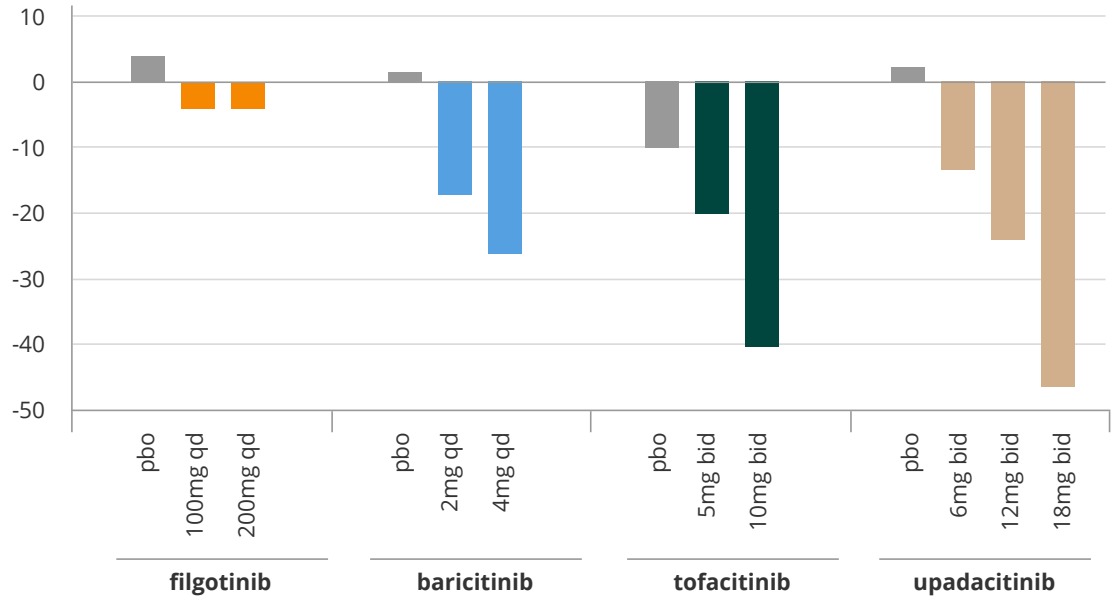



Note: data from separate RA studies not conducted by the Company. **filgotinib** – Westhovens *et al.*, and Kavanaugh *et al.*, ARD 2016; **baricitinib** – Dougados *et al.*, Annrheumdis 2016, RA-BUILD; **tofacitinib** – FDA AdComm briefing document May 2012; **upadacitinib** – Genovese *et al.* ACR 2017

Rheumatoid arthritis patients experience a decrease in natural killer (NK) cells as a consequence of their disease. Filgotinib's lack of impact on NK cells shown in DARWIN 1 and 2 potentially differentiates it when compared to the impact on NK cells shown by other JAK inhibitors in their respective RA trials:

## NK cells

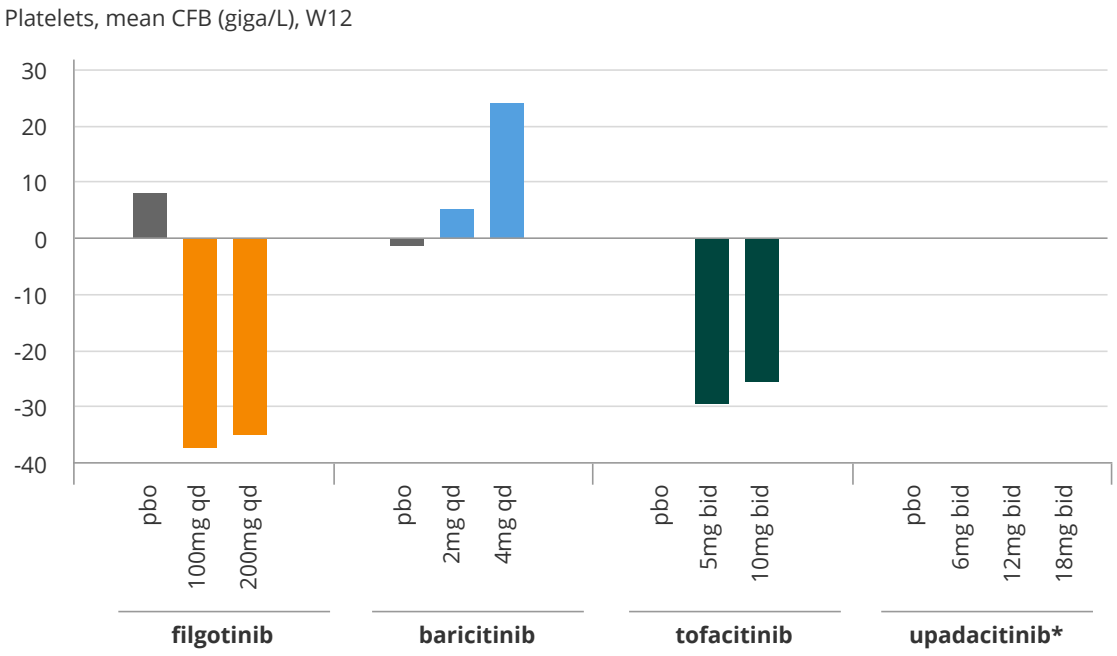
NK cells mean CFB (%), W12



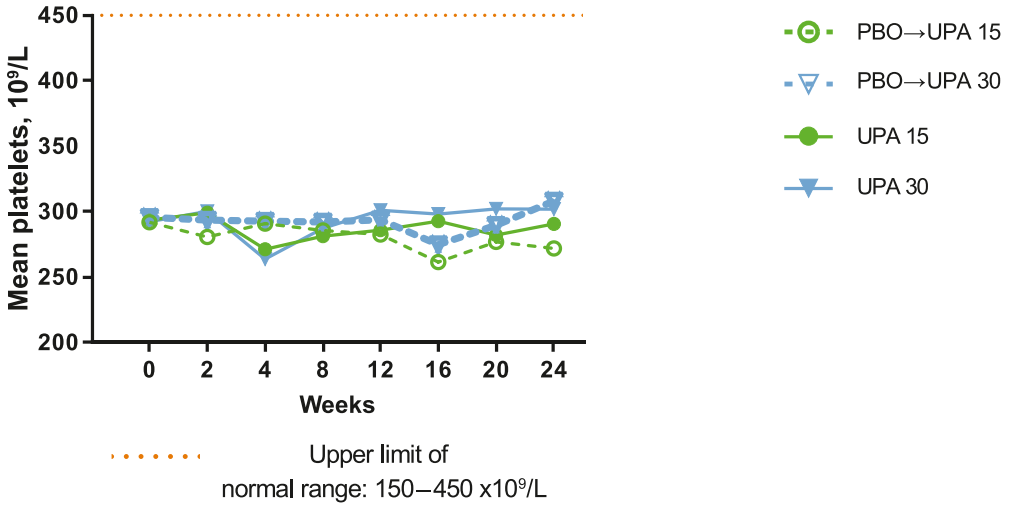

Note: data from separate RA studies not conducted by the Company. **filgotinib** – Westhovens *et al.*, and Kavanaugh *et al.*, ARD 2016; **baricitinib** – Dougados *et al.*, Annrheumdis 2016, RA-BUILD and Tanaka EULAR 2016 abstract RA-BEAM; **tofacitinib** – Van Vollenhoven abstract 2013, median CFB at W6; **upadacitinib** – Genovese *et al.* A&R 2016 BALANCE 2.

Rheumatoid arthritis patients experience platelet elevation as a consequence of their disease. Filgotinib's reduction of platelets to more normal levels, as shown in DARWIN 1 and 2, potentially differentiates it when compared to the impact on platelets shown by other JAK inhibitors in their respective RA trials:

## Reduction of platelets




Note: data from separate RA trials and not conducted by the company. **filgotinib** – DARWIN 1 W12 results; **baricitinib** – Dougados *et al.*, Annrheumdis 2016; **tofacitinib** – FDA AdComm briefing document May 2012, ***upadacitinib*** – for data see graph below, Genovese *et al.* ACR 2017




Source: Genovese *et al.* ACR 2017

Also due to its high selectivity for JAK1, filgotinib has shown the lowest rates of infection, deep venous thrombosis (DVT), and pulmonary embolisms (PEs) per 100 patient year experience (PYE) versus other JAKs and other therapy types thus far in their respective trials in RA:

## Low incidence DVT and infections

| Event Per 100 PYE | filgotinib (50-)200mg daily DARWIN 3 Wk 84 Genovese, ACR2017 | upadacitinib 6 and 12mg BID Genovese *et al.*, ACR2017 | baricitinib 2 and 4mg QD Genovese *et al.*, ACR2017 | tofacitinib 5mg bid Wollenhaupt *et al.*, ACR2017 | tocilizumab 4 and 8 mg / kg Genovese *et al.*, ACR2012 | adalimumab Burmester *et al.*, 2011 |
|---|---|---|---|---|---|---|
| Patient year exposure | 1,708 | 725 | 6,637 | 5,891 | 14,994 | 23,943 |
| Serious infection | 1.5 | 2.3 | 2.9 | 2.2 | 4.5 | 4.6 |
| Herpes Zoster | 1.2 | 3.7 | 3.2 | 3.6 | NR | NR |
| DVT / PEs | 2 / 1,708 | 5 / 725 | 31 / 6,754 | 3 / 1,849[1] | – | – |
| N cases / 100PY | 0.1 | 0.7 | 0.5 | 0.2 | | |

Note: data from separate RA studies not conducted by the Company.
(1) DVT / PE data on tofacitinib from Mease et al, ACR 2017, 5mg bid

DARWIN 3 is a multi-center, open-label, long-term follow-up safety and efficacy trial of subjects who have completed either DARWIN 1 or DARWIN 2. All subjects 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.

Galapagos and Gilead reported findings from DARWIN 3 at 60 and 84 weeks of treatment in the course of 2017. Promising activity levels were maintained and favorable findings relating to tolerability profile were reported; data from both time points in DARWIN 3 were consistent with the risk/benefit profiles reported in DARWIN 1 and 2, as presented by Dr. Mark Genovese at ACR 2017 ("Long-term Safety of Filgotinib in the Treatment of Rheumatoid Arthritis: Week 84 Data from a Phase 2b Open-Label Extension Study").

### FINCH Phase 3 program with filgotinib in RA

In August 2016, Gilead initiated the FINCH global Phase 3 program investigating the efficacy and safety of 100 mg and 200 mg filgotinib once daily, in RA patient populations, ranging from early stage to biologic-experienced patients:

**FINCH 1** is a 52-week, randomized, placebo- and adalimumab-controlled trial in combination with methotrexate (MTX) in an expected 1,650 patients who have had inadequate response to MTX. The primary endpoint is ACR20 at week 12. ACR20 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. ACR50 and ACR70 reflect the same, respectively for 50% and 70% response rates. The trial will also include radiographic assessment at weeks 24 and 52. We expect Gilead to complete recruitment for FINCH 1 in Q2 2018.

**FINCH 2** is a 24-week, randomized, placebo-controlled trial in an expected 423 patients who are on conventional disease-modifying anti-rheumatic drugs (cDMARD), and have had an inadequate response to biological treatment. The primary endpoint is ACR20 at week 12. We and Gilead expect to report topline findings from the FINCH 2 trial in H2 2018.

**FINCH 3** is a 52-week, randomized trial in an expected 1,200 MTX-naïve patients to study filgotinib in combination with MTX, as well as monotherapy. The primary endpoint is ACR20 at week 24. Radiographic progression will also be assessed. We expect Gilead to complete recruitment for FINCH 3 in Q3 2018.

Gilead is performing a single dedicated male patient safety trial in UC patients concurrent to all Phase 3 programs.

## Our filgotinib program in inflammatory bowel disease (IBD)

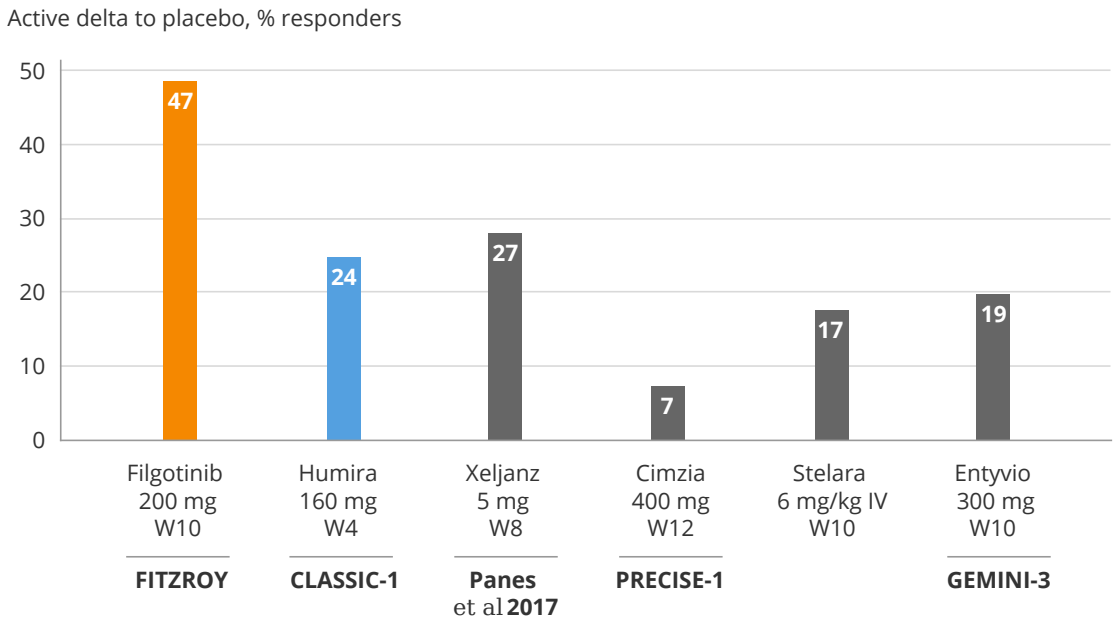
IBD includes CD and UC. We observed high activity and a favorable safety profile in a Phase 2 trial with filgotinib in CD, as reported in *The Lancet* (Vermeire *et al*) in 2016. The profile we saw with filgotinib in this CD patient trial leads us to believe the product candidate may show activity and tolerability in UC patient trials as well. IBD affects approximately 2 million patients (of which approximately 0.5 million are being treated with biologics) in the United States and Europe, and the market for IBD therapies is approximately $9 billion today, according to GlobalData. Current treatments are dominated by anti-TNF agents, with new biologic products gaining some ground in second line treatment.

CD is an IBD of unknown cause, resulting in chronic inflammation of the gastrointestinal tract with a relapsing and remitting course. Today, only 10% of CD patients achieve prolonged clinical remission. There are currently no highly effective oral therapies approved for CD and, similar to RA, treatment is dominated by injectable, biologic treatments including anti-TNF therapies. Anti-TNF agents have improved the management of CD; however, not all patients respond to these drugs, and secondary loss of response is reported in up to 50% of patients per year in placebo-controlled trials. There continues to be a considerable unmet need with these existing treatments. Dysregulation of the JAK signaling pathway has also been associated with CD, and we believe that filgotinib, with its high selectivity for JAK1, is a highly attractive candidate for the treatment of CD. By inhibiting JAK1 but not JAK2, unwanted effects such as anemia may be prevented. This absence of anemia is of particular importance to IBD patients, who frequently experience fecal blood loss.

## Our clinical program with filgotinib in CD

Our FITZROY Phase 2 trial (174 patients) evaluated filgotinib once-daily versus placebo in patients with moderate to severely active CD and mucosal ulceration. Patients recruited were either anti-TNF naïve or anti-TNF failures. FITZROY was the first trial in CD to require endoscopic confirmation of lesions at entry, and also to include a placebo control on endoscopy. The trial comprised two parts, each of 10 weeks duration: the first part investigated the safety and efficacy of filgotinib 200 mg once daily versus placebo, while the second part of the trial investigated continued treatment through 20 weeks in an observational exploratory design. As reported in *The Lancet* (Vermeire *et al*), the FITZROY trial achieved the primary endpoint of clinical remission at 10 weeks: the percentage of patients overall achieving a Crohn's Disease Activity Index (CDAI) score lower than 150 was statistically significantly higher in patients treated with filgotinib (47%) versus patients receiving placebo (23%). The share of patients achieving 100-points clinical response (60%) also was significant versus those receiving placebo (41%). We believe that the activity observed with filgotinib in TNF naïve patients in FITZROY compared favorably to that seen with other treatments in other, separate trials:

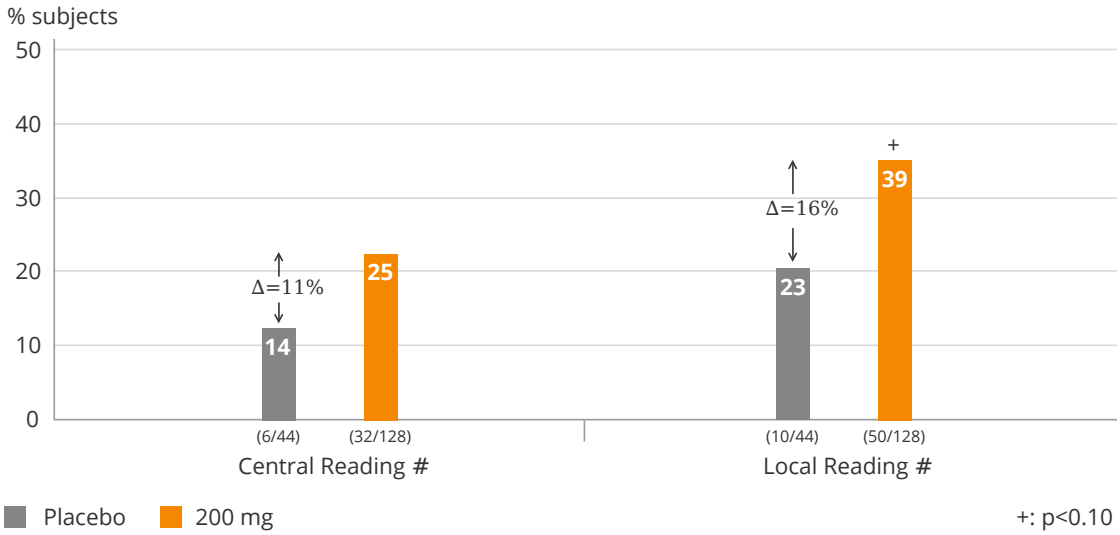
## Activity readouts in CD, TNF naive
## Clinical remission: induction




Note: data not from head-to-head studies

Improvement in quality of life, histopathology, endoscopy assessment and biomarkers of inflammatory activity were also observed at week 10. Overall mean change in histopathology scores at week 10 for patients treated with filgotinib (-3.5) versus placebo (-0.6) was significantly different, confirming the clinical responses in the tissues of patients. More patients on filgotinib showed >50% improvement in SES-CD (endoscopy) scores versus placebo patients at week 10:

## SES-CD50 achievement in FITZROY at week 10




# Only using segments explored at both baseline and week 10 (matching segments)

Vermeire *et al., The Lancet*, 2016

Clinical responses were maintained from week 10 to week 20. Non-responders in the placebo arm from the first ten weeks received filgotinib 100 mg in the second ten weeks and showed improvement in clinical remission during the second part of the trial.

Overall, in the FITZROY trial at 20 weeks of treatment, filgotinib demonstrated a favorable safety profile consistent with the DARWIN trials in RA. 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.

Gilead initiated a Phase 3 trial (DIVERSITY) with filgotinib in CD in November 2016. The DIVERSITY Phase 3 trial investigates efficacy and safety of 100 mg and 200 mg filgotinib once-daily compared to placebo in patients with moderately to severely active disease including those with prior antibody therapy failure. Gilead will recruit approximately 1,300 patients from the United States, Europe, Latin America, Canada, and Asia/Pacific regions. Men and women in the DIVERSITY trial will be randomized to receive placebo, 100 mg or 200 mg filgotinib. In the United States, males may receive 200 mg if they failed at least one anti-TNF and vedolizumab, a monoclonal anti-integrin antibody marketed by Takeda. Gilead expects to complete recruitment for DIVERSITY in the first half of 2019.

In March 2017, Gilead initiated a Phase 2 trial in small bowel CD and a Phase 2 trial in fistulizing CD.

## Our clinical program with filgotinib in UC

UC is an inflammatory bowel disease resulting in ulcerations and inflammation of the colon and rectum. Unlike CD, UC involves damaging inflammation of only the colon and rectum. According to GlobalData, there were 1.2 million patients being treated for ulcerative colitis in the 7 major markets, for a combined total sales of just over $5 billion in 2017. Although the introduction of anti-TNF biologics has improved the treatment of some patients, only 33% of patients will achieve long-term remission, and many patients lose their response to treatment over time. The medical need for improved efficacy is high and likely could be achieved by a new mechanism of action.

Gilead initiated the SELECTION Phase 2b/3 trial in UC with filgotinib in December 2016. SELECTION investigates efficacy and safety of 100 mg and 200 mg filgotinib once-daily compared to placebo in patients with moderately to severely active disease including those with prior antibody therapy failure. Gilead will recruit approximately 1,300 patients from the United States, Europe, Latin America, Canada, and Asia/Pacific regions. The SELECTION Phase 2b/3 trial in UC will include a futility analysis, serving as the Phase 2b part of this integrated Phase 2b/3 trial. The outcome of the futility analysis is expected to be reported in 2018. Men and women in SELECTION will be randomized to receive placebo, 100 mg or 200 mg filgotinib. In the United States, males may receive 200 mg if they failed at least one anti-TNF and vedolizumab.

## Other clinical programs with filgotinib

In the course of 2017, Gilead initiated clinical trials with filgotinib in Sjögren's disease, cutaneous lupus erythematosus, lupus membranous nephropathy, and uveitis. We initiated patient trials with filgotinib in psoriatic arthritis and ankylosing spondylitis, for which we expect to report topline results in 2018.

### Psoriatic arthritis

Psoriatic arthritis is an inflammatory form of arthritis, affecting up to 30 percent of psoriasis patients. There are approximately 1 million patients in the U.S. and Europe today, with men and women being affected equally. Psoriatic arthritis can cause swelling, stiffness and pain in and around the joints, cause nail changes and overall fatigue. Studies show that delaying treatment for psoriatic arthritis as little as six months can result in permanent joint damage. Early recognition, diagnosis and treatment of psoriatic arthritis are critical to

relieve pain and inflammation and help prevent joint damage. Despite the availability of a number of treatment options, few current treatments effectively relieve the enthesitis (inflammation of the tendons or ligaments) and symptoms in the joints and the skin.

The EQUATOR Phase 2 trial is a multi-center, randomized, double-blind, placebo-controlled trial to assess the safety and efficacy of the selective JAK1 inhibitor filgotinib in adult patients with moderately to severely active psoriatic arthritis. Approximately 124 patients are planned to be randomized in the trial in a 1:1 ratio to receive 200 mg or placebo once-daily administered for 16 weeks. EQUATOR will recruit in 8 European countries. The EQUATOR trial is fully recruited, and we expect trial completion in the second quarter of 2018.

Primary goal of EQUATOR is to evaluate the effect of filgotinib compared to placebo on the signs and symptoms of psoriatic arthritis, as assessed by the ACR20 at Week 16. The trial also explores the effects of filgotinib on the skin manifestations (psoriasis) as well as other domains like fingers (dactylitis), tendon insertions (tendinitis), spine involvement (spondylitis) and nail involvement.

## Ankylosing spondylitis (AS)

AS, a systemic, chronic, and progressive inflammatory arthritis, is one of the most common rheumatic diseases across the globe, affecting ~2 million patients in the U.S., Europe, and Japan today. AS primarily affects the spine and sacroiliac joints and progresses into severe inflammation that fuses the spine, leading to permanent painful stiffness of the back. Currently, there is no known cure for AS, but there are treatments and medications available to reduce symptoms and manage pain. Recent studies show that the newer biologic medications can potentially slow disease progression in some people, with varying responses.

The TORTUGA Phase 2 trial is a multi-center, randomized, double-blind, placebo-controlled trial to assess the safety and efficacy of the selective JAK1 inhibitor filgotinib in adult patients with moderate to severe active AS. Approximately 100 patients are planned to be randomized in the trial in a 1:1 ratio to receive 200 mg or placebo once-daily administered for 12 weeks. TORTUGA will recruit in 8 European countries. We expect to complete TORTUGA in the second half of 2018.

The primary goal of TORTUGA is to evaluate the effect of filgotinib compared to placebo on the signs and symptoms of AS, as assessed by the Ankylosing Spondylitis Disease Activity Score (ASDAS) at Week 12. The trial also explores signs & symptoms of AS, physical function, spinal mobility, enthesitis, spinal and sacroiliac joint inflammation, and safety.

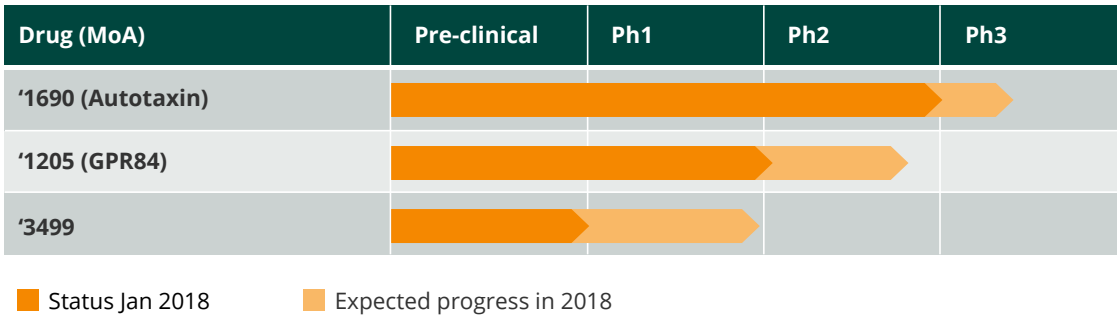
# Our IPF programs

IPF is a chronic, relentlessly progressive fibrotic disorder of the lungs that typically affects adults over the age of 40. IPF affects approximately 200,000 patients in the United States and Europe and, as such, we have received orphan designation for our product candidate GLPG1690 in IPF from the European Commission and from the FDA. The clinical prognosis of patients with IPF is poor, as survival at diagnosis is two to four years. Currently, no medical therapies have been found to cure IPF. The medical treatment strategy aims to slow disease progression and improve quality of life. Lung transplantation may be an option for appropriate patients with progressive disease and minimal comorbidities.

Regulatory agencies have approved Esbriet®[3] and Ofev®[4] for the treatment of mild to moderate IPF. Both Esbriet and Ofev have been shown to slow the rate of functional decline in IPF and are gaining ground as the standard of care worldwide. Combined sales of both drugs reached $1.1 billion in 2016, with 74% of global revenues being in the United States. 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 Ofev, nausea and rash with Esbriet). Therefore, there is still a large unmet medical need as IPF remains a major cause of morbidity and mortality. We estimate global sales of approved IPF drugs will grow to nearly $5 billion in 2025.

## Our IPF portfolio

### Building an IPF franchise




We have developed a portfolio of three candidate drugs, each with a distinct, novel mechanism of action aimed toward addressing the root causes of IPF. Having multiple mechanisms of action within our own portfolio of IPF candidates allows the possibility of exploring combinations of therapies as well. These candidates are fully proprietary to us, and we aim to commercialize successful drug candidates ourselves.

### GLPG1690

GLPG1690 is a potent and selective inhibitor of autotaxin (ATX). We identified ATX as a potential target for IPF, using an inflammation assay in our 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.

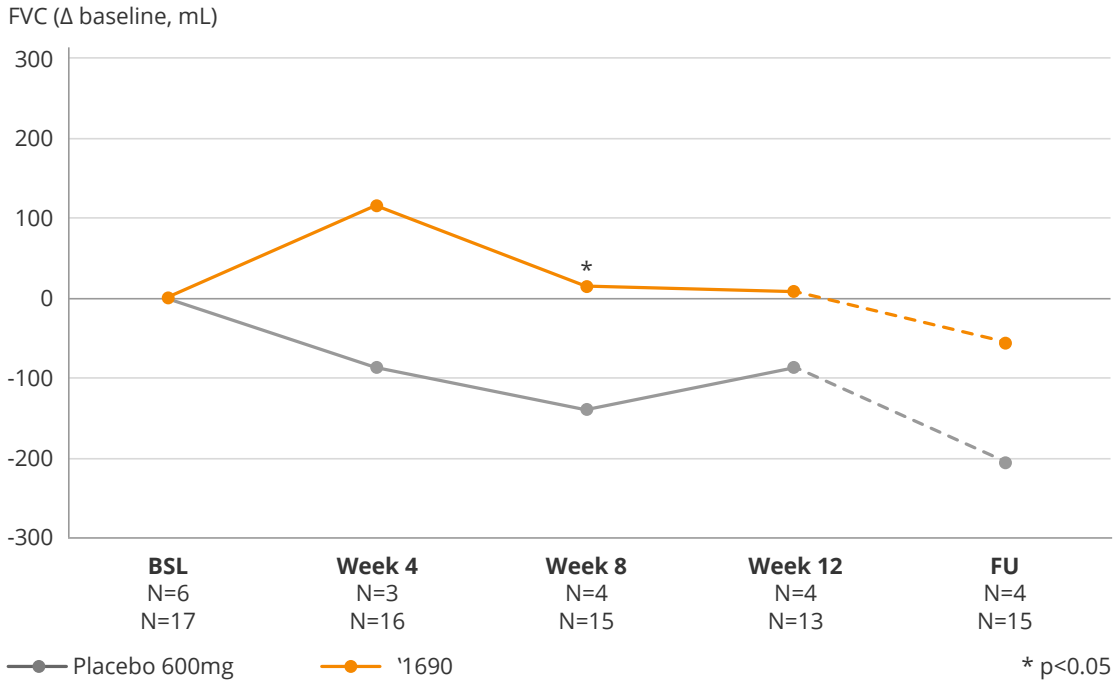
We completed a Phase 2a trial (called FLORA) in IPF patients and announced topline results in August 2017. FLORA was an exploratory, randomized, double-blind, placebo-controlled trial investigating a once-daily oral dose of GLPG1690. The drug candidate was administered for 12 weeks in 23 IPF patients, 17 of whom received GLPG1690 and 6 placebo.

[3] An approved drug (pirfenidone) for IPF, marketed by Roche.
[4] An approved drug (nintedanib) for IPF, marketed by Boehringer Ingelheim.

Primary objectives of the trial were to assess safety, tolerability, pharmacokinetics and pharmacodynamics of GLPG1690 in an IPF patient population. Secondary objectives included the evaluation of lung function, changes in disease biomarkers, FRI, and quality of life. The IPF diagnosis was confirmed by central reading.

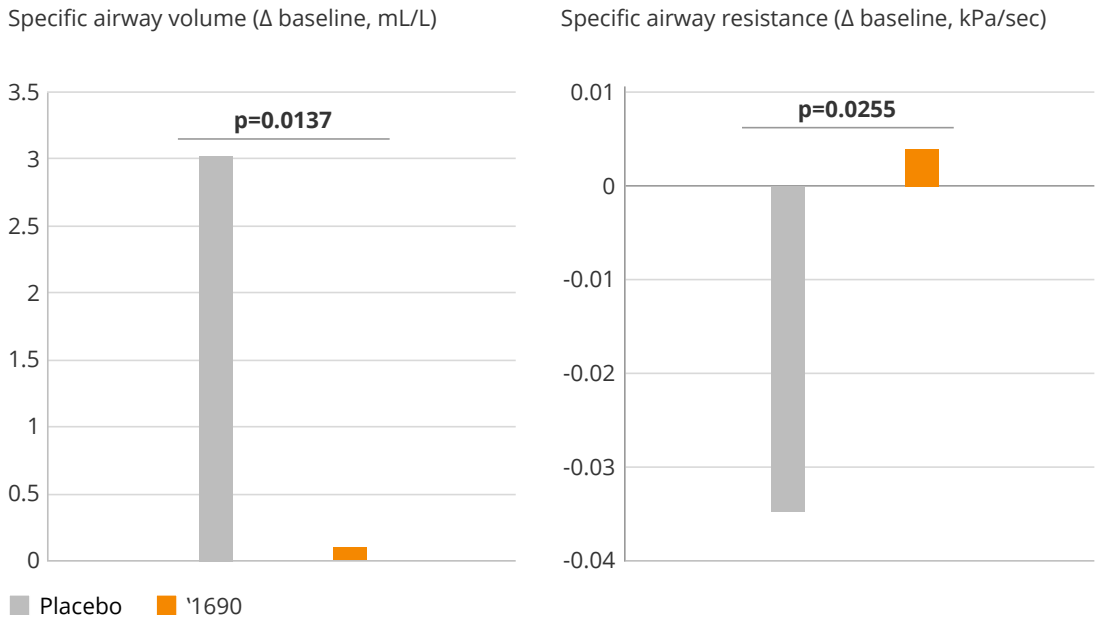
Over the 12-week period, patients receiving GLPG1690 showed stabilization of disease, with an FVC increase of 8 mL, while patients on placebo showed an FVC reduction of 87 mL (mean from baseline). Such reductions in FVC in the placebo arm were in line with expectations based on similarly conducted third-party trials in IPF patients.

### FVC: stabilization by '1690



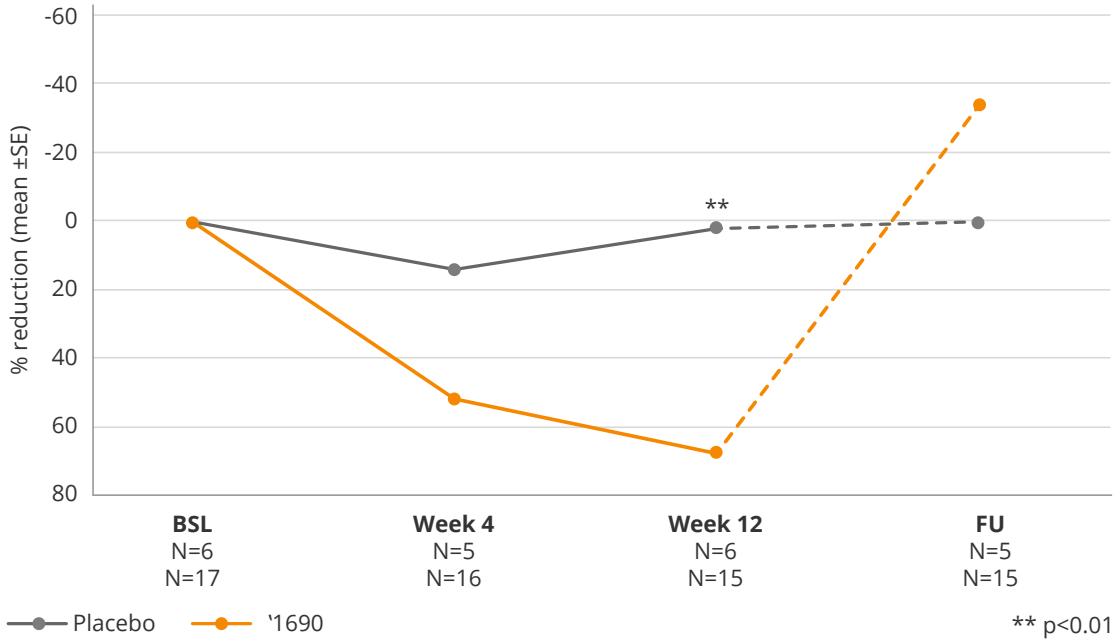

In addition to the demonstrated absence of lung function decline over the 12 week period, more sensitive functional respiratory imaging (FRI) confirmed disease stabilization in the GLPG1690 arm, versus disease progression in the placebo arm, reaching statistical significance on two specific parameters, despite the trial not being powered for significance.

## FRI: airway volume & resistance
### Significant difference between ‘1690 & placebo




Patients on GLPG1690 treatment showed a clear reduction of serum LPA18:2, a biomarker for ATX inhibition, as expected based on the mechanism of action of GLPG1690. Thus, the level of target engagement observed in Phase 1 with healthy volunteers was confirmed in IPF patients in FLORA.

## Steep reduction of biomarker
### Plasma LPA18:2 drops in ‘1690 arm




GLPG1690 was found to be generally well tolerated in this Phase 2 trial. Rates of discontinuation due to adverse events, as well as serious adverse event rates, were similar between patients on GLPG1690 and placebo.

## Balanced safety endpoints
## Between '1690 & placebo

| Overview safety endpoints | Placebo (N=6) | '1690 (N=17) |
|---|---|---|
| Treatment emergent adverse event | 67% (4) | 65% (11) |
| Serious TE AE | 33% (2) | 6% (1) |
| Mild TE AE | 0% (0) | 24% (4) |
| Moderate TE AE | 50% (3) | 35% (6) |
| Severe TE AE | 17% (1) | 6% (1) |
| Related TE AE | 0% (0) | 12% (2) |
| Temporarily stopped treatment | 0% (0) | 12% (2) |
| Permanently stopped treatment | 17% (1) | 6% (1) |

Related TEAEs: headache (mild intensity, no change in treatment) & peripheral swelling of shin (moderate intensity, treatment temporarily stopped)
Discontinuations: 1 placebo SAE, 2 GLPG1690: withdrawal of consent and SAE
All AEs reported in subjects with ≥ 1 reported AE

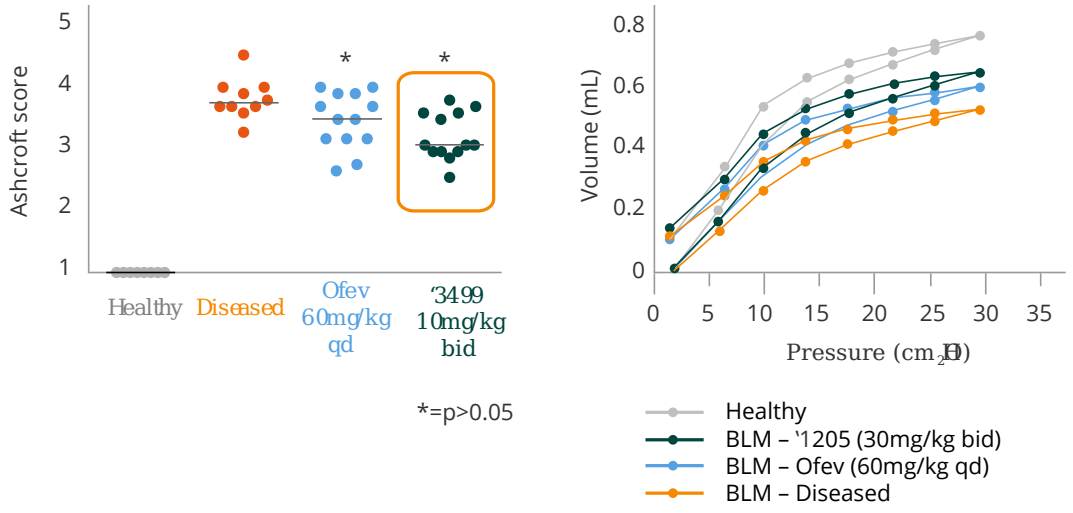
Following the promising results with GLPG1690 in the FLORA trial, we decided to pursue further development of the compound ourselves. We plan to progress GLPG1690 rapidly into a late stage trial and are in discussions with regulators regarding trial design.

### GLPG3499 and GLPG1205

In June 2017, we nominated a new product candidate for IPF, GLPG3499. The novel mechanism of action of GLPG3499 remains undisclosed. This candidate is expected to enter Phase 1 trials in 2018. Pre-clinical data in a bleomycin mouse model for IPF show a numerical advantage with treatment with GLPG3499 over Ofev in reduction of fibrotic scores.

GLPG1205 is a GPR84 inhibitor discovered by us and we have shown favorable tolerability but no effect in UC patients in 2016. GLPG1205 will be tested in IPF patients starting in 2018. Pre-clinical data in a bleomycin mouse model for IPF show a numerical advantage with treatment with GLPG1205 over Ofev in improvement of respiratory capacity.

### Additional novel mechanisms '3499 (left) and '1205 (right) in IPF




**'3499 and '1205 reduce IPF signs & symptoms in BLM model**

Note: both experiments are 21 day therapeutic bleomycin lung fibrosis model in mice (BLM)

# Our CF program

CF is a rare, life-threatening, genetic disease affecting the lungs and the digestive system, impacting approximately 80,000 patients worldwide. CF patients carry a defective CF transmembrane conductance regulator (CFTR) gene and are classified based on their specific mutation of the CFTR gene. The Class II mutation is present in approximately 90% of CF patients, with Orkambi®[5] and Symdeko®[6] being the only approved therapies for the underlying cause of CF in this mutation. Kalydeco®[7] is a disease-modifying treatment for Class III and several residual function mutations, representing about 8% of total CF patients. The market for CF therapies is robust and growing. According to Vertex Pharmaceuticals, approximately 9,000 patients were treated with Vertex therapies in 2016, and this they expect to grow to approximately 75,000 patients by 2024. Combined sales of Kalydeco and Orkambi were approximately $2.2 billion in 2017.

Despite the approval of Kalydeco, Orkambi, and Symdeko, there is need for better therapies to improve pulmonary function for a large majority of the patient population. 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.

CF drug developers are focused on two types of disease-modifying CFTR modulators. Potentiator molecules aim to restore the flow of ions through an activated CFTR by influencing the channel's opening. Corrector molecules aim to overcome defective protein processing by restoring proper folding of CFTR and allowing for increased cell surface expression. In order to improve CFTR function meaningfully for the largest patient group with Class II and other mutations, we believe a combination of medicines will be required, comprising a potentiator and two novel corrector (which we refer to as C1 and C2) molecules.

We believe that our candidate CF combination therapy may address the unmet need in CF patients with one or two copies of the F508del mutation. From 2005-2017, we focused on developing novel CF compounds to address the needs of Class II patients, and we believe we validated the potentiator and C1 corrector components in patient trials. In 2018 we expect to validate the final component, the C2 corrector, in a patient trial.

We aim to evaluate a once-daily, oral, triple combination CF therapy in patients starting in Q1 2018, with additional trials with novel CF compounds and triple combinations initiating throughout 2018. We developed a portfolio of lead and backup compounds from which to select the best potentiator and corrector molecules for our triple combination therapies. The first triple combination comprises GLPG2451, GLPG2222, and GLPG2737. The second comprises GLPG3067, GLPG2222, and GLPG2737.

## 1st triple combination

FALCON is a patient trial combining potentiator GLPG2451, C1 corrector GLPG2222, and C2 corrector GLPG2737 into a triple combination in CF patients homozygous for the Class II mutation.

## 2nd triple combination

The first healthy volunteer was dosed with a second novel investigational triple combination therapy comprising potentiator GLPG3067, C1 corrector GLPG2222, and C2 corrector GLPG2737 in a Phase 1 trial in Belgium. The aim of the Phase 1, randomized, double-blinded, placebo-controlled trial is to evaluate the safety, tolerability and pharmacokinetics of multiple ascending doses of this second investigational triple combination therapy in up

[5] A combination potentiator-corrector therapy marketed by Vertex Pharmaceuticals.
[6] A corrector-potentiator combination for CF patients with the Class II mutation; marketed by Vertex Pharmaceuticals.
[7] A potentiator drug (ivacaftor) marketed by Vertex Pharmaceuticals.

to 16 healthy volunteers. Topline results from this Phase 1 trial are expected to be presented at a future medical conference. We aim to evaluate this triple combination in patients, pending satisfactory completion of the Phase 1 trial.

### 3rd triple combination

We aim to evaluate a third triple combination comprising potentiator GLPG3067, C1 corrector GLPG2222, and C2 corrector GLPG3221 in both healthy volunteers and patients. We currently await the outcome of a Phase 1 trial with GLPG3221, which is expected in 2018.

## Our clinical program for CF

### Potentiators

We reported favorable tolerability and pharmacokinetics in Phase 1 trials for potentiator GLPG2451 and potentiator GLPG3067 at the North American Cystic Fibrosis Conference (NACFC) 2017. GLPG2451 and GLPG3067 have potential for once-daily dosing. GLPG2451 has an active metabolite with a half-life of one month. Both GLPG2451 and GLPG3067 were tested separately in combination with C1 corrector GLPG2222, showing favorable tolerability in healthy volunteers.

### C1 correctors

#### GLPG2222

We reported that GLPG2222, the first early binding (C1) corrector, showed favorable safety and tolerability in Phase 1 trials in healthy volunteers in June 2016. GLPG2222 was tested in single ascending doses up to 800 mg, and in multiple ascending doses up to 600 mg qd for 14 days in a double-blind, randomized, placebo-controlled trial. The product candidate was shown to be well-tolerated and no emerging safety signals observed in the dose range studied. In 2017, we reported topline data for GLPG2222 from two Phase 1b clinical trials, our ALBATROSS and FLAMINGO trials.

#### ALBATROSS

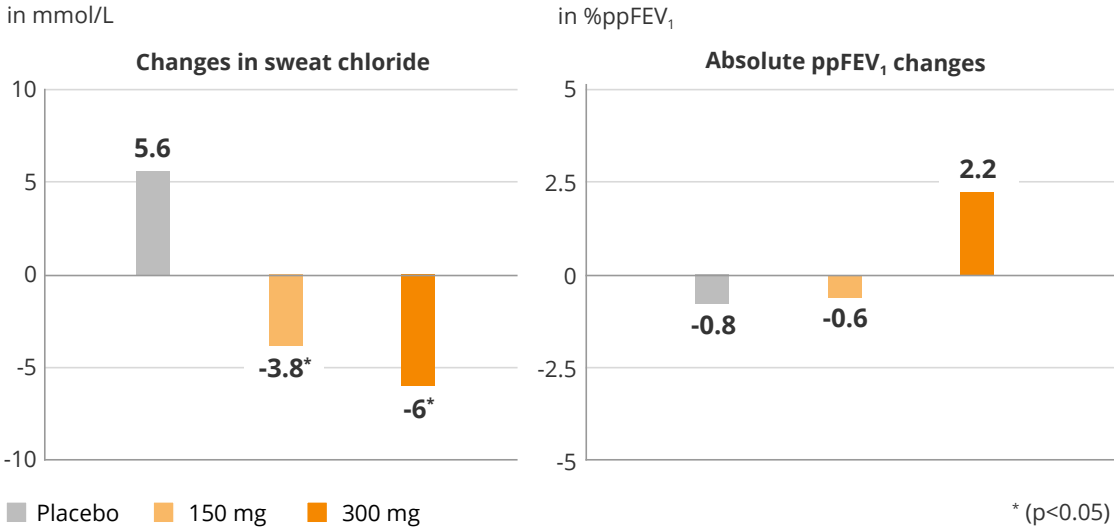
The ALBATROSS trial included 37 cystic fibrosis patients with a gating (Class III) mutation on one allele and F508del (Class II) mutation on the other allele. All patients were on long-term stable Kalydeco treatment (150 mg twice daily) at screening and continued their Kalydeco treatment throughout the trial. The ALBATROSS trial was fully recruited within five months.

Overall, GLPG2222 was well tolerated, with observed treatment emergent adverse events being predominantly mild or moderate, and typical for a CF patient population. There were no serious adverse events reported and no discontinuations due to adverse events.

The targeted exposures of GLPG2222 were achieved in this patient trial, further strengthening dosing modelling for the first investigational triple combination. Exposures achieved in patients were in line with those observed in healthy volunteers.

The additional activity observed with treatment with GLPG2222 on top of Kalydeco was in line with what was observed with tezacaftor combined with Kalydeco in a Phase 2 trial in this population. ALBATROSS showed dose-dependent decreases on sweat chloride; below is a summary of activity seen:

## Clear activity profile GLPG2222
### D29 vs. Baseline



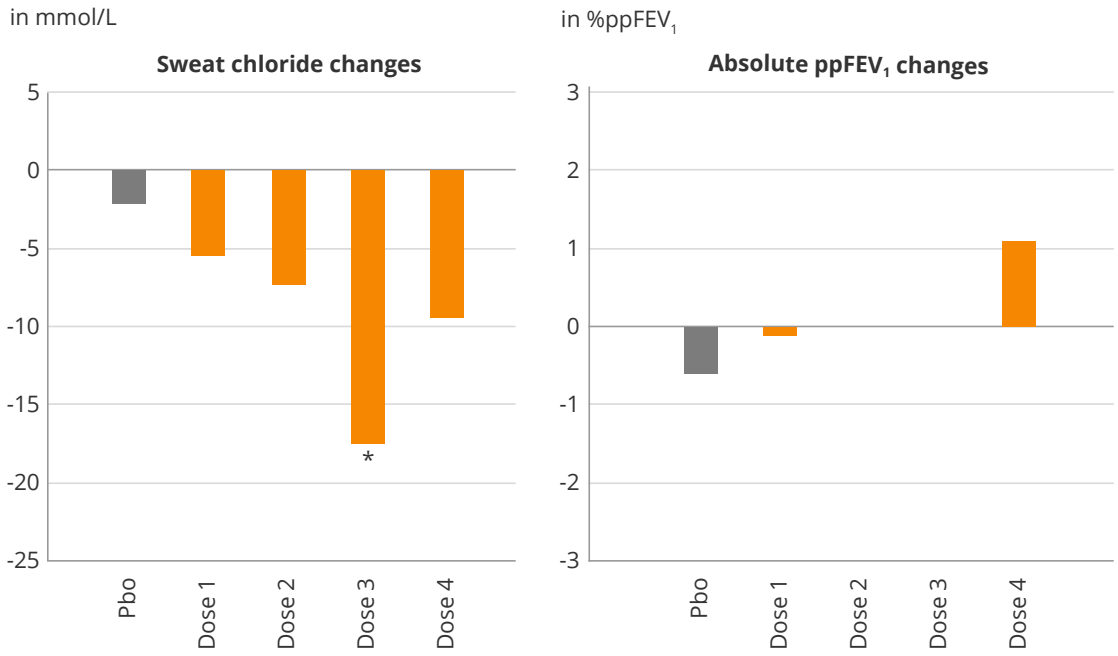

### FLAMINGO

The FLAMINGO trial included 59 cystic fibrosis (CF) patients with two copies of the Class II F508del mutation and who had not received prior treatment with Orkambi or Symdeko for four weeks prior to dosing of GLPG2222. The FLAMINGO trial was over-recruited within five months. This is our first CF patient trial conducted in the U.S. as well as in Europe. Once daily doses of GLPG2222 (ascending from dose 1 to dose 4) or placebo were administered for a total of four weeks on treatment. All patients completed the full treatment course.

Overall, GLPG2222 was well tolerated, with observed treatment emergent adverse events being predominantly mild or moderate and typical for a CF patient population. A total of four serious adverse events were reported in three patients. Of these, two patients were on placebo, each experiencing pulmonary exacerbations due to infection. One patient on dose 2 of GLPG2222 experienced two pulmonary exacerbations, both with onset during the follow up period; this patient had a significant sweat chloride decrease up to Day 29. There were no discontinuations due to adverse events.

A statistically significant, dose-dependent decrease in sweat chloride concentration was observed. Consistent with our expectations and similar prior trials conducted by Vertex, there was no significant impact on ppFEV1 levels.

## On target activity GLPG2222
### Mean changes D29 vs. baseline




* LOCF values Mean ±SE

We believe that ALBATROSS and FLAMINGO validated our C1 corrector series in patients.

### GLPG2851

A Phase 1 trial with backup novel C1 corrector GLPG2851 for cystic fibrosis (CF) started in late 2017; the aim of the trial is to evaluate the safety, tolerability and pharmacokinetics of GLPG2851 in healthy volunteers. The randomized, double-blind, placebo controlled, single center trial is being conducted in Belgium.

## C2 correctors

### GLPG2737

We reported favorable tolerability in a Phase 1 trial with our first late binding (C2) corrector GLPG2737, the final component needed for a triple combination therapy, at NACFC 2017.

### PELICAN

PELICAN is a patient trial with C2 corrector GLPG2737 in combination with Orkambi, being run in 10 sites in Germany. The aim of the double-blind, placebo-controlled Phase 2 trial is to evaluate the safety and tolerability of novel C2 corrector GLPG2737 in adult CF patients who are homozygous for the Class II F508del mutation. Patients will remain on their stable dose of Orkambi and will receive treatment with GLPG2737 over a period of 4 weeks, with up to 3 weeks' follow up. Secondary endpoints include measurements of sweat chloride and ppFEV%. We expect to report the results of PELICAN in 2018, and we look to this trial to validate our C2 corrector in patients.

### GLPG3221

We reported the start of a Phase 1 trial with novel backup C2 corrector GLPG3221 in late 2017. The aim of the Phase 1 trial is to evaluate the safety, tolerability and pharmacokinetics of GLPG3221 in healthy volunteers. The randomized, double-blind, placebo controlled, single center trial is being conducted in Belgium.

# Our OA program

Sometimes called degenerative joint disease or degenerative arthritis, 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. According to GlobalData, OA will be the fourth leading cause of disability by the year 2020. GlobalData estimates that diagnosed cases will grow to approximately 131 million cases by 2024.

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.

Although OA occurs in people of all ages, it 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 will develop symptoms of knee OA during their lives. One in four adults will develop symptoms of hip OA by age 85. 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 are currently no disease-modifying therapies available for OA, with drug sales for OA patients amounting to approximately $4 billion in generic painkillers in 2016.

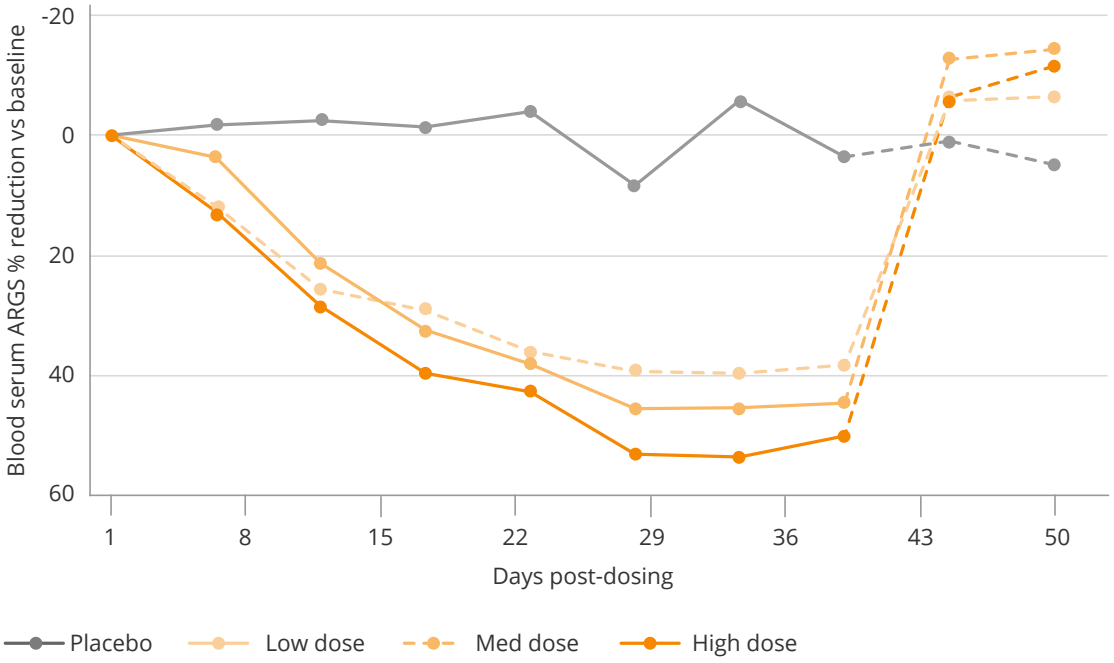
GLPG1972 is a candidate drug developed by us under our collaboration agreement with Servier. GLPG1972 acts on ADAMTS-5, a key aggrecanase involved in the breakdown of aggrecan in joint cartilage. ADAMTS-5 has been validated in the literature in both animal models and human explants, and AGRS, a byproduct of the cartilage breakdown action of ADAMTS-5, has been shown to be elevated in the joints of human OA patients.

In June 2016, we announced that GLPG1972 was shown to be safe and well tolerated in healthy human volunteers in a Phase 1 first-in-human trial. In this trial, dosing with GLPG1972 reduced ARGS neoepitope, a biomarker for cartilage breakdown via the ADAMTS-5 pathway, by up to 60% in these volunteers within two weeks.

We evaluated GLPG1972 in a randomized, placebo-controlled, double-blind Phase 1b trial in 30 patients aged 50 to 75 years with diagnosis of knee and/or hip osteoarthritis, in the United States. Patients were given one of three doses of GLPG1972 or placebo for a total of 4 weeks, with a 3 week follow-up period.

In this Phase 1b trial, GLPG1972 was well tolerated. There was one treatment discontinuation with reversible abnormal liver function test on Day 15 in the highest dose cohort. Patients on treatment achieved a dose-dependent, reduction of ARGS neoepitope versus placebo:

**Strong reduction of ARGS**
**'1972 Ph1b study in OA patients**




We work with Servier to develop GLPG1972. We are eligible to receive milestones and single-digit royalties on potential commercial sales for GLPG1972, while we retain full commercial rights in the United States. In July 2017, Servier licensed GLPG1972 for further development into OA patient trials outside the United States. Both companies are preparing a global Phase 2 program to evaluate the risk/benefit profile of GLPG1972 in OA patients, expected to start in 2018.

# Our AtD program

Atopic dermatitis (AtD), the most severe and common type of eczema, is a chronic relapsing inflammatory skin disease that causes severe itch, dry skin and rashes, predominantly on the face, inner side of the elbows and knees, and on hands and feet. Scratching of the afflicted skin leads to a vicious cycle causing redness, swelling, cracking, scaling of the skin and an increased risk of bacterial infections. Lichenification, thickening of the skin, is characteristic in older children and adults. The National Eczema Association estimates that AtD affects over 30 million Americans or up to 25% of children and 2-3% of adults. Sixty percent of AtD patients are diagnosed in the first year of life, and 90% of patients have a disease onset before age five. Symptoms commonly fade during childhood, however, approximately 10-30% of the patients will suffer from atopic dermatitis for life. A smaller percentage first develop symptoms as adults.

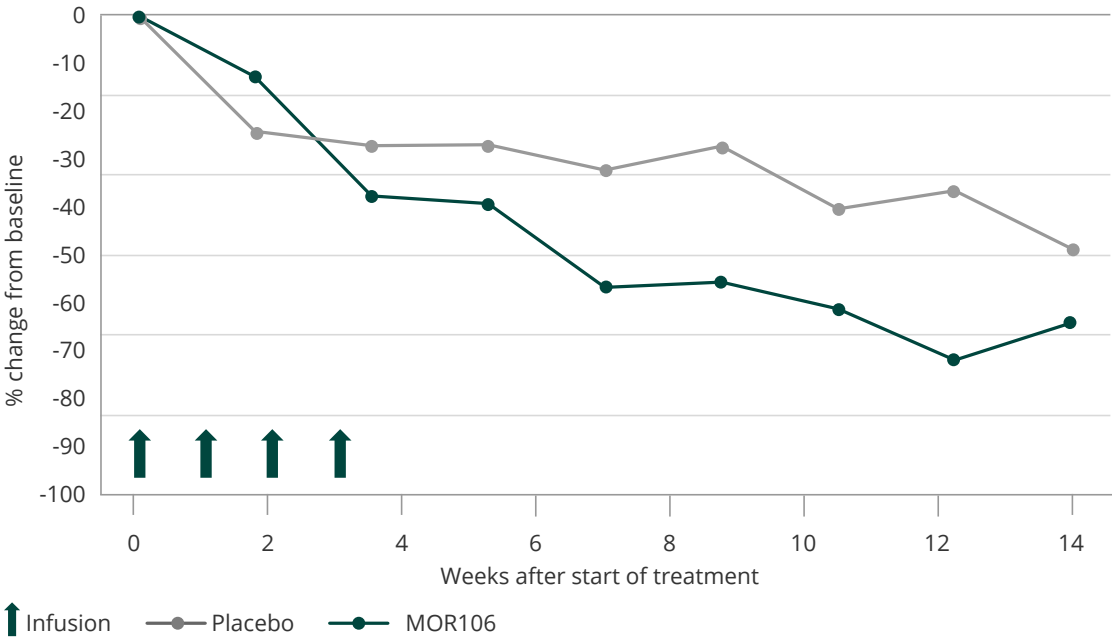
Generic drugs are the approved standard of care, including immunomodulators cyclosporine and mycophenolate mofetil and topical treatments. There are disease-modifying biologics and small molecules currently in development, with dupilimab (IL-4Rα) most recently approved.

MOR106 is a human monoclonal antibody designed to selectively target IL-17C in clinical development worldwide. IL-17C is a target discovered by us and has been shown to be distinct from other members of the IL-17 cytokine family, playing an important and pro-inflammatory role in certain skin disorders. MOR106 potently inhibits the binding of IL-17C to its receptor and thus inhibits its biological activity.

MOR106 arises from an alliance between us and MorphoSys, in which both companies contribute their core technologies and expertise and equally share costs and benefits.

We evaluated MOR106 in a randomized, double-blind, placebo-controlled Phase 1 trial. MOR106 showed favorable safety and PK results when administered to healthy volunteers in the ongoing trial. In the second portion of the trial with MOR106 in 24 AtD patients, all adverse drug reactions observed were mild-to-moderate and transient in nature and did not lead to clinically relevant safety signals. No serious adverse events and no infusion-related reactions were recorded. Even though the trial was not statistically powered to show differences in efficacy between treatment groups, at the highest dose level of MOR106, in 83% of patients (5 out of 6) an improvement of at least 50% in signs and symptoms of atopic dermatitis measured by the Eczema Area and Severity Index (EASI-50) was recorded at week 4. The onset of activity was rapid and occurred within few weeks and was maintained for over 2 months after the last treatment. Among patients receiving placebo, in 17% of patients (1 out of 6) an EASI-50 improvement was seen at week 4. As reported at AAD 2018, the pooled, mean EASI scores over time versus placebo show a sustained effect for weeks after completion of dosing:

**MOR106 Ph1b**
**EASI, % change from baseline, pooled data, median**

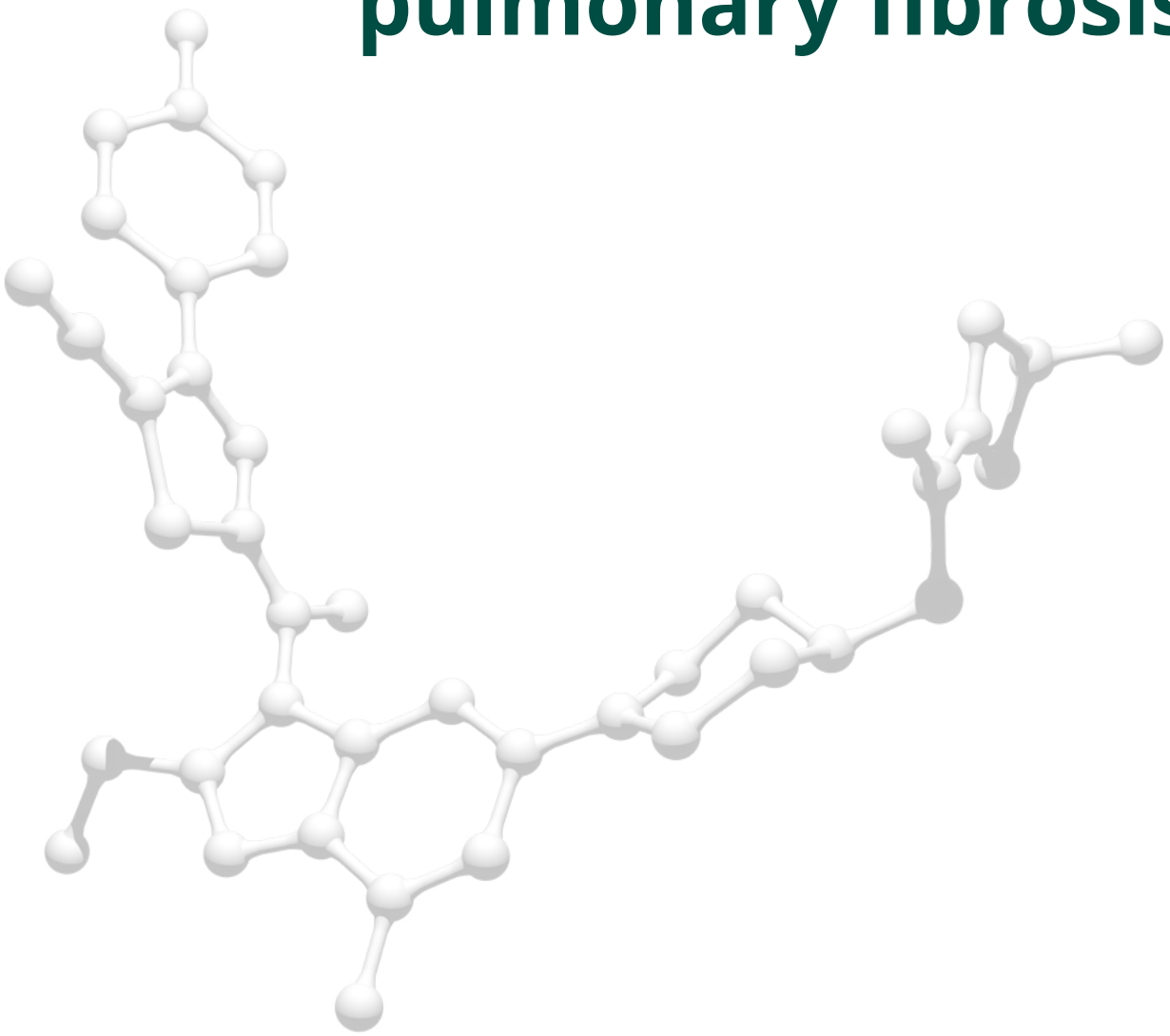



We and MorphoSys are preparing for a Phase 2 trial with MOR106, expected to initiate in the first half of 2018.

# Risk factors

Description of the risks of which investors should be aware

## **GLPG1690,** proof of platform in **idiopathic pulmonary fibrosis**



GLPG1690, a potent and selective inhibitor of autotaxin, a potential target for IPF.

# 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 operating 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 32 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 of directors 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. We are also dependent on the success of our other product candidates, such as our CF candidates (GLPG1837, GLPG2451, GLPG3067, GLPG2222, GLPG2851, GLPG2737, and GLPG3221 and combinations of these), GLPG1690, GLPG1972 and MOR106. We cannot give any assurance that any product candidate will successfully complete clinical trials or receive regulatory approval, which is necessary before it can be commercialized.

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 other 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 United States; 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.

More 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.

The Phase 3 FINCH program, led by our collaboration partner Gilead, is evaluating 100 mg and 200 mg filgotinib in both males and females in major RA patient populations world-wide. Men and women in both the Phase 2b/3 SELECTION and Phase 3 DIVERSITY trials in UC and CD, respectively, will be randomized to receive placebo, 100 mg or 200 mg filgotinib. In these SELECTION and DIVERSITY trials in the United States, males may receive 200 mg only if they failed conventional therapy, anti-TNF and vedolizumab. The filgotinib Phase 3 program also contains a dedicated male patient testicular safety study in UC patients.

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.

Combination therapies involve unique adverse events that could be exacerbated compared to adverse events from monotherapies or could lead to unfavorable drug-drug interactions.

If we are not able to maintain orphan product exclusivity for GLPG1690, or obtain such status for other or for future product candidates for which we seek this status, or if our competitors are able to obtain orphan product exclusivity before we do, we may not be able to obtain approval for our competing products for a significant period of time.

Our commercial success depends upon attaining significant market acceptance of our product candidates, if approved, among physicians, healthcare payers, patients and the medical community.

Coverage and reimbursement decisions by third-party payers may have an adverse effect on pricing and market acceptance. Legislative and regulatory activity may exert downward pressure on potential pricing and reimbursement for any of our product candidates, if approved, that could materially affect the opportunity to commercialize.

As a result of the 2016 election in the United States, there is great political uncertainty concerning the fate of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or, collectively, the ACA, which became law in the United States in 2010, and other healthcare laws. The United States Congress is expected to draft legislation to repeal parts of the ACA, but it is uncertain when such legislation would be passed and whether Congress would replace the law and what any replacement law would encompass. We cannot predict any initiatives that may be adopted in the future.

# Risks related to our reliance on third parties

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. In particular, we are heavily dependent on Gilead for its further development of our product candidate filgotinib and on AbbVie for its further development of our triple combination product candidate for the treatment of CF. Gilead and AbbVie may not devote sufficient resources or give sufficient priority to the filgotinib program or CF collaboration, respectively. Our collaborators may not elect to advance the product candidates on which we collaborate. Gilead may not be successful in the further development and commercialization of filgotinib, even when they do devote resources and prioritize their efforts for filgotinib. AbbVie may not be successful in the further development and commercialization of our potential triple combination product for the treatment of CF.

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. Our suppliers are required to adhere to contractual terms that include anti-bribery and anti-corruption provisions. Our general terms and conditions of purchase also contain a specific clause on anti-bribery and anti-corruption. They can be found on on our website.

We have relied on and plan to continue to rely on contract research organizations, or 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 expectations, 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 do retain responsibility for all our studies and are required to and have put in place measures to manage, oversee, and control our studies, including the CRO selection process, audits, strong focus on deliverables, timelines, roles & responsibilities, and oversight of conduct of the studies.

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. Our success will depend in part on our ability to operate without infringing the intellectual property and proprietary rights of third parties. We cannot guarantee that our business, products and methods do not or will not infringe the patents or other intellectual property rights of third parties. There is significant litigation activity in the pharmaceutical industry regarding patent and other intellectual property rights. Such litigation could result in substantial costs and be a distraction to management and other employees.

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. Attractive development and training programs, adequate remuneration and incentive schemes and a safe and healthy work environment mitigate this risk.

We expect that if we continue to build our development, medical and commercial organizations, we will require significant additional investment in personnel, management and resources. Our ability to achieve our research, development and commercialization objectives depends on our ability to respond effectively to these demands and expand our internal organization, systems, controls and facilities to accommodate additional anticipated growth. If we are unable to manage our growth effectively, our business could be harmed and our ability to execute our business strategy could suffer.

We currently have no marketing and sales organization. To the extent any of our product candidates for which we maintain commercial rights is approved for marketing, if we are unable to establish marketing and sales capabilities or enter into agreements with third parties to market and sell our product candidates, we may not be able to effectively market and sell any product candidates, or generate product revenues.

Risks from the improper conduct of employees, agents, contractors or collaborators, which could go against the fundamental human rights, could adversely affect our reputation and our business prospects, operating results, and financial condition. We could be subject to liabilities under human rights, corruption, environmental, health and safety laws or regulations, or fines, penalties or other sanctions. Therefore, high ethical standards are maintained throughout the entire organization at all levels with zero tolerance for corruption or bribery.

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.

Despite our efforts to monitor social media and comply with applicable rules, there is a risk that the use of social media by us or our employees to communicate about our drug candidates or business may cause us to be found in violation of applicable requirements. In addition, our employees may knowingly or inadvertently make use of social media in ways that may not comply with our social media policy or other legal or contractual

requirements, which may give rise to liability, lead to the loss of trade secrets, or result in public exposure of sensitive information. Furthermore, negative posts or comments in social media could seriously damage our reputation, brand image, and goodwill.

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, production of hazardous waste, 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.

In 2017, there were no environmental or safety incidents reported. We intend to make available the necessary resources (time, trainings, techniques, etc.) in order to implement a new Environment, Health and Safety, or EHS, management system, prevention policy and procedures which will pro-actively monitor and ensure compliance with all applicable laws and regulations, including our own internal standards. We also intend to take reasonable and practical initiatives to eliminate accidents and ill health and to provide a safe work environment and processes. Our goal is to have work form part of a satisfying life, which is to the benefit of both the individual and the organization.

We are committed to acting in a sustainable and responsible manner by keeping our environmental impact to a minimum, reducing waste, and handling it in a safe and responsible way.

The effectiveness of the EHS management system is based on the shared responsibility of the Galapagos staff in ensuring a safe, healthy and environmentally friendly work environment: every employee is responsible for protecting people and environment, in and around his or her workplace.

To guarantee continuous improvement, the effectiveness of the governance of the EHS management system will be reviewed regularly.

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.

As a company active in research and development in Belgium, we also expect to benefit from the "innovation income deduction" in Belgium. The innovation income deduction regime allows net profits attributable to revenue from among others patented products (or products for which the patent application is pending) to be taxed at a lower rate than other revenues, i.e., 4.4%, and 3.75% as of 1 January 2020.

When taken in combination with tax losses carried forward and research and development incentives mentioned above, we expect that this will result in a long-term low rate of corporation tax for us. It should be noted however that the Belgian corporate income tax reform introduced as of assessment year 2019 a *de facto* minimum taxable base, whereby the existing tax attributes have to be allocated into 2 so-called "*baskets*": a first basket which contains the tax deductions that can be applied without any restrictions and a second basket which contains the tax deductions that are subject to restrictions. The first basket contains (in order of deduction) the non-taxable items (such as deductible gifts), current year dividends received deduction (DRD), grandfathered patent income deduction (PID), current year innovation income deduction (IID) and investment deduction. The second basket contains (in order of deduction and subject to the restrictions as mentioned hereunder) the current year notional income deduction (NID), DRD carry-forward, IID carry-forward, tax loss carry-forward, unlimited NID carry-forward and NID carry-forward subject to the 7-year limitation. The taxable base can be reduced without any limitation with the deductions contained in the first basket. Any remaining taxable basis below €1 million can be fully compensated with deductions contained in the second basket. If the remaining taxable basis exceeds €1 million, the excess above €1 million can only be compensated with deductions of the second basket up to 70%. Such minimum taxable basis may have an impact on our future cash flows. At the end of 2017 we had €87.2 million of carryforward innovation income deduction in Belgium.

Our inability to qualify for the abovementioned advantageous tax regimes, as well as the introduction of the minimum taxable base and any other future adverse changes of Belgian tax legislation, may adversely affect our business, results of operations and financial condition.

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 our 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 of directors 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

We have 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. Our suppliers are required to adhere to contractual terms which include anti-bribery and anti-corruption provisions. In addition, our external consultants are required to comply with our Code of Business Conduct and Ethics and U.S. Foreign Corrupt Practices Act Policy.

- **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).

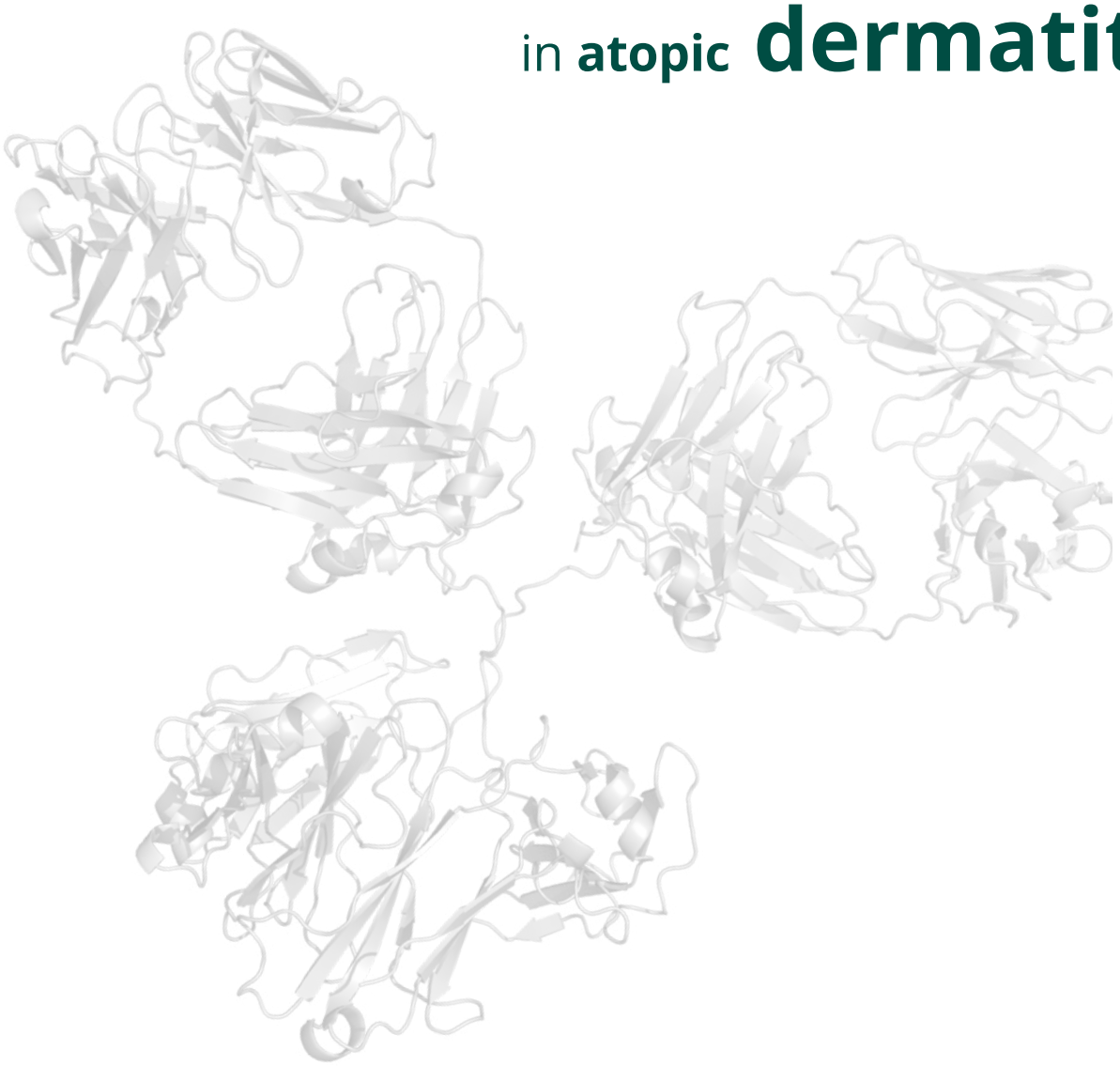
# General statement about Galapagos risks

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 2017

# **MOR106,** proof of platform in **atopic dermatitis**



MOR106 is a human monoclonal antibody, designed to target IL-17C which has shown to play an important role in skin disorders like AtD.

# 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 "Galapagos NV's share capital and shares" section and to the "Remuneration of non-executive Directors of Galapagos NV" section below.

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 our board of directors since 2004. Dr. Parekh is a General Partner at Advent Life Sciences LLP, which he joined in 2006. 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 N.V. (now uniQure). Dr. Parekh 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 SA; Itara Ltd.; Levicept Limited; PE Limited; Alpha Anomeric SA; Macrolide Inc. 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 our board of directors since 2005. Dr. Van Barlingen is the managing director and founder of Thuja Capital B.V., Thuja Capital Holding B.V. and Thuja Capital Management B.V. Prior to founding Thuja Capital, he headed the life sciences effort of AlpInvest Partners B.V. from 2001 to 2005, managing a portfolio of over 30 companies. Previously, he was at the Boston Consulting Group, or BCG, where he worked as a consultant in management and strategy from 1998 to 2001. Prior to BCG, Dr. Van Barlingen 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 B.V., Indigo Diabetes NV (chairman), ATRO Medical (chairman), and Hemics B.V. (chairman). In addition, during the last five years he also served on the boards of Okapi Sciences NV, Therasolve N.V. and arGEN-X N.V.

**Werner Cautreels, Ph.D.** has served as a member of our board of directors since 2009. Dr. Cautreels is the President, Chief Executive Officer and member of the board of Selecta Biosciences, Inc. Previously, Dr. Cautreels 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 S.A., 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. Dr. Cautreels was a director of Innogenetics NV and ArQule, Inc. from 1999 until 2006, and of Seres Therapeutics Inc. from 2012 until 2016. 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.

**Howard Rowe, JD** has served as a member of our board of directors since 2010. Mr. Rowe 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., MedAvante, Inc. and Ikonisys, Inc. Prior to his investing activities, Mr. Rowe 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. Mr. Rowe 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 Managers of Paradigm Spine LLC.

**Katrine Bosley** has served as a member of our board of directors since 2013. Ms. Bosley 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. Ms. Bosley 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. Ms. Bosley graduated from Cornell University with a B.A. in Biology. She currently serves as chairman of the board of Genocea Biosciences, Inc. She also serves on the boards of directors of the Biotechnology Innovation Organization and of the Massachusetts Eye and Ear Institute.

**Christine Mummery, Ph.D.** has served as a member of our board of directors since 30 September 2015. Dr. Mummery 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. Dr. Mummery 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), the KHMW, 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 B.V. (now Ncardia B.V.). In addition, she chairs the executive board of the Institute for human Organ and Disease Model Technologies (hDMT), a non-profit R&D institute of which the LUMC is a founding partner. She is a review committee member of the European Research Council, the Leducq Foundation, the Wellcome Trust (*ad hoc*) and the Heineken Jury Prize (KNAW).

**Mary Kerr, Ph.D.**, has served as a member of our board of directors since 26 July 2016. Dr. Kerr, a UK national, is Chief Executive Officer and director at NeRRe Therapeutics and Managing Director at KaNDy Therapeutics. Prior to her appointment at NeRRe, Dr. Kerr held a range of senior leadership roles at GSK over more than 20 years, most recently as Senior Vice President and Global Franchise leader for the Immuno-inflammation and Infectious Diseases franchise. Dr. Kerr was a founding member and on the Corporate Executive team of ViiV Healthcare where she led a turnaround in the performance of the HIV business in Europe. She has spent the majority of her career on the R&D commercial interface in global strategy and regional operational roles, predominantly in the specialty and orphan space. Dr. Kerr gained a Ph.D. in Pharmacology at the University of Bradford, did post-doctoral research at the Michigan Cancer Foundation in Detroit and has an MBA from the University of Kingston.

## 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. Van de Stolpe, all board members are non-executive directors.

In 2017, the following persons were members of the board: Dr. Parekh (Chairman), Mr. Van de Stolpe (CEO), Dr. Van Barlingen, Dr. Cautreels, Mr. Rowe, Ms. Bosley, Dr. Mummery and Dr. Kerr; the latter five directors were appointed as independent directors within the meaning of article 526*ter* of the Belgian Companies Code.

In 2017, the board thus consisted of three women and five men, representing four different nationalities and different age categories.

| Name | Nationality | Year of birth |
|---|---|---|
| Onno van de Stolpe | Dutch | 1959 |
| Rajesh Parekh | British | 1960 |
| Harrold van Barlingen | Dutch | 1965 |
| Werner Cautreels | Belgian | 1952 |
| Howard Rowe | British and U.S. | 1969 |
| Katrine Bosley | U.S. | 1968 |
| Christine Mummery | British and Dutch | 1953 |
| Mary Kerr | British | 1961 |

Furthermore, our board members have different educational backgrounds, as can be read in each of their profiles (above).

During 2017, 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. In proposing candidates, particular consideration is given to diversity in gender, age, nationality, educational and professional background, as well as complementary skills, knowledge and experience.

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 2017, the board of directors held four regular meetings, eight meetings by telephone conference to discuss specific matters and three meetings in the presence of a notary (relating to the issuance of Warrant Plan 2016 (B), Warrant Plan 2017 and Warrant Plan 2017 RMV, and the issuance of shares with cancellation of the shareholders' preferential subscription rights). Two meetings in the presence of a notary were attended by Mr. Van de Stolpe and Dr. Van Barlingen via telephone conference and all other directors were represented by proxy. The other meeting in the presence of a notary was attended by Mr. Van de Stolpe, Dr. Van Barlingen, Dr. Cautreels, and Dr. Mummery. Ms. Bosley and Mr. Rowe were represented by proxy. Dr. Parekh and Dr. Kerr were excused.

The attendance rate for the other meetings was as follows: Dr. Parekh: 75%; Mr. Van de Stolpe: 100%; Dr. Cautreels: 100%; Dr. Van Barlingen: 100%; Mr. Rowe: 100%; Ms. Bosley: 58%; Dr. Mummery: 92% and Dr. Kerr: 92%. The overall attendance rate was 90%. 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. A formal evaluation of the board and its committees was initiated in December 2017 and is currently still ongoing. This evaluation addresses the functioning of the board, the size and composition of the board, the interaction between the board and the executive management, and the functioning of the audit committee and the nomination and remuneration committee.

# Committees

## Executive committee

### Composition of Galapagos NV's executive committee

**Onno van de Stolpe** founded our company in 1999 and has served as our Chief Executive Officer and a member of our board of directors from 1999 to the present. From 1998 to 1999, he was the Managing Director of Genomics at IntroGene B.V. (later Crucell N.V., which was acquired by Johnson & Johnson Services, Inc. in 2011). Prior to joining IntroGene in 1998, he was Managing Director of Molecular Probes Europe B.V. He established the 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. Mr. Van de Stolpe started his career as Manager of Business Development at MOGEN International NV in Leiden. He received an MSc degree from Wageningen University. Mr. Van de Stolpe has previously served as a member of the board of directors of DCPrime B.V. and as a member of the supervisory board of the Stichting Institute for Human Organ and Disease Model Technologies.

**Bart Filius, MBA** has served as our Chief Financial Officer since December 2014 and as our Chief Operating Officer since September 2017. Prior to that, Mr. Filius worked over 13 years at Sanofi S.A., 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. Mr. Filius has an MBA degree from INSEAD and a bachelor's degree in business from Nyenrode Business University.

**Piet Wigerinck, Ph.D.** joined us in April 2008 as SVP Development and was appointed Chief Scientific Officer in 2012. Under his leadership, we have developed a large pipeline of novel mechanism of action drug candidates. He has supervised multiple successful proof-of-concept patient studies, including filgotinib, GLPG1690, and MOR106. Prior to his tenure at Galapagos, Dr. Wigerinck was Vice President, Drug Discovery, Early Development and CM&C at Tibotec-Virco Comm. VA (a subsidiary of Johnson & Johnson Services, Inc.). Under his leadership at Tibotec, TMC114 (Prezista™) and TMC435 (Olysio™) were selected and moved forward into clinical trials. Dr. Wigerinck 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. Dr. Wigerinck has over 30 years of R&D experience in the pharmaceutical industry and biotechnology. He holds a Ph.D. from the KU 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 as our Chief Business Officer. He joined Galapagos in March 2005 from Invitrogen Corporation, where he was Managing Director of Corporate Development Europe. He brings 20 years of biotech experience from positions at Molecular Probes Europe B.V. (Managing Director), Crucell N.V. (Director of Business Development), DSM Life Sciences N.V. and Syngenta MOGEN B.V. (Research and Project Management) and Genentech, Inc. (R&D). Dr. Hoekema has a Ph.D. degree from Leiden University and is the inventor of over 20 series of patent applications, resulting in 15 patents issued in the United States. Dr. Hoekema currently also serves as a member of the supervisory board of Mimetas B.V. and has previously served as a member of the supervisory board of VitalNext B.V.

**Walid Abi-Saab, MD** started his job as Chief Medical Officer at Galapagos in March 2017. Dr. Abi-Saab drives Galapagos' overall medical strategy and is responsible for late stage clinical development and operations, medical and regulatory affairs, and safety. Before, Dr. Abi-Saab worked at Shire AG where he held various clinical development leadership roles, most recently as Group Vice President, Global Clinical Development - Therapeutic Area Head, Gastro-intestinal, Endocrinology and Metabolism. Prior to that, he led clinical development activities at Novartis Pharma AG, Abbott Laboratories Inc. and Pfizer Inc., addressing a wide range of therapeutic areas and leading teams throughout the clinical development process. Under his leadership, more than 30 molecules have advanced through clinical development leading to several approvals in the United States, EU and Canada. Prior to his pharma roles, Dr. Abi-Saab was Assistant Professor of Psychiatry and Neurosurgery at Yale University Medical School, where he headed their Schizophrenia Research at the Clinical Neuroscience Research Unit and the Neurosurgery Epilepsy Microdialysis Research Program. Dr. Abi-Saab holds an MD degree from Université Saint Joseph in Beirut, Lebanon.

## 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 our development in general, management of the group, 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.

The executive committee meets regularly, and in principle once per month.

On 31 December 2017, the executive committee consisted of five people: Mr. Van de Stolpe (CEO, also executive director), Mr. Filius (CFO and COO), Dr. Wigerinck (CSO), Dr. Hoekema (CBO), and Dr. Abi-Saab (CMO), representing four different nationalities and different age categories.

| Name | Nationality | Year of birth |
|---|---|---|
| Onno van de Stolpe | Dutch | 1959 |
| Bart Filius | Dutch | 1970 |
| Piet Wigerinck | Belgian | 1964 |
| Andre Hoekema | Dutch | 1957 |
| Walid Abi-Saab | U.S. and Lebanese | 1965 |

Furthermore, the members of our executive committee have different educational backgrounds, as can be read in each of their profiles (above).

In proposing candidates for the executive committee, particular consideration is given to educational and professional background, complementary skills, knowledge and experience, as well as to diversity in age, gender and nationality.

## Audit committee

The role of the audit committee is to follow up on financial reporting and verification of financial data, safeguard the integrity of our financial reporting, verify and follow up on the internal control mechanisms, evaluate and verify the effectiveness of the risk assessment systems, follow up on the internal and external audit activities, review, monitor and evaluate the independence and performance of the external auditor and inform the board on the results of the statutory audit.

At the end of 2017, 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. All members of the audit committee have extensive experience in the life sciences industry. The chairman has relevant expertise 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 2017, the audit committee held seven meetings, in which it dealt with matters pertaining to, amongst other things, audit review, risk management, monitoring financial reporting, the monitoring of Sarbanes-Oxley compliant internal and external audit systems and the effects of the Belgian and European audit reform legislation. The audit committee acts as a collegial body. The overall attendance at the audit committee meetings in 2017 was 100%. 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 2017, 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 2017, the nomination and remuneration committee held two meetings, dealing with matters pertaining to grants of warrants and bonuses, the nomination and remuneration of directors and salary increases. The nomination and remuneration committee acts as a collegial body. The overall attendance rate at the nomination and remuneration committee meetings in 2017 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 the 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) | | |
| Mary Kerr(1) | | |

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

# Galapagos NV's share capital and shares

## Share capital increases and issue of shares by Galapagos NV in 2017

On 1 January 2017, the share capital of Galapagos NV amounted to €250,187,166.48 represented by 46,256,078 shares. In the course of 2017 there were four capital increases resulting from the exercise of warrants, resulting in the issuance of 368,200 new shares, an increase of the share capital by €1,991,962.00 and an increase of the issuance premium account by €3,296,108.20. In addition, on 21 April 2017, Galapagos NV completed the offering in the U.S. of 4,312,500 new shares in the form of American Depositary Shares at a price of $90.00 per share. This resulted in a share capital increase of €23,330,625.00 and an increase of the issuance premium account by €340,593,425.64.

At the end of 2017, the share capital of Galapagos NV amounted to €275,509,753.48 represented by 50,936,778 shares.

On 20 January 2017, the board of directors issued 150,000 warrants (after acceptance by the beneficiary) within the framework of the authorized capital, for the benefit of Dr. Walid Abi-Saab in the context of his appointment as Chief Medical Officer ("Warrant Plan 2016 (B)"). The warrants issued under Warrant Plan 2016 (B) have a term of eight years and an exercise price of €62.50.

Schemes under which executive managers are remunerated in warrants should be subject to prior shareholder approval by way of a resolution at the general shareholders' meeting pursuant to Principle 7.13 of the Belgian Corporate Governance Code 2009. In view of (i) the fact that this Warrant Plan 2016 (B) fell within the scope of the authorization granted by the extraordinary shareholders' meeting to the board of directors on 26 April 2016 to use the authorized capital for the issue of warrants in the framework of the remuneration policy for Galapagos' employees, directors and independent consultants and (ii) our interest in having Dr. Abi-Saab join Galapagos as soon as possible, we are of the opinion that it would not have been desirable to convene a special shareholders' meeting to grant its express prior approval for this Warrant Plan 2016 (B).

On 17 May 2017, the board of directors issued 723,000 warrants (after 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 2017" and "Warrant Plan 2017 RMV").

The offer of warrants to the directors and to the members of the executive committee under Warrant Plan 2017 was approved by the annual shareholders' meeting of 25 April 2017. The warrants issued under Warrant Plan 2017 and Warrant Plan 2017 RMV have a term of eight years and an exercise price of €80.57.

## Number and form of Galapagos shares

Of the 50,936,778 shares of Galapagos NV outstanding at the end of 2017, 6,786,054 were registered shares and 44,150,724 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 publication of this renewal in the Annexes to the Belgian State Gazette, i.e. 31 May 2017. 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 €82,561,764.93. In 2017, 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 (the first two of which took place under the previous authorized capital): (1) on 20 January 2017, in connection with the issuance of Warrant Plan 2016 (B), under which a maximum of 150,000 new shares can be issued for a total maximum capital increase of €811,500.00 (plus issuance premium); (2) on 21 April 2017, in connection with the public offering in the U.S. of 4,312,500 new shares in the form of American Depositary Shares, resulting in an increase of the share capital by €23,330,625.00 (plus issuance premium); and (3) on 17 May 2017, in connection with the issuance of Warrant Plan 2017 and Warrant Plan 2017 RMV, under which an aggregate maximum of 723,000 new shares can be issued for a total maximum capital increase of €3,911,430.00 (plus issuance premium). On 31 December 2017, an amount of €78,650,334.93 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 2017, 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.

## Material contracts containing change of control clauses

The license and collaboration agreement between the company and Gilead Biopharmaceutics Ireland Unlimited Company dated 16 December 2015 contains provisions granting certain rights to Gilead upon the occurrence of a public takeover bid on our shares or a change of control in respect of Galapagos NV, including clause 15.6 (*Assignment; Industry Transaction; Acquired Programs*), entitling Gilead (i) in the event of an industry transaction involving Galapagos, as a result of which a drug company of a certain minimum size acquires control over Galapagos, to terminate our co-promotion rights, to disband all joint committees and undertake exclusive control of their activities; and (ii) in the event of a change of control as a result of which we acquire rights to an alternative product that would violate certain of our exclusivity obligations under the agreement, to require us to either divest or terminate this acquired program. Gilead Biopharmaceutics Ireland Unlimited Company's rights and obligations under the license and collaboration agreement were assigned to another affiliate of Gilead on 7 December 2017.

The amended and restated global collaboration agreement between the company and AbbVie S.à r.l. dated 28 April 2016 contains provisions granting certain rights to AbbVie upon the occurrence of a public takeover bid on our shares or a change of control in respect of Galapagos NV, including clause 13.2 (Change in Control of Galapagos), entitling AbbVie, in the event of a change in control over the company, to disband the joint committees and assume their tasks, oblige us to take appropriate measures to avoid the disclosure of confidential information, terminate our co-promotion rights or, depending on the stage in which the change of control occurs, to terminate the agreement.

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

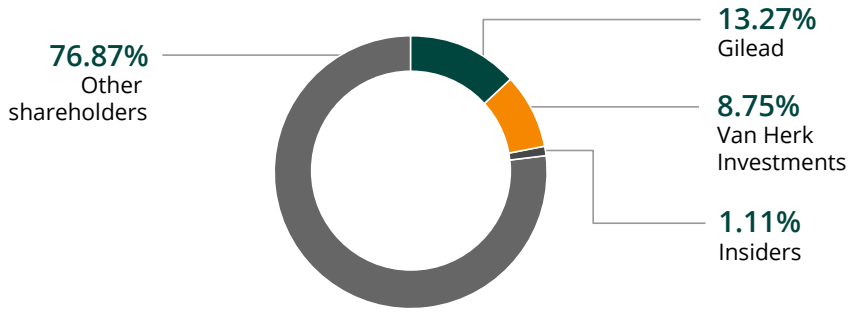
Pursuant to the Belgian Companies Code, any amendment to the articles of association, such as an increase or decrease in the share capital of Galapagos NV, and certain other matters, such as the approval of the dissolution, merger or de-merger of Galapagos NV may only be authorized with the approval 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 Galapagos NV's shares on 31 December 2017 were Gilead Therapeutics A1 Unlimited Company (6,760,701 shares or 13.27%), and Van Herk Investments B.V. (4,457,147 shares or 8.75%).

### Major shareholders on 31 December 2017




At the end of 2017, our CEO owned 478,289 shares of Galapagos NV and 746,874 warrants. The other members of our executive committee held an aggregate of 52,502 shares and 1,292,500 warrants. The other members of our board held an aggregate of 33,594 shares and 216,060 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 16 December 2015, we signed an exclusive license and collaboration agreement to develop and commercialize filgotinib in multiple indications with Gilead Biopharmaceutics Ireland Unlimited Company. This agreement was assigned to another affiliate of Gilead on 7 December 2017. Under the terms of the collaboration, Gilead is primarily responsible for development and for seeking regulatory approval of the licensed product. We are required to use commercially reasonable efforts as requested by Gilead to assist Gilead with certain development activities. In addition, we agreed on a 20-80 cost split for development costs of the licensed product, i.e. we will bear 20% of all development costs.

In the framework of the closing of the transaction on 19 January 2016, Gilead paid a license fee of $300 million (or €275.6 million) and 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 and a standstill arrangement, both of which expired on 31 December 2017.

# 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. 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 part and 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 individual and corporate objectives that are established annually. The corporate objectives and the CEO's objectives are established annually by the board of directors upon recommendation of the nomination and remuneration committee, 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 2017, 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, 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, except in case of retirement with Galapagos' consent or in case of redundancy. If employment within the Galapagos group ends because of either retirement with Galapagos' consent or redundancy, then the deferred bonus will become payable on the last day of employment of the beneficiary with the Galapagos group. In this case, the increase or decrease in the deferred bonus will be calculated in a similar manner to that quoted above with the exception that the final reference share price will be the price at the close of business on the Amsterdam/Brussels Euronext Exchange on the last working day immediately preceding the last day of employment and the final reference value of Next Biotech Index will be the value quoted at the close of trading on the day preceding the last day of employment.

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 75% 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 2017 and the years before, as described above, in the next two financial years.

## Remuneration of non-executive directors of Galapagos NV

Upon recommendation of the nomination and remuneration committee, the annual shareholders' meeting of 25 April 2017 resolved that the compensation (excluding expenses) of the non-executive directors for the exercise of their mandate during the financial year ending 31 December 2017 was established as follows: (i) chairman of the board (Dr. Parekh): €80,000; (ii) other non-executive board members (Dr. Cautreels, Dr. Van Barlingen, Mr. Rowe, Ms. Bosley, Dr. Mummery and Dr. Kerr): €40,000 each; (iii) annual additional compensation for membership of a board committee (audit committee: Mr. Rowe and Dr. Van Barlingen; nomination and remuneration committee: Dr. Cautreels and Ms. Bosley): €5,000; (iv) annual additional compensation for the chairmanship of a board committee (audit committee: Dr. Cautreels; nomination and remuneration committee: Dr. Parekh): €10,000.

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.

In 2017, 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 2016 (B), Warrant Plan 2017 and Warrant Plan 2017 RMV. In accordance with the resolution of the annual shareholders' meeting of 25 April 2017, the following number of warrants were offered under Warrant Plan 2017 to the non-executive directors: Dr. Parekh: 15,000 warrants; and Dr. Cautreels, Ms. Bosley, Dr. Van Barlingen, Mr. Rowe, Dr. Mummery and Dr. Kerr: 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 €80.57. As regards the directors, the warrants vest over a period of 36 months at a rate of 1/36th 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. No warrants were offered to directors under Warrant Plan 2016 (B) or Warrant Plan 2017 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 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 that 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.

In addition to the benefits set forth above, the non-executive directors also received benefits consisting of tax advisory services in 2017 for an aggregate amount of €2,700.

## 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 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 (with respect to the other members of the executive committee, such recommendation is based on proposals from the CEO). 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 2017, the corporate objectives included elements of clinical trial progression, cash position, corporate development and business development. 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 2017

i. Base salary (fixed): €484,074.00 (including €18,859.44 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 2017), a bonus equal to 100% of the 2017 base salary was awarded over 2017, of which 50% was paid early January 2018, and the other 50% was deferred for 3 years. The value of the 50% deferred part of the bonus awarded over 2014 was established at the end of 2017 and resulted in a payment in early January 2018 of an amount of €696,769.00 (a multiple of 5.2 of the deferred bonus, as a result of the share price performance over the period 2014-2017 as per the provisions of the Senior Management Bonus Scheme).

iii. Pension: €61,630.74 (of which €18,859.44 is part of the base salary).

iv. Other components of the remuneration: company car, tax advisory services, and payments for invalidity and healthcare cover, totaling €37,955.94.

In its meeting of 5 December 2017 (in application of article 523 of the Belgian Companies Code and without the CEO taking part in the deliberation and vote) the board of directors resolved, upon recommendation of the nomination and remuneration committee, to increase the CEO's salary by 3% as from 2018. 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 2017

i. Base salaries (fixed): €1,234,852.53 (including €61,353.27 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 2017), an aggregate bonus of €900,047.00 (i.e. 100% of the aggregate bonus pool) was awarded over 2017 of which 50% was paid early January 2018, and the other 50% was deferred for 3 years. The value of the 50% deferred part of the bonus awarded over 2014 was established at the end of 2017 and resulted in a payment in early January 2018 of an amount of €519,977.00 (a multiple of 5.2 of the deferred bonus, as a result of the share price performance over the period 2014-2017 as per the provisions of the Senior Management Bonus Scheme).

iii. Pensions: €186,740.34 (of which €61,353.27 are part of the fixed base salary).

iv. Other components of the remunerations: company cars, tax advisory services, and payments for invalidity and healthcare cover, and other fringe benefits, totaling €71,993.08.

In its meeting of 5 December 2017 the board of directors resolved, upon recommendation of the nomination and remuneration committee, to implement salary increases as from 2018 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 executive committee members during financial year 2017

In 2017, 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 2017 and, in aggregate, 112,500 warrants were exercised by members of the executive committee in 2017 (60,000 warrants were exercised by Onno van de Stolpe, 20,000 warrants by Piet Wigerinck and 32,500 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 2017: (1) under Warrant Plan 2016 (B), issued by the board of directors under the authorized capital on 20 January 2017, 150,000 warrants to Dr. Abi-Saab and (2) under Warrant Plan 2017, issued by the board of directors under the authorized capital on 17 May 2017, to Mr. Van de Stolpe: 100,000 warrants, to each of Dr. Wigerinck, Mr. Filius and Dr. Hoekema: 60,000 warrants, and to Dr. Abi-Saab: 45,000 warrants.

The warrants issued under Warrant Plan 2016 (B) have an exercise price of €62.50 per warrant, a life time of 8 years, and vest only and fully at the third anniversary of the deed of issuance of the warrants. The warrants cannot be exercised prior to the third anniversary of the deed of issuance of the warrants; they are not transferable, and each warrant gives the right to subscribe to one share of Galapagos NV.

The warrants issued under Warrant Plan 2017 have an exercise price of €80.57, 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 1/36th 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.

At the end of 2017, Mr. Van de Stolpe owned 478,289 shares of Galapagos NV and 746,874 warrants. The other members of the executive committee held an aggregate of 52,502 shares and 1,292,500 warrants. The other members of the board held an aggregate of 33,594 shares and 216,060 warrants. Each warrant entitles its holder to subscribe to one share of Galapagos NV.

## 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 executive committee members during financial year 2017

Not applicable; in 2017 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, major shareholders or any of their immediate family members and affiliates. 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 in the voting.

In 2017, one conflict of interests between Galapagos NV and a director within the meaning of article 523 of the Belgian Companies Code was noted: in a meeting of the board of directors held on 5 December 2017, 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% as of 2018. 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 2017) a bonus equal to 100% of his 2017 salary was awarded to Mr. Van de Stolpe for 2017. It was explained to the board that said salary increase and bonus is a justified reward for the results achieved by Mr. Van de Stolpe in 2017. The salary increase and bonus will have no material impact on the financial position of the company. The board shared 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.

# Code of Business Conduct and Ethics

We have established a Code of Business Conduct and Ethics to ensure that our directors, officers and employees are making ethical and legal decisions when conducting Galapagos' business and performing their day-to-day duties. We expect our directors, officers and employees to conduct business with integrity, ethics and respect for human rights. We expect them to turn away from conflicts of interest, corruption and fraud. To this end, we give trainings on this Code to our employees. So far, 92% of our employees from Galapagos R&D have completed the training.

The Code of Business Conduct and Ethics is available at www.glpg.com/charters-and-codes.

We were not informed of any breaches of our Code of Business Conduct and Ethics in 2017.

# 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 as of 31 December 2017.

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 2017, gives a true and fair view on the development, results and position of Galapagos 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 2017, and to release the directors and the statutory auditor from liability for the performance of their mandate during the financial year ended 31 December 2017.

Mechelen, 20 March 2018

On behalf of the board of directors

**Onno van de Stolpe**
CEO

**Raj Parekh**
Chairman

# Financial statements

Consolidated and non-consolidated financial statements for 2017

**Innovative** medicines aimed at **changing**

# **people's lives**

# Consolidated financial statements

## Consolidated statements of income and comprehensive income

Consolidated income statement

| | Year ended 31 December | | |
|---|---|---|---|
| (thousands of €, except share and per share data) | 2017 | 2016 | Notes |
| Revenues | 127,087 | 129,519 | 5 |
| Other income | 28,830 | 22,093 | 5 |
| **Total revenues and other income** | **155,918** | **151,612** | |
| | | | |
| Research and development expenditure | (218,502) | (139,573) | 6 |
| General and administrative expenses | (24,415) | (21,744) | 6 |
| Sales and marketing expenses | (2,803) | (1,785) | 6 |
| **Total operating expenses** | **(245,720)** | **(163,103)** | |
| | | | |
| **Operating loss** | **(89,802)** | **(11,491)** | |
| | | | |
| Fair value re-measurement of share subscription agreement | – | 57,479 | 8 |
| Other financial income | 4,877 | 9,950 | 9 |
| Other financial expenses | (30,582) | (1,692) | 9 |
| | | | |
| **Profit / loss (–) before tax** | **(115,507)** | **54,246** | |
| | | | |
| Income taxes | (198) | (235) | 10 |
| | | | |
| **Net income / loss (–)** | **(115,704)** | **54,012** | 11 |
| **Net income / loss (–) attributable to:** | | | |
| Owners of the parent | (115,704) | 54,012 | |
| **Basic income / loss (–) per share** | **(2.34)** | **1.18** | 11 |
| **Diluted income / loss (–) per share** | **(2.34)** | **1.14** | 11 |
| Weighted average number of shares – Basic (in thousands of shares) | 49,479 | 45,696 | 11 |
| Weighted average number of shares – Diluted (in thousands of shares) | 49,479 | 47,308 | |

## Consolidated statement of comprehensive income

| | Year ended 31 December | | |
|---|---|---|---|
| (thousands of €) | 2017 | 2016 | Notes |
| **Net income / loss (–)** | **(115,704)** | **54,012** | |
| **Items that will not be reclassified subsequently to profit or loss:** | | | |
| Re-measurement of defined benefit obligation | (40) | (583) | 28 |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Fair value adjustment of available-for-sale financial assets | (220) | (399) | 14 |
| Translation differences, arisen from translating foreign activities | (664) | (623) | 21 |
| **Other comprehensive income, net of income tax** | **(924)** | **(1,605)** | |
| | | | |
| **Total comprehensive income attributable to:** | | | |
| Owners of the parent | (116,629) | 52,406 | |

# Consolidated statements of financial position

| (thousands of €) | 31 December 2017 | 2016 | Notes |
|---|---|---|---|
| **Assets** | | | |
| | | | |
| Intangible assets | 2,495 | 1,023 | 12 |
| Property, plant and equipment | 16,692 | 14,961 | 13 |
| Deferred tax assets | 1,978 | 1,957 | 22 |
| Non-current R&D incentives receivables | 64,001 | 54,188 | 15 |
| Non-current restricted cash | 1,158 | 1,098 | 16 |
| Other non-current assets | 2,303 | 2,880 | 14 |
| **Non-currents assets** | **88,627** | **76,107** | |
| | | | |
| Inventories | 279 | 300 | |
| Trade and other receivables | 27,966 | 9,728 | 17 |
| Current R&D incentives receivables | 11,782 | 10,154 | 15 |
| Cash and cash equivalents | 1,151,211 | 973,241 | 18 |
| Current restricted cash | – | 6,570 | 16 |
| Other current assets | 6,409 | 7,239 | 17 |
| **Current assets** | **1,197,647** | **1,007,232** | |
| **Total assets** | **1,286,274** | **1,083,338** | |
| | | | |
| **Equity and liabilities** | | | |
| | | | |
| Share capital | 233,414 | 223,928 | 19 |
| Share premium account | 993,025 | 649,135 | 19 |
| Other reserves | (1,260) | (1,000) | 20 |
| Translation differences | (1,754) | (1,090) | 21 |
| Accumulated losses | (211,441) | (112,272) | |
| **Total equity** | **1,011,983** | **758,701** | |
| | | | |
| Pension liabilities | 3,582 | 3,520 | 28 |
| Provisions | 65 | 63 | |
| Finance lease liabilities | – | 9 | |
| Other non-current liabilities | 1,597 | 2,469 | 23 |
| Non-current deferred income | 97,348 | 214,785 | 24 |
| **Non-current liabilities** | **102,592** | **220,846** | |

| | 31 December | | |
|---|---|---|---|
| (thousands of €) | 2017 | 2016 | Notes |
| Finance lease liabilities | 9 | 54 | |
| Trade and other payables | 47,122 | 31,269 | 23 |
| Current tax payable | 865 | 1,022 | 10 |
| Accrued charges | 1,159 | 619 | 23 |
| Current deferred income | 122,544 | 70,827 | 24 |
| **Current liabilities** | **171,699** | **103,791** | |
| **Total liabilities** | **274,291** | **324,637** | |
| **Total equity and liabilities** | **1,286,274** | **1,083,338** | |

# Consolidated cash flow statements

| (thousands of €) | 2017 | 2016 | Notes |
|---|---|---|---|
| **Cash and cash equivalents at beginning of year** | **973,241** | **340,314** | 18 |
| | | | |
| Net income / loss (–) | (115,704) | 54,012 | |
| | | | |
| **Adjustments for:** | | | |
| Tax expense | 198 | 235 | 10 |
| Other net financial expense / income (–) | 25,705 | (8,258) | 9 |
| Fair value re-measurement of share subscription agreement | – | (57,479) | 8 |
| Depreciation of property, plant and equipment | 3,633 | 3,322 | 13 |
| Amortization of intangible fixed assets | 652 | 860 | 12 |
| Net realized gain / loss (–) on foreign exchange transactions | (357) | 1,229 | |
| Share-based compensation | 16,536 | 11,034 | 29 |
| Increase in provisions | 1 | 7 | |
| Increase in pension liabilities | 22 | 244 | 28 |
| Gain on sale of fixed assets | – | (14) | |
| | | | |
| | **(69,315)** | **5,192** | |
| | | | |
| Decrease in inventories | 22 | 25 | |
| Increase in receivables | (27,656) | (12,978) | 17 |
| Increase in payables | 14,772 | 2,102 | 23 |
| Increase / decrease (–) in deferred income | (65,722) | 245,806 | 24 |
| | | | |
| **Cash generated / used (–) in operations** | **(147,899)** | **240,148** | |
| | | | |
| Interest paid | (273) | (47) | |
| Interest received | 1,341 | 1,066 | |
| Income taxes paid | (199) | (1,763) | |
| | | | |
| **Net cash flows generated / used (–) in operating activities** | **(147,030)** | **239,403** | |
| | | | |
| Purchase of property, plant and equipment | (5,312) | (4,458) | 13 |
| Purchase of and expenditure in intangible fixed assets | (2,125) | (332) | 12 |
| Proceeds from disposal of property, plant and equipment | 7 | 18 | 13 |
| Decrease in restricted cash | 6,510 | 235 | 16 |
| Acquisition of available-for-sale financial assets | – | (2,750) | 14 |
| Proceeds from sale of available-for-sale financial assets | 372 | – | 14 |

| (thousands of €) | 2017 | 2016 | Notes |
|---|---|---|---|
| **Net cash flows used in investing activities** | **(549)** | **(7,287)** | |
| | | | |
| Repayment of obligations under finance leases and other debts | (65) | (49) | |
| Proceeds from capital and share premium increases, gross amount | 363,924 | 392,121 | 19 |
| Issue costs paid related to capital and share premium increases | (15,790) | (337) | 19 |
| Proceeds from capital and share premium increases from exercise of warrants | 5,288 | 4,261 | 19 |
| | | | |
| **Net cash flows generated in financing activities** | **353,357** | **395,996** | |
| | | | |
| **Effect of exchange rate differences on cash and cash equivalents** | **(27,808)** | **4,816** | |
| | | | |
| **Increase in cash and cash equivalents** | **177,970** | **632,927** | |
| | | | |
| **Cash and cash equivalents at end of the year** | **1,151,211** | **973,241** | |

In order to align with the presentation for the year ended 31 December 2017, the consolidated cash flow statement for the year ended 31 December 2016 was adjusted as follows: (i) the issue cost paid, related to share capital and the resulting increase in share premium has been reclassified and shown separately from the gross amount of the proceeds from capital and share premium increases, and (ii) acquisition of available-for-sale financial assets were shown separately from the proceeds from sale of available-for-sale financial assets.

# Consolidated statements of changes in equity

| (thousands of €) | Share capital | Share premium account | Translation differences | Other reserves | Accumul. losses | Total |
|---|---|---|---|---|---|---|
| **On 1 January 2016** | **185,399** | **357,402** | **(467)** | **(18)** | **(177,317)** | **364,999** |
| Net income | | | | | 54,012 | 54,012 |
| Other comprehensive income | | | (623) | (982) | | (1,605) |
| **Total comprehensive income** | | | **(623)** | **(982)** | **54,012** | **52,406** |
| Share-based compensation | | | | | 11,034 | 11,034 |
| Issue of new shares | 36,575 | 289,696 | | | | 326,271 |
| Share issue costs | (269) | | | | | (269) |
| Exercise of warrants | 2,223 | 2,037 | | | | 4,261 |
| **On 31 December 2016** | **223,928** | **649,135** | **(1,090)** | **(1,000)** | **(112,272)** | **758,701** |
| | | | | | | |
| **On 1 January 2017** | **223,928** | **649,135** | **(1,090)** | **(1,000)** | **(112,272)** | **758,701** |
| Net loss | | | | | (115,704) | (115,704) |
| Other comprehensive income | | | (664) | (260) | | (924) |
| **Total comprehensive income** | | | **(664)** | **(260)** | **(115,704)** | **(116,629)** |
| Share-based compensation | | | | | 16,536 | 16,536 |
| Issue of new shares | 23,331 | 340,593 | | | | 363,924 |
| Share issue costs | (15,837) | | | | | (15,837) |
| Exercise of warrants | 1,992 | 3,296 | | | | 5,288 |
| **On 31 December 2017** | **233,414** | **993,025** | **(1,754)** | **(1,260)** | **(211,441)** | **1,011,983** |

# 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 presented in the financial statements include the following companies: Galapagos NV (Mechelen, Belgium); Galapagos SASU (Romainville, France); Galapagos B.V. (Leiden, the Netherlands); Fidelta d.o.o. (Zagreb, Croatia); Galapagos, Inc. and its subsidiary Xenometrix, Inc. (United States); BioFocus DPI AG and Galapagos GmbH (Basel, Switzerland); and Galapagos Biotech Ltd. (Cambridge, UK).

Our operations have 600 employees working in the operating facilities in Mechelen (the Belgian headquarters), the Netherlands, France, Croatia, the United States and Switzerland.

## 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), as adopted by the EU. 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 2017

- 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)
- Amendments to IAS 7 Disclosure Initiative (applicable for annual periods beginning on or after 1 January 2017)
- Annual improvements to IFRS Standards (2014-2016) Cycle -Amendments to IFRS 12 (applicable for annual periods beginning on or after 1 January 2017 )

### Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2017

- IFRS 9 Financial Instruments and subsequent amendments (applicable for annual periods beginning on or after 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers, and clarifications on this IFRS (applicable for annual periods beginning on or after 1 January 2018)
- IFRS 16 Leases (applicable for annual periods beginning on or after 1 January 2019)
- IFRS 17 Insurance contracts (applicable for annual periods beginning on or after 1 January 2021, but not yet endorsed in the EU)

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (applicable for annual periods beginning on or after 1 January 2018, but not yet endorsed in the EU)
- IFRIC 23 Uncertainty over Income Tax Treatments (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (applicable for annual periods beginning on or after 1 January 2018, but not yet endorsed in the EU)
- Amendments to IFRS 4 Insurance Contracts – Applying IFRS 9 Financial Instruments with IFRS 4 (applicable for annual periods beginning on or after 1 January 2018)
- Amendments to IAS 40 Transfers of Investment Property (applicable for annual periods beginning on or after 1 January 2018, but not yet endorsed in the EU)
- Annual improvements to IFRS Standards (2014-2016) Cycle (applicable for annual periods beginning on or after 1 January 2018)
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)
- Annual improvements to IFRS Standards (2015-2017) Cycle (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)

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

### Assessment of the impact of the adoption of IFRS 15 Revenue from Contracts with Customers (applicable for annual periods beginning on or after 1 January 2018) on the revenue recognition of our current material license and collaboration agreements.

The IASB has issued IFRS 15 Revenue from Contracts with Customers, with an effective date of 1 January 2018. It was endorsed by the EU in third quarter of 2016.

The IASB issued clarifications to IFRS 15 Amendments to IFRS 15 - Clarifications to IFRS 15 Revenue from Contracts with Customers, with an effective date of January 1, 2018. It was endorsed by EU in the fourth quarter of 2017. The clarifications address how to identify the performance obligations in a contract, how to determine whether a party involved in a transaction is a principal or an agent, how to determine whether a license provides the customer with a right to access or a right to use the entity's intellectual property, and added practical expedients to the transition requirements of IFRS 15.

Entities will apply a five step model to determine when, how and at what amount revenue is to be recognized depending on whether certain criteria are met.

The company is currently still in process of reviewing all its research and development, license , and collaboration agreements to ascertain how IFRS 15 will impact the identification of performance obligations and the allocation of consideration to them. We have performed qualitative assessments of the consequences of IFRS 15, but our work is ongoing on this matter.

#### 1. Identify the contracts

The substance of our current arrangements is that Galapagos is licensing its IP to collaborative partner entities and conduct research and development ("R&D") activities. Such activities result in a good or service that is an output of Galapagos' ordinary activities.

We generate revenue through a number of these arrangements which include license fees, milestone payments, reimbursement income and future sales based milestones and sales based royalties.

Certain revenues from our current material licensing and collaboration agreements are expected to be in the scope of IFRS 15.

### 2. Identify performance obligations

We are assessing whether it is possible to consider that there is one single combined performance obligation for certain arrangements in our material ongoing license and collaboration arrangements under the new standards of IFRS 15; the transfer of a license combined with performance of R&D activities. This is because we could consider that the license has no stand-alone value without Galapagos being further involved in the R&D collaboration and that there is interdependence between the license and the R&D activities to be provided. For certain arrangements, we could consider that there is a transformational relationship between the license and the R&D activities to be delivered. We could estimate that the Galapagos' activities during the R&D collaboration are going to significantly add to Intellectual Property (IP) and thereby the value of the programs.

Our work on this aspect of the IFRS 15 impact analysis is ongoing.

### 3. Determine the transaction price

We analyzed the transaction prices of our material ongoing license and collaboration agreements currently composed of upfront license fees, milestone payments and cost reimbursements for R&D activities being delivered. Sales based milestones and sales based royalties are part of certain of our arrangements but are not yet included in our revenues as our most advanced license and collaboration arrangement is entering into a late development phase. Transaction price must be re-assessed at each reporting period under IFRS 15.

### 4. Allocate the transaction price

An entity shall allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price. The transaction price of certain of our arrangements could be allocated to a single combined performance obligation when the transfer of a license is considered to be combined with performance of R&D activities. Milestone payments are variable consideration that could be entirely allocated to a specific performance obligation or to a distinct good or service that forms part of a single performance obligation if certain criteria under IFRS 15 are met.

### 5. Recognize revenue

Revenue from certain arrangements could be recognized as Galapagos satisfies a single performance obligation.

We could recognize revenues allocated to a single performance obligation over the estimated service period based on a pattern that reflects the transfer of the license and R&D activities. The revenues recognized would reflect the level of activities each period. In this case, we would use an input model that considers estimates of the percentage of total R&D costs that are completed each period compared to the total estimated costs (% of completion method).

Milestone payments could be recognized in revenues only when the events triggering the payments are reached and in line with the recognition method of the performance obligations to which they are allocated.

Costs reimbursements could be recognized in revenues when costs are incurred and agreed by the parties as we are acting as a principal in the scope of our stake of the R&D activities of our ongoing license and collaboration agreements.

The company is still investigating if cost sharing arrangements could potentially affect the income statement presentation.

### Assessment of the impact of IFRS 15

Our assessment of the potential performance obligations under step 2 (and consequently step 4), and the presentation of the cost sharing aspects under step 5 are still ongoing as well as the conclusion as to whether any of our arrangements are outside the scope of IFRS 15. We are not able at this stage to provide a final estimate of the impact of the adoption of IFRS 15 on our consolidated financial statements.

We plan to adopt IFRS 15 on the effective date and elect the modified retrospective method for the transition which foresees that prior period figures remain as reported under the previous standard and the cumulative effect of applying IFRS15 is recognized as an adjustment to the opening balance of equity as at the date of initial application (beginning of current reporting period).

### Assessment of the impact of the adoption of IFRS 9 Financial Instruments and subsequent amendments (applicable for annual periods beginning on or after 1 January 2018) on our consolidated financial statements.

The IASB has issued IFRS 9 Financial Instruments, with an effective date of 1 January 2018, endorsed by the EU in the fourth quarter of 2016. IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The new standard also introduces expanded disclosure requirements and changes in presentation.

Galapagos has performed its analysis of the adoption of IFRS 9 and determined it will not have a material impact on the consolidated financial statements. Galapagos will adopt IFRS 9 on the effective date.

### IFRS 16 Leases

The IASB has issued IFRS 16 Leases (applicable for annual periods beginning on or after 1 January 2019) currently awaiting EU endorsement. The standard requires that all leases be recognized in the balance sheet with a corresponding lease liability, except for short term assets and minor assets. IFRS 16 requires leased assets to be amortized over the lease term, and payments will be allocated between instalments on the lease obligation and interest expense. In addition, the presentation of the expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right of the use assets and interest expense on lease liabilities.

We know that this new coming standard will have an impact on our consolidated financial statements in 2019 and we are currently evaluating the guidance to determine this impact. We plan to adopt IFRS 16 on the effective date.

### 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 Business Combinations 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 and until 19 January 2016, an embedded derivative existed under the terms of the Gilead contract (see note 8).

## Available-for-sale financial assets

The group applies IAS 39 for its equity instruments. At the time of purchase, management determines the financial instrument's classification and reviews this classification at each reporting date. The classification depends on the purpose of acquiring the financial instrument. As of 31 December 2017, some financial instruments held by the group were classified as "available-for-sale". These financial instruments are recognized or derecognized as of the date of settlement. Following their initial recognition, available-for-sale financial assets are measured at fair value, and any resulting gain or loss is reported directly in the revaluation reserve within equity until the financial instruments are sold, redeemed, otherwise disposed of or considered impaired, at which time the accumulated gain or loss is reported in profit and loss. Initial recognition at fair value is defined as the fair value of the consideration provided net of transaction costs. However, when investments in equity instruments do not have a quoted market price in an active market and the fair value cannot be reliably measured, those equity instruments are measured at cost.

## 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 substantively 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. We are using monthly transaction rates based on the closing exchange rates of the foreign currencies on the last business day of the month preceding the date of the 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

## Recognition of expenses linked to clinical trial milestones

We recognize expenses specifically linked to clinical trial milestones with regard to patient recruitment and patient treatment (i.e. completion), incurred in carrying out clinical trials, in line with actual patient recruitment or treatment at each period end, in reference to the milestone targets for patient recruitment or treatment.

This involves the calculation of clinical trial accruals at each period end, for which an estimation of the expected full clinical trial milestone cost is required, as well as the current stage of patient recruitment or treatment.

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 for patient recruitment and patient completion 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 the number of patients that have been treated in the trial. In all cases, the full cost of each trial is expensed by the time the final report is received.

## 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 other operating income from 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 our 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.

### Reimbursement income

Cost reimbursements resulting from license and collaboration agreements with our commercial partners are recognized as reimbursement income in revenue as the related costs are incurred and upon agreement by the parties involved. The corresponding expenses are included in research and development expenditure.

Cost reimbursements from collaboration in which we share equally in the risks and benefits associated with development of a specific drug with a collaboration partner are recognized as decrease of the related incurred research and development expenditure.

### 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.

## Other income

### 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 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 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 percentage 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 percentage 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 Scheme 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 time until the end of 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.

### 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; and 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

#### 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

#### Share-based payments plans

We determine the costs of the share-based payments plans (our 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, for 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 29.

We determine the costs of the deferred component of the Senior Management Bonus Schemes on the basis of the fair value of the liability at each reporting period. Determining the fair value assumes choosing the most suitable valuation model for this liability, in which the characteristics of the Senior Management Bonus plans and the Galapagos share price change relative to the Next Biotech Index have a major influence. This assumes also the input into the valuation model of some relevant judgments, like 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, the applicable discount rates at the end of the reporting period and the probability of the number of beneficiaries assumed to stay with us until maturity of the bonus.

### 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 28 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 our fee-for-service business and as such a deferred tax asset is therefore recognized.

At 31 December 2017, we had a total of approximately €338.6 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 €16.8 million in Switzerland, Croatia, the United States and the Netherlands with expiry date between 2018 and 2030. At 31 December 2017, the available tax losses carried forward in Belgium amounted to €262.1 million.

As a company active in research and development in Belgium, we also expect to benefit from the "innovation income deduction (IID)" in Belgium. The innovation income deduction regime allows net profits attributable to revenue from among others patented products (or products for which the patent application is pending) to be taxed at a lower rate than other revenues, i.e., 4.4% (3.75% as of 1 January 2020). The available IID carried forward amounted to €87.2 million at 31 December 2017. It should be noted however that the Belgian corporate income tax reform introduced as of assessment year 2019 a *de facto* minimum taxable base, whereby the existing tax attributes have to be allocated into 2 so-called "*baskets*": a first basket which contains the tax deductions that can be applied without any restrictions and a second basket which contains the tax deductions that are subject to restrictions. The first basket contains (in order of deduction) the non-taxable items (such as deductible gifts), current year dividends received deduction (DRD), grandfathered patent income deduction (PID), current year innovation income deduction (IID) and investment deduction. The second basket contains (in order of deduction and subject to the restrictions as mentioned hereunder) the current year notional income deduction (NID), DRD carry-forward, IID carry-forward, tax loss carry-forward, unlimited NID carry-forward and NID carry-forward subject to the 7-year limitation. The taxable base can be reduced without any limitation with the deductions contained in the first basket. Any remaining taxable basis below € 1 million can be fully compensated with deductions contained in the second basket. If the remaining taxable basis exceeds € 1 million, the excess above € 1 million can only be compensated with deductions of the second basket up to 70%.

# 4. Segment information

The group holds two reportable segments in 2016 and 2017, R&D and fee-for-service business.

## Segment information for the year 2017

| (thousands of €) | R&D | Fee-for-services | Inter-segment elimination | Group |
|---|---|---|---|---|
| External revenue | 118,262 | 8,825 | | 127,087 |
| Internal revenue | | 5,104 | (5,104) | – |
| Other income | 28,815 | 15 | | 28,830 |
| **Revenues & other income** | **147,077** | **13,945** | **(5,104)** | **155,918** |
| | | | | |
| **Segment result** | **(73,610)** | **86** | | **(73,524)** |
| Unallocated expenses[1] | | | | (16,278) |
| **Operating loss** | | | | **(89,802)** |
| Financial (expenses) / income[2] | | | | (25,705) |
| **Result before tax** | | | | **(115,507)** |
| Income taxes[2] | | | | (198) |
| **Net loss** | | | | **(115,704)** |

(1) The unallocated expenses of €16,278 thousand are composed of (a) €16,536 thousand of warrant costs, (b) €258 thousand of reduced cost from the IAS19R Employee Benefits reclassification of actuarial losses on long term defined post-employment benefit obligations, from profit or loss accounts to other comprehensive income. The above listed items are not presented to management in our management reporting as segment results, and are, therefore, presented on the line "unallocated expenses" in our segment reporting.

(2) Financial results and taxes information are not being provided to management in our management reporting as segment results and therefore, their aggregate amount is disclosed at the level of the group in our segment reporting.

## Segment information for the year 2016

| (thousands of €) | R&D | Fee-for-services | Inter-segment elimination | Group |
|---|---|---|---|---|
| External revenue | 121,616 | 7,903 | | 129,519 |
| Internal revenue | | 4,379 | (4,379) | |
| Other income | 21,922 | 171 | | 22,093 |
| **Revenues & other income** | **143,538** | **12,453** | **(4,379)** | **151,612** |
| | | | | |
| **Segment result** | **1,138** | **(1,787)** | | **(649)** |
| Unallocated expenses[1] | | | | (10,841) |
| **Operating loss** | | | | **(11,491)** |
| Financial (expenses) / income[2] | | | | 65,737 |
| **Result before tax** | | | | **54,246** |
| Income taxes[2] | | | | (235) |
| **Net income** | | | | **54,012** |

(1) The unallocated expenses of €10,841 thousand are composed of (a) €11,034 thousand of warrant costs, (b) €193 thousand of reduced cost from the IAS19R Employee Benefits reclassification of actuarial losses on long term defined post- employment benefit obligations, from profit or loss accounts to other comprehensive income. The above listed items are not presented to management in our management reporting as segment results, and are, therefore, presented on the line "unallocated expenses" in our segment reporting.

(2) Financial results and taxes are not information being provided to management in our management reporting as segment results and therefore, their aggregate amount is disclosed at the level of the group in our segment reporting.

Segment assets and liabilities are not information being provided to management on a recurring basis. This information is therefore not disclosed in our segment information.

## Geographical information

In 2017 our operations were mainly located in Belgium, Croatia, France and the Netherlands.

In 2017 our top 10 customers represented 97% of the revenues. Our client base in 2017 and 2016 included seven of the largest pharmaceutical companies in the world.

Following table summarizes our revenues by destination of customer:

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| North America | 82,050 | 88,628 |
| Europe | 45,037 | 40,884 |
| Asia Pacific | – | 6 |
| **Total revenues** | **127,087** | **129,519** |

Following table summarizes our revenues by major customers:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | (thousands of €) | % | (thousands of €) | % |
| **Gilead** | | | | |
| North America | 80,687 | 63% | 87,813 | 68% |
| **AbbVie** | | | | |
| Europe | 34,049 | 27% | 32,596 | 25% |
| **Total revenues from major customers** | **114,736** | **90%** | **120,409** | **93%** |

Following table summarizes our revenues by destination of our entity:

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| Galapagos NV (Belgium) | 118,244 | 121,703 |
| Galapagos SASU (France) | 18 | 84 |
| Fidelta d.o.o. (Croatia) | 8,825 | 7,732 |
| **Total revenues** | **127,087** | **129,519** |

In 2017, we held €89 million of non-current assets (€76 million in 2016) distributed as follows:

- Belgium: €47 million (€37 million in 2016)
- France: €34 million (€31 million in 2016)
- Croatia: €4 million (€4 million in 2016)
- The Netherlands: €4 million (€4 million in 2016)

The increase in non-current assets was mainly 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 2017 and 2016.

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| Recognition of non-refundable upfront payments and license fees | 71,971 | 30,257 |
| Milestone payments | 42,950 | 81,784 |
| Reimbursement income | 3,273 | 9,699 |
| Other revenues | 8,893 | 7,777 |
| **Total revenues** | **127,087** | **129,519** |

Total revenues decreased by €2.4 million, or 2%, to €127.1 million for the year ended 31 December 2017, from €129.5 million for the year ended 31 December 2016. The decrease in milestone payments and reimbursement income was partly compensated by an increase in revenue recognition of upfront payments, as explained below.

The global collaboration with Gilead foresees continuous involvement from us, since we will perform certain R&D activities in the development phase of the filgotinib program; therefore, management assessed that the upfront payment of $300 million (or €275.6 million) received in January 2016 from Gilead should be spread in function of the costs incurred for this program, applying the percentage of completion method. In the year ended 31 December 2017, €62.5 million revenues were recognized regarding this upfront payment, compared to €25.6 million in the year ended 31 December 2016.

In connection with the agreement with Gilead, 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 Financial Instruments: recognition and measurement. We refer to note 8 for further details. The deferred income of €39 million will be recognized in function of the costs incurred for this program, applying the percentage of completion method, along with the upfront payment. In the year ended 31 December 2017, €8.8 million revenues were recognized in the income statement, compared to €3.6 million in the year ended 31 December 2016.

In July 2017, Servier exercised its option to license our compound in osteoarthritis which triggered a license fee payment of €6 million. Since we will perform certain R&D activities in the next development phase of the program, management assessed that the license fee payment should be spread over the next development phase on a straight line basis. In the year ended 31 December 2017, €0.6 million were recognized regarding this license fee revenue.

The following table summarizes the upfront payments recognition for years ended 31 December 2017 and 2016.

| Agreement | Upfront received (thousands of $) | Upfront and license fees received (thousands of €) | Recognition as from | Revenue recognized, year ended 31 December 2017 (thousands of €) | Revenue recognized, year ended 31 December 2016 (thousands of €) | Outstanding balance in deferred income as at 31 December 2017 (thousands of €) |
|---|---|---|---|---|---|---|
| Gilead collaboration agreement for filgotinib | 300,000 | 275,558 | January 2016 | 62,488 | 25,621 | 187,449 |
| Gilead collaboration agreement for filgotinib | N.A. | 39,003[1] | January 2016 | 8,845 | 3,626 | 26,532 |
| ThromboGenics license agreement for integrin antagonists | N.A. | 1,000 | April 2016 | | 1,000 | |
| Sirion Biotech license agreement for RNA interference (RNAi) technologies | N.A. | 10 | June 2016 | | 10 | |
| Servier collaboration agreement for osteoarthritis | N.A. | 6,000 | August 2017 | 638 | | 5,362 |
| **Total recognition of non-refundable upfront payments & license fees** | | | | **71,971** | **30,257** | **219,343** |

(1) deferred income of €39 million booked upon signing of the share subscription agreement with Gilead as required under IAS 39 Financial instruments: recognition and measurement

Milestone revenues decreased substantially by €38.8 million or 47%, to €43.0 million for the year ended 31 December 2017 compared to €81.8 million for the year ended 31 December 2016. This decrease can be mainly explained by the achievement in 2016 of an important milestone of $50 million (€45.7 million) for the initiation of the Phase 3 trial in CD in our filgotinib program. Milestones in 2017 and 2016 were related to the filgotinib program with Gilead and the CF program with AbbVie.

Reimbursement income decreased by €6.4 million or 66%, to €3.3 million for the year ended 31 December 2017 compared to €9.7 million for the year ended 31 December 2016, due to lower reimbursements in relation with the CF program with AbbVie and the filgotinib program with Gilead. The reimbursement of certain research and development costs for the year ended 31 December 2017 were related to our collaboration agreements with AbbVie and Servier.

Other revenues increased by €1.1 million, or 14%, to €8.9 million for the year ended 31 December 2017 compared to €7.8 million for the year ended 31 December 2016, principally due to higher revenues from fee-for-service activities.

## Other income

The following table summarizes other income for the years ended 31 December 2017 and 2016.

| (thousands of €) | Year ended 31 December 2017 | 2016 |
|---|---|---|
| Grant income | 1,045 | 2,329 |
| Other income | 27,785 | 19,764 |
| **Total other income** | **28,830** | **22,093** |

Total other income was composed of grant income and other income and increased by €6.7 million, or 30%, from €22.1 million for the year ended 31 December 2016 to €28.8 million for the year ended 31 December 2017.

Grant income decreased by €1.3 million, or 55%, from €2.3 million for the year ended 31 December 2016 to €1.0 million for the year ended 31 December 2017. The majority of this grant income was related to grants from a Flemish agency, representing approximately 93% of all reported grant income in 2017 (2016: 88%). 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 more than offset by an increase in other income of €8.0 million, or 41%, from €19.8 million for the year ended 31 December 2016 to €27.8 million for the year ended 31 December 2017. Other income was primarily composed of:

- Income from an innovation incentive system of the French government, which represented €10.3 million of other income for the year ended 31 December 2017 compared to €9.5 million for the year ended 31 December 2016
- Income from Belgian R&D incentives with regard to incurred R&D expenses, which represented €11.2 million of other income for the year ended 31 December 2017 compared to €5.8 million for the year ended 31 December 2016
- Tax rebates on payroll withholding taxes of R&D personnel in Belgium and the Netherlands, representing €5.3 million of other income for the year ended 31 December 2017 compared to €3.8 million for the year ended 31 December 2016

## 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 2017 and 2016.

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| Personnel costs | (59,950) | (42,315) |
| Subcontracting | (123,054) | (65,649) |
| Disposables and lab fees and premises costs | (22,277) | (20,414) |
| Other operating expenses | (13,221) | (11,196) |
| **Total research and development expenditure** | **(218,502)** | **(139,573)** |

R&D expenditure increased by €78.9 million, or 57%, to €218.5 million for the year ended 31 December 2017, from €139.6 million for the year ended 31 December 2016, reflecting the increase of our investments to advance our partnered and proprietary R&D programs. This increase was principally due to:

- Increased R&D personnel costs of €17.6 million, or 42%, from €42.3 million for the year ended 31 December 2016 to €59.9 million for the year ended 31 December 2017, which was explained by an enlarged workforce, higher warrant costs and a higher payable for short term and long term management bonus, mainly as a result of the increase of our share price change relative to the Next Biotech Index on Euronext
- Increase in subcontracting costs by €57.4 million, or 87%, from €65.6 million for the year ended 31 December 2016 to €123.1 million for the year ended 31 December 2017 mainly due to increased spending in our RA and IBD program on filgotinib and increased spending on our CF program.
- Intensified use of lab consumables was the main driver of the increase in disposables, lab fees and premises costs of €1.9 million, or 9%, from €20.4 million for the year ended 31 December 2016 to €22.3 million for the year ended 31 December 2017
- Other operating expenses increased by €2.0 million, or 18%, from €11.2 million for the year ended 31 December 2016 to €13.2 million for the year ended 31 December 2017.

The table below summarizes our research and development expenditure for the years ended 31 December 2017 and 2016, broken down by research and development expenses under alliance and own funded research and development expenses.

| | Year ended 31 December | |
|---|---|---|
| **(thousands of €)** | **2017** | 2016 |
| R&D under alliance | (122,663) | (71,980) |
| Galapagos funded R&D | (95,839) | (67,593) |
| **Total R&D expenditure** | **(218,502)** | **(139,573)** |

We tracked all research and development expenditures against detailed budgets and allocated them by individual project. The table below summarizes our research and development expenditure for the years ended 31 December 2017 and 2016, broken down by program:

| | Year ended 31 December | |
|---|---|---|
| **(thousands of €)** | **2017** | 2016 |
| Filgotinib program (partnered) | (53,212) | (22,376) |
| CF program (partnered) | (46,192) | (31,203) |
| IPF program on GLPG1690 (proprietary) | (16,190) | (7,129) |
| OA program on GLPG1972 (partnered) | (7,317) | (6,538) |
| AtD program on MOR106 (partnered) | (8,404) | (3,491) |
| Other | (87,187) | (68,836) |
| **Total R&D expenditure** | **(218,502)** | **(139,573)** |

R&D expenditure under alliance increased by €50.7 million, or 70%, from €72.0 million for the year ended 31 December 2016 to €122.7 million for the year ended 31 December 2017, mainly due to increased R&D spending in our RA and IBD program on filgotinib (partnered with Gilead), and increased R&D spending on our CF program in collaboration with AbbVie. We increased our investments in our own funded portfolio by €28.2 million, or 42%, from €67.6 million for the year ended 31 December 2016 to €95.8 million for the year ended 31 December 2017, primarily because of intensified research investments in our proprietary programs on inflammation and fibrosis, as well as increased spending on our proprietary IPF program GLPG1690.

### General and administrative expenses

The following table summarizes the general and administrative expenses for the years ended 31 December 2017 and 2016.

| | Year ended 31 December | |
|---|---|---|
| **(thousands of €)** | **2017** | 2016 |
| Personnel costs and directors fees | (17,756) | (15,160) |
| Other operating expenses | (6,659) | (6,584) |
| **Total general and administrative expenses** | **(24,415)** | **(21,744)** |

General and administrative expenses amounted to €21.7 million for the year ended 31 December 2016 and increased by €2.7 million, or 12%, to €24.4 million for the year ended 31 December 2017. This increase was principally due to higher personnel expenses, which increased by €2.3 million, or 23%, from €10.0 million for the year ended 31 December 2016 to €12.3 million for the year ended 31 December 2017, resulting from various

effects, such as increased headcount and increased costs of share-based payments plans (our warrant plans) and increased payables for short and long term management bonus, mainly as a result of the increase of our share price change relative to the Next Biotech Index on Euronext.

### Sales and marketing expenses

The following table summarizes the sales and marketing expenses for the years ended 31 December 2017 and 2016.

| | Year ended 31 December | |
|---|---|---|
| **(thousands of €)** | **2017** | **2016** |
| Personnel costs | (2,156) | (1,167) |
| Other operating expenses | (646) | (618) |
| **Total sales and marketing expenses** | **(2,803)** | **(1,785)** |

Sales and marketing expenses increased by €1.0 million, or 57%, from €1.8 million for the year ended 31 December 2016 to €2.8 million for the year ended 31 December 2017. This increase was due to higher personnel expenses as in the second half of the year ended 31 December 2017, we started to build our commercial organization in order to prepare for the co-promotion activities with Gilead for filgotinib in the co-promotion territories. In addition, costs of share-based payments plans (our warrant plans) and payables for short and long term management bonus increased for the year ended 31 December 2017, mainly as a result of the increase of our share price change relative to the Next Biotech Index on Euronext.

## 7. Staff costs

The table below summarizes the number of our employees on 31 December 2017 and 2016:

| | **2017** | 2016 |
|---|---|---|
| Number of employees on 31 December | 600 | 508 |
| **Total** | **600** | **508** |

The average number of employees during the years 2017 and 2016 was:

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Executive officers | 5 | 4 |
| Research and development | 461 | 385 |
| Corporate and support | 90 | 79 |
| **Total** | **556** | **468** |

Their aggregate remuneration comprised:

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| Wages and salaries | (46,677) | (34,857) |
| Social security costs | (9,081) | (7,328) |
| Pension costs | (2,175) | (1,728) |
| Other personnel costs | (16,465) | (9,617) |
| **Total personnel costs** | **(74,398)** | **(53,530)** |

The other personnel costs mainly related to costs for warrants granted of €11.8 million (2016: €6.6 million). For the costs of warrants granted, see note 29.

## 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 Financial Instruments: recognition and measurement. This financial asset initially reflected 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 Financial Instruments: recognition and measurement 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 share 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 resulted in a positive non-cash gain of €57.5 million in the financial result of 2016.

On 19 January 2016, the value of the financial asset at maturity amounted to €65.9 million, reflecting the share premium that Gilead paid above our closing share price on the day of the capital increase. This amount was composed of (1) the initial measurement on the day of entering into the share subscription agreement for an amount of €39 million which was reported in deferred income and (2) the subsequent re-measurements of the financial asset, reported as financial result under IAS 39 Financial Instruments: recognition and measurement: €30.6 million fair value loss reported in the year 2015 and €57.5 million fair value gain reported in the year 2016, together a net fair value gain of €26.8 million. This financial asset expired on the effective date of the share subscription agreement and was derecognized and recorded as part of the share premium account.

## 9. Other financial income/expenses

The following table summarizes other financial income and expense for the years ended 31 December 2017 and 2016.

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| **Other financial income:** | | |
| Interest on bank deposit | 3,045 | 1,614 |
| Effect of discounting long term R&D incentives receivables | – | 99 |
| Currency exchange gain | 1,797 | 8,150 |
| Other finance income | 34 | 87 |
| **Total other financial income** | **4,877** | **9,950** |
| | | |
| **Other financial expenses:** | | |
| Interest expenses | (936) | (47) |
| Currency exchange loss | (29,176) | (1,453) |
| Other finance charges | (469) | (191) |
| **Total other financial expense** | **(30,582)** | **(1,692)** |
| | | |
| **Total other net financial expense (–) / income** | **(25,705)** | **8,257** |

Other financial expenses increased significantly by €28.9 million, from €1.7 million for the year ended 31 December 2016 to €30.6 million for the year ended 31 December 2017. This increase primarily related to a currency exchange loss of € 27.8 million on deposits held in U.S. dollars. Our cash and cash equivalents include cash held in U.S. dollars, which could generate foreign currency exchange gain or loss in our financial results in accordance with the fluctuation of the EUR/U.S. dollar exchange rate as our functional currency is EUR.

Interest expenses were related to interests on term deposits and on finance lease.

Other financial income decreased by €5.1 million, or 51% from €10.0 million for the year ended 31 December 2016 to €4.9 million for the year ended 31 December 2017. Interest income was related to interests on term deposits.

Net exchange loss amounted to €27.4 million for the year ended 31 December 2017, compared to a net exchange profit of €6.7 million for the year ended 31 December 2016.

## 10. Taxes

The following table summarizes the income tax recognized in profit or loss for the years ended 31 December 2017 and 2016.

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| Current tax | (218) | (466) |
| Deferred tax | 20 | 231 |
| **Total income taxes** | **(198)** | **(235)** |

Current tax amounted to €0.2 million for the year ended 31 December 2017 and €0.5 million for the year ended 31 December 2016, and was related to corporate income taxes for subsidiaries operating on cost plus basis.

Deferred tax income of €0.02 million for the year ended 31 December 2017 and of €0.2 million for the year ended 31 December 2016 related to subsidiaries working on a cost plus basis and to our fee-for-service business.

## Tax liabilities

The below table illustrates the tax liabilities related captions in the balance sheet as at 31 December 2017 and 2016.

| | 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| Current tax payable | 865 | 1,022 |
| **Total tax liabilities** | **865** | **1,022** |

On 31 December 2017, €0.9 million of tax liabilities were primarily related to one of our subsidiaries operating on a cost plus basis.

## Taxes recognized in profit or loss

For the purpose of the disclosure below corporation tax was calculated at 34% (2016: 34%) – which is the tax rate applied in Belgium – on the estimated assessable profit for the year. The applied tax rate for other territorial jurisdictions was the tax rate that is applicable in these respective territorial jurisdictions on the estimated taxable result of the accounting year.

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| **Income / loss (–) before tax** | **(115,507)** | **54,246** |
| Income tax debit / credit (–), calculated using the Belgian statutory tax rate (34%) on the accounting income / loss (–) before tax (theoretical) | (39,261) | 18,438 |
| **Tax expenses in income statement (effective)** | **198** | **235** |
| **Difference in tax expenses / income to explain** | **39,458** | **(18,203)** |
| | | |
| Effect of tax rates in other jurisdictions | 14 | 163 |
| Effect of non taxable revenues | (11,277) | (27,399) |
| Effect of consolidation entry without tax impact | 5,419 | 3,533 |
| Effect of non tax deductible expenses | 404 | 856 |
| Effect of recognition of previously non recognized deferred tax assets | (414) | (421) |
| Effect of tax losses (utilized) reversed | (763) | (655) |
| Effect of non recognition of deferred tax assets | 45,895 | 5,720 |
| Effect of change in tax rates | 181 | |
| **Total explanations** | **39,458** | **(18,203)** |

The main difference between the theoretical tax and the effective tax for the year 2017 was 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 2016 was primarily explained by non-taxable revenues which included the financial profit related to the fair value re-measurement of the share subscription agreement.

Non-taxable revenues for the years ended 31 December 2017 and 2016 were related to non-taxable subsidies and tax credits.

## 11. Income/loss (-) per share

Basic income/loss (–) per share is calculated by dividing the net income/loss (–) attributable to owners of the parent by the weighted average number of ordinary shares issued during the year. Diluted income/loss (–) per share is calculated based on the weighted average number of shares (diluted) also considering outstanding warrants, for which our average share price of the year was higher than the exercise price.

Income / loss per share

| | Year ended 31 December | |
|---|---|---|
| | 2017 | 2016 |
| **Net income / loss (–) attributable to owners of the parent (thousands of €)** | **(115,704)** | **54,012** |
| | | |
| **Number of shares (thousands)** | | |
| Weighted average number of shares for the purpose of basic income / loss (–) per share | 49,479 | 45,696 |
| | | |
| **Basic income / loss (–) per share (€)** | **(2.34)** | **1.18** |
| | | |
| **Net income / loss (–) attributable to owners of the parent (thousands of €)** | **(115,704)** | **54,012** |
| | | |
| **Number of shares (thousands)** | | |
| Weighted average number of shares for the purpose of diluted income / loss (–) per share | 49,479 | 45,696 |
| Number of dilutive potential ordinary shares | – | 1,612 |
| | | |
| **Diluted income / loss (–) per share (€)** | **(2.34)** | **1.14** |

As we reported a net loss in 2017, the outstanding warrants (specified in note 29) have an anti-dilutive effect rather than a dilutive effect. Consequently, basic and diluted loss per share is the same for 2017.

Basic income per share of €1.18 and diluted income per share of €1.14 in 2016 are based on a net income for 2016 which was strongly influenced by the non-cash gain from the fair value re-measurement of the share subscription agreement with Gilead amounting to €57.5 million.

## 12. Intangible assets

| (thousands of €) | In process technology | Software & databases | Brands, licenses, patents & know-how | Total |
|---|---|---|---|---|
| **Acquisition value** | | | | |
| **On 1 January 2016** | **5,561** | **7,318** | **1,512** | **14,392** |
| Additions | | 317 | 15 | 332 |
| Sales and disposals | | (508) | (4) | (512) |
| Translation differences | | 58 | – | 58 |
| **On 31 December 2016** | **5,561** | **7,185** | **1,523** | **14,269** |
| Additions | 1,500 | 623 | 2 | 2,125 |
| Sales and disposals | | (100) | | (100) |
| Translation differences | | (212) | | (212) |
| **On 31 December 2017** | **7,061** | **7,496** | **1,525** | **16,082** |
| **Amortization and impairment** | | | | |
| **On 1 January 2016** | **5,561** | **5,777** | **1,501** | **12,841** |
| Amortization | | 856 | 4 | 860 |
| Sales and disposals | | (509) | (5) | (514) |
| Translation differences | | 57 | | 57 |
| **On 31 December 2016** | **5,561** | **6,182** | **1,501** | **13,246** |
| Amortization | | 644 | 8 | 652 |
| Sales and disposals | | (99) | | (99) |
| Translation differences | | (212) | | (212) |
| **On 31 December 2017** | **5,561** | **6,514** | **1,509** | **13,587** |
| **Carrying amount** | | | | |
| On 31 December 2016 | | 1,003 | 22 | 1,023 |
| **On 31 December 2017** | **1,500** | **982** | **16** | **2,495** |

The intangible assets increased by €1.5 million from €1.0 million at 31 December 2016, to €2.5 million at 31 December 2017. The amortization of €0.7 million was fully compensated by new additions for €2.1 million.

On 31 December 2017, our balance sheet did not hold any internally generated assets capitalized as intangible asset.

## 13. Property, plant and equipment

| (thousands of €) | Land & building improvements | Installation & machinery | Furniture, fixtures & vehicles | Other tangible assets | Total |
|---|---|---|---|---|---|
| **Acquisition value** | | | | | |
| **On 1 January 2016** | **4,049** | **26,588** | **2,695** | **1,174** | **34,506** |
| Additions | 296 | 3,325 | 210 | 627 | 4,458 |
| Sales and disposals | | (1,315) | (105) | | (1,420) |
| Reclassifications | 67 | 1,064 | 167 | (1,299) | (1) |
| Translation differences | | 70 | 6 | 4 | 81 |
| **On 31 December 2016** | **4,412** | **29,733** | **2,973** | **505** | **37,624** |
| Additions | 324 | 3,178 | 246 | 1,564 | 5,312 |
| Sales and disposals | | (844) | (17) | | (861) |
| Reclassifications | | 881 | | (881) | – |
| Translation differences | | 112 | 7 | 1 | 120 |
| **On 31 December 2017** | **4,736** | **33,060** | **3,209** | **1,189** | **42,195** |
| **Depreciations and impairment** | | | | | |
| **On 1 January 2016** | **1,753** | **16,718** | **2,130** | **122** | **20,724** |
| Amortization | 272 | 2,752 | 243 | 55 | 3,322 |
| Sales and disposals | | (1,315) | (100) | | (1,415) |
| Reclassifications | | 67 | (93) | 26 | – |
| Translation differences | | 29 | 5 | | 34 |
| **On 31 December 2016** | **2,025** | **18,252** | **2,184** | **203** | **22,663** |
| Amortization | 316 | 3,027 | 234 | 55 | 3,633 |
| Sales and disposals | | (838) | (17) | | (855) |
| Translation differences | 1 | 53 | 7 | | 61 |
| **On 31 December 2017** | **2,342** | **20,495** | **2,407** | **258** | **25,502** |
| **Carrying amount** | | | | | |
| On 31 December 2016 | 2,387 | 11,481 | 789 | 302 | 14,961 |
| **On 31 December 2017** | **2,394** | **12,565** | **802** | **930** | **16,692** |

The property, plant and equipment increased from €15.0 million as at 31 December 2016 to €16.7 million as at 31 December 2017. This increase was mainly the result of new additions of €5.3 million, partly compensated by a depreciation charge of €3.6 million.

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.

## 14. Other non-current assets

On 15 July 2016, we invested €2.75 million in a French biopharmaceutical company developing new therapeutics for severe orphan and common neurological diseases, listed on Euronext. Galapagos has no restrictions on the sale of this equity investment and the asset is not pledged under any Galapagos' liabilities. This investment is classified as available-for-sale equity investment which qualifies for level 1 fair value measurement based upon the closing price of suchsecurities on Euronext at each reporting date.

Fair value changes on available-for-sale financial assets are recognized directly in equity, through the statement of changes in equity.

As of 31 December 2017, other non-current assets mainly consisted of available-for-sale equity investment described above re-measured at fair value of €1.8 million as follows.

| (thousands of €) | Fair value of available-for-sale financial assets |
|---|---|
| Cost at 1st January 2017 | 2,750 |
| Disposals of the year | (377) |
| **Cost at 31 December 2017** | **2,373** |
| Fair value adjustment at 1st January 2017 | (399) |
| Reclassification of fair value adjustment to income statement following disposal | 55 |
| Fair value adjustment of the year | (275) |
| **Fair value adjustment at 31 December 2017** | **(619)** |
| **Net book value at 31 December 2017** | **1,754** |

Part of this equity investment was sold in 2017 for €0.4 million. As of 31 December 2017, we had accumulated fair value losses amounting to €0.6 million, based on unadjusted quoted market price, in which €0.1 million was reclassified to profit and loss subsequent to the shares disposed and €0.3 million was additionally recognized in other comprehensive income for the year ended 31 December 2017, in our statement of financial position on the other reserves line within equity (see note 20.)

## 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 2017 and 2016.

| | 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| Non-current R&D incentives receivables | 64,001 | 54,188 |
| Current R&D incentives receivables | 11,782 | 10,154 |
| **Total R&D incentives receivables** | **75,783** | **64,342** |

Total R&D incentives receivables increased by €11.4 million compared to 31 December 2016. This increase is explained by new R&D incentives reported in 2017 for €21.5 million (€10.3 million related to French R&D incentives and €11.2 million related to Belgian R&D incentives) less the payments received related to French R&D incentives amounting to €7.9 million and to Belgian R&D incentives amounting to €2.0 million. The R&D incentives receivables are future expected refunds resulting from R&D incentives on research and development expenses in France and Belgium. Non-current R&D incentives receivables are reported at their net present value and are therefore 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 our balance sheet at 31 December 2017.

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

| | 31 December 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Maturity date | | | | | |
| (thousands of €) | 2019 | 2020 | 2021 | 2022 | 2023–2027 | Total |
| French non-current R&D incentives receivables – nominal value | 8,622 | 9,340 | 10,025 | – | – | 27,986 |
| French non-current R&D incentives receivables – discounted value | 8,622 | 9,340 | 10,025 | – | – | 27,986 |
| | | | | | | |
| Belgian non-current R&D incentives receivables – nominal value | 2,520 | 3,398 | 4,009 | 4,863 | 21,562 | 36,353 |
| Belgian non-current R&D incentives receivables – discounted value | 2,520 | 3,398 | 4,009 | 4,863 | 21,224 | 36,015 |
| | | | | | | |
| **Total non-current R&D incentives receivables – nominal value** | **11,141** | **12,738** | **14,034** | **4,863** | **21,562** | **64,339** |
| **Total non-current R&D incentives receivables – discounted value** | **11,141** | **12,738** | **14,034** | **4,863** | **21,224** | **64,001** |

## 16. Restricted cash

| | 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| Non-current restricted cash | 1,158 | 1,098 |
| Current restricted cash | – | 6,570 |
| **Total restricted cash** | **1,158** | **7,668** |

Restricted cash amounted to €7.7 million on 31 December 2016, and decreased to €1.2 million on 31 December 2017. This decrease is mainly related to the full release of the €6.6 million escrow account containing part of the proceeds from the sale of the service division in 2014, after final agreement with Charles River was reached in the first quarter of 2017. This decrease was slightly offset by an increase in non-current restricted cash of €0.1 million due to additional bank guarantees with regard to the rental of supplementary office space for the Belgian premises.

Restricted cash on 31 December 2017 was composed of bank guarantees on real estate lease obligations in Belgium and in the Netherlands for €0.45 million and €0.7 million respectively.

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

| | 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| Trade receivables | 22,133 | 6,629 |
| Prepayments | 543 | 21 |
| Other receivables | 5,289 | 3,078 |
| **Trade and other receivables** | **27,966** | **9,728** |
| Accrued income | 2,584 | 3,617 |
| Deferred charges | 3,825 | 3,621 |
| **Other current assets** | **6,409** | **7,239** |
| **Total trade and other receivables & other current assets** | **34,375** | **16,966** |

Trade and other receivables increased by €18.3 million to €28.0 million as at 31 December 2017 compared to €9.7 million as at 31 December 2016. This was mainly due to two milestones achieved before year end 2017 in our CF collaboration with AbbVie which were accounted for $20 million (€ 17.0 million): respectively $10 million (€8.6 million) for the Phase 1 trial initiation with GLPG3221 and $10 million (€8.4 million) for the Phase 1 trial initiation with GLPG2851.

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

On 31 December 2017, we did not have any bad debt allowance.

## 18. Cash and cash equivalents

| | 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| Cash at banks | 288,052 | 357,630 |
| Term deposits | 713,446 | 515,632 |
| Money market funds | 149,711 | 99,977 |
| Cash on hand | 3 | 2 |
| **Total cash and cash equivalents** | **1,151,211** | **973,241** |

We reported a cash position of €1,151.2 million at the end of December 2017 compared to €973.2 million at year-end 2016. Net cash used in operating activities amounted to €147.0 million for the year ended 31 December 2017. The net cash used in investing activities amounted to €0.5 million for the year ended 31 December 2017. The net cash generated from financing activities amounted to €353.4 million for the year ended 31 December 2017, which can mainly be attributed to the public offering in the U.S. of Galapagos shares for which the cash proceeds from capital and share premium increases amounted to €348.1 million, net of issue costs. In addition, proceeds received on exercise of warrants contributed to cash generated in financing activities in 2017 for an amount of €5.3 million. Finally, €27.8 million of foreign currency exchange rate differences on our cash held in foreign currency negatively impacted the ending balance of our cash and cash equivalents.

Cash and cash equivalents comprise cash at banks, short term bank deposits and money market funds 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 comprised €713.4 million of term deposits which all had an original maturity longer than 3 months. All cash and cash equivalents are available upon maximum one month notice period. Cash at banks were mainly composed of savings accounts and current accounts. We maintain our bank deposits in highly rated financial institutions to reduce credit risk. Cash invested in highly liquid money market funds represented €149.7 million and was aimed at meeting short-term cash commitments, while reducing the counterparty risk of investment.

On 31 December 2017, our cash and cash equivalents included $241.3 million held in U.S. dollars, which could generate a foreign currency exchange gain or loss in our financial results in accordance with the fluctuation of the EUR/U.S. dollar exchange rate as our functional currency is EUR. We expect to use this cash held in U.S. dollars to settle our future payables in U.S. dollars, which will be primarily linked to our global collaboration with Gilead for the development of filgotinib.

## 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:

| | 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| **On 1 January** | **223,928** | **185,399** |
| Share capital increase | 25,323 | 38,798 |
| Costs of capital increase | (15,837) | (269) |
| **Share capital on 31 December** | **233,414** | **223,928** |
| | | |
| Aggregate share capital | 275,510 | 250,187 |
| Costs of capital increase (accumulated) | (42,096) | (26,259) |
| **Share capital on 31 December** | **233,414** | **223,928** |

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 2016 and 31 December 2017 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 2016** | | | | **39,076** | **211,389** |
| 19 January 2016 | 36,575 | | 6,761 | | |
| 1 April 2016 | | 668 | 132 | | |
| 19 May 2016 | | 762 | 141 | | |
| 19 September 2016 | | 326 | 60 | | |
| 28 November 2016 | | 467 | 86 | | |
| **31 December 2016** | | | | **46,256** | **250,187** |
| | | | | | |
| **1 January 2017** | | | | **46,256** | **250,187** |
| 6 April 2017 | | 1,337 | 247 | | |
| 21 April 2017 | 23,331 | | 4,313 | | |
| 20 June 2017 | | 281 | 52 | | |
| 21 September 2017 | | 152 | 28 | | |
| 23 November 2017 | | 222 | 41 | | |
| **31 December 2017** | | | | **50,937** | **275,510** |

On 31 December 2017, Galapagos NV's share capital amounted to €275,510 thousand, represented by 50,936,778 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 2017 and 2016.

| (thousands of €, except share data) | Number of shares | Share capital | Share premium | Share capital and share premium | Average exercise price warrants (in € / warrant) | Closing share price on date of capital increase (in € / share) |
|---|---|---|---|---|---|---|
| **On 1 January 2017** | **46,256,078** | **223,928** | **649,135** | **873,063** | | |
| **6 April 2017: exercise of warrants** | **247,070** | **1,337** | **2,697** | **4,034** | **16.33** | **84.60** |
| **21 April 2017: U.S. public offering** | | | | | | |
| ADSs (fully paid) | 4,312,500 | 23,331 | 340,593 | 363,924 | | 81.34 |
| Underwriter discounts and offering expenses (paid) | | (15,790) | | (15,790) | | |
| Offering expenses still to be paid at 31 December 2017 | | (47) | | (47) | | |
| **Total U.S. public offering** | **4,312,500** | **7,494** | **340,593** | **348,087** | | |
| **20 June 2017: exercise of warrants** | **52,030** | **281** | **350** | **632** | **12.14** | **70.66** |
| **21 September 2017: exercise of warrants** | **28,100** | **152** | **116** | **268** | **9.55** | **84.62** |
| **23 November 2017: exercise of warrants** | **41,000** | **222** | **132** | **354** | **8.63** | **77.53** |
| **On 31 December 2017** | **50,936,778** | **233,414** | **993,025** | **1,226,439** | | |

| (thousands of €, except share data) | Number of shares | Share capital | Share premium | Share capital and share premium | Average exercise price warrants (in € / warrant) | Closing share price on date of capital increase (in € / share) |
|---|---|---|---|---|---|---|
| **On 1 January 2016** | **39,076,342** | **185,399** | **357,402** | **542,801** | | |
| **19 January 2016: share subscription from Gilead** | | | | | | |
| Ordinary shares (fully paid) | 6,760,701 | 36,575 | 355,546 | 392,121 | | 48.26 |
| Derecognition of financial asset from share subscription agreement | | | (65,850) | (65,850) | | |
| Capital increase expenses (fully paid) | | (269) | | (269) | | |
| **Total share subscription by Gilead** | **6,760,701** | **36,306** | **289,696** | **326,002** | | |
| **1 April 2016: exercise of warrants** | **131,695** | **668** | **741** | **1,409** | **10.70** | **36.64** |
| **19 May 2016: exercise of warrants** | **140,770** | **762** | **715** | **1,476** | **10.49** | **45.41** |
| **19 September 2016: exercise of warrants** | **60,320** | **326** | **277** | **603** | **10.00** | **58.62** |
| **28 November 2016: exercise of warrants** | **86,250** | **467** | **305** | **772** | **8.94** | **55.73** |
| **On 31 December 2016** | **46,256,078** | **223,928** | **649,135** | **873,063** | | |

## 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 publication in the Annexes to the Belgian State Gazette of the shareholders' resolution that granted the renewed authorization, being 31 May 2017, 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 shareholders' meeting of 25 April 2017 amounted to €82,561.8 thousand. As of 31 December 2017, €3,911.4 thousand of the authorized capital was used, so that an amount of €78,650.3 thousand still remained available.

# 20. Other reserves

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

| | 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| **On 1 January** | **(1,000)** | **(18)** |
| Gain or loss (–) on defined benefit obligation recognized through OCI | (40) | (583) |
| Reclassification of loss on financial asset available for sale to income statement (after disposal) | 55 | |
| Loss on financial asset available for sale recognized through OCI | (275) | (399) |
| **Other reserves on 31 December** | **(1,260)** | **(1,000)** |

Other reserves consisted of (1) a negative of €0.6 million, compared to a negative of €0.6 million in 2016, which was related to the re-measurement of defined benefit obligations recognized through OCI in line with IAS19R Employee Benefits, and (2) a negative of €0.6 million, compared to €0.4 million in 2016, related to the fair value adjustment on and sale of part of the available-for-sale equity investment (see note 14).

There were no tax effects applicable to the amounts included in other reserves.

**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 (2016: nil).

On 31 December 2017 the fair value of our currency derivatives was nil (2016: nil).

See note 32 for further information on how we manage financial risks.

# 21. Translation differences

| | 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| **On 1 January** | **(1,090)** | **(467)** |
| Translation differences, arisen from translating foreign activities | (664) | (623) |
| **Translation differences on 31 December** | **(1,754)** | **(1,090)** |

Translation differences increased from a negative €1.1 million at the end of December 2016 to a negative of €1.8 million at the end of December 2017 mainly due to fluctuations of the GB pounds and the U.S. dollar exchange rates.

## 22. Deferred tax

| | 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| **Recognized deferred tax assets and liabilities** | | |
| **Assets** | 1,978 | 1,957 |
| **Liabilities** | | |
| | | |
| **Deferred tax assets unrecognized** | 164,079 | 128,377 |
| | | |
| **Deferred taxes in the consolidated statement of operations** | 20 | 231 |
| Tax benefit arising from previously unrecognized tax assets used to reduce deferred tax expense (+) | 414 | 421 |
| Deferred tax expenses relating to change in tax rates | (181) | |
| Deferred tax expenses relating to use of previously recognized deferred tax assets | (213) | (190) |

The investment deduction of €1 million (2016: €1 million) could give rise to deferred tax assets. There is no limit in time for the investment deduction. The amount of notional interest deduction that has been accumulated in the past (2016: €2.6 million) cannot be carried forward to 2018, the notional interest deduction of the year itself can also not be carried forward.

The consolidated unused tax losses carried forward at 31 December 2017 amounted to €567 million (2016: €385 million), €15.1 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 €338.6 million on 31 December 2017. These statutory tax losses can be compensated with future statutory profits for an indefinite period except for an amount of €16.8 million in Switzerland, Croatia, the United States and the Netherlands with expiry date between 2018 and 2030. On 31 December 2017, the available tax losses carried forward in Galapagos NV (Belgium) amounted to €262.1 million. In addition to the latter, Galapagos NV (Belgium) also benefits from the new Belgian innovation income deduction regime which led to report, on 31 December 2017, a supplementary carried forward tax deduction amounting to €87.2 million that can also be offset against future statutory taxable results. It should be noted however that the Belgian corporate income tax reform introduced as of assessment year 2019 a *de facto* minimum taxable base, whereby the existing tax attributes have to be allocated into 2 so-called "*baskets*": a first basket which contains the tax deductions that can be applied without any restrictions and a second basket which contains the tax deductions that are subject to restrictions. We refer to note 3 for more information.

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 was set up as at 31 December 2017, except for two subsidiaries operating on a cost plus basis and for our fee-for-service business, for which deferred tax assets were recognized for €2.0 million (2016: €2.0 million).

## 23. Trade and other liabilities

| | 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| Trade and other payables | 47,122 | 31,209 |
| Other current liabilities | – | 60 |
| Other non-current liabilities | 1,597 | 2,469 |
| Accrued charges | 1,159 | 619 |
| **Total trade and other liabilities** | **49,878** | **34,357** |

Our trade and other liabilities, amounting to €49.9 million as of 31 December 2017, increased by €15.5 million compared to the €34.4 million reported as of 31 December 2016.

The trade and other payables, amounting to €47.1 million as of 31 December 2017, increased by €15.9 million compared to the €31.2 million reported as of 31 December 2016. This increase is mainly due to higher accrued trade payables on 31 December 2017, reflecting the intensification of our investments in our R&D programs.

## 24. Deferred income

| | 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| Gilead collaboration agreement for filgotinib | 187,449 | 249,937 |
| Gilead collaboration agreement for filgotinib[(1)] | 26,532 | 35,376 |
| Servier collaboration agreement for osteoarthritis | 5,362 | – |
| Other deferred income | 549 | 299 |
| **Total deferred income (long term & current)** | **219,892** | **285,612** |

(1) deferred income of €39 million booked upon signing of the share subscription agreement with Gilead as required under IAS 39 Financial instruments: recognition and measurement

Deferred income (long term and short term) amounted to €219.9 million at 31 December 2017 and decreased by €65.7 million compared to €285.6 million as at 31 December 2016. The outstanding deferred income balance at 31 December 2017 included €214.0 million related to filgotinib (€93.5 million classified as non-current deferred income), €5.4 million deferred income related to the license fee of Servier (€3.8 million classified as non-current deferred income) and €0.5 million deferred grant income.

On the one hand we had per 31 December 2015 a deferred income of €39 million due to the recognition of a deferred income upon signing of the share subscription agreement with Gilead (see note 8). On the other hand we received in January 2016 an upfront payment from Gilead for an amount of $300 million (or €276 million). The global collaboration with Gilead foresees continuous involvement from us, since we will perform certain R&D activities in the development phase of the filgotinib program; therefore, management assessed that both items of deferred income should be spread in function of the costs incurred for this program, applying the percentage of completion method. For the year ended 31 December 2017, €71.3 million were recognized in revenue (2016: €29.2 million), of which €8.8 million were related to the deferred income from the share subscription agreement and €62.5 million were related to the upfront payment.

In the third quarter of the year ended 31 December 2017, a license fee of €6.0 million was received from Servier in the scope of our collaboration agreement in the field of osteoarthritis, of which €0.6 million was recognized in revenue at the end of the year 2017. This deferred income will be recognized on a straight-line basis over the next phase of development, which is our estimated period of involvement.

## 25. Operating lease obligations

We entered into lease agreements primarily for offices 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 €) | 2017 | 2016 |
| **Total minimum lease payments under operating leases** | **4,799** | **4,302** |

Our outstanding commitments for future minimum lease payments under operating leases are disclosed in the note 26. Off-balance sheet arrangements.

## 26. Off-balance sheet arrangements

### Contractual obligations and commitments

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

On 31 December 2017, we had outstanding obligations for future minimum rent payments and purchase commitments, which become due as follows:

| (thousands of €) | Total | Less than 1 year | 1–3 years | 3–5 years | More than 5 years |
|---|---|---|---|---|---|
| Operating lease obligations | 26,346 | 4,150 | 7,820 | 6,010 | 8,366 |
| Purchase commitments | 65,246 | 53,010 | 11,233 | 1,002 | – |
| **Total contractual obligations & commitments** | **91,592** | **57,160** | **19,053** | **7,012** | **8,366** |

On 31 December 2016, we had outstanding obligations for future minimum rent payments and purchase commitments, which become due as follows:

| (thousands of €) | Total | Less than 1 year | 1–3 years | 3–5 years | More than 5 years |
|---|---|---|---|---|---|
| Operating lease obligations | 27,263 | 4,114 | 6,494 | 5,504 | 11,151 |
| Purchase commitments | 27,579 | 27,084 | 495 | – | – |
| **Total contractual obligations & commitments** | **54,842** | **31,198** | **6,989** | **5,504** | **11,151** |

In addition to the tables above, we have a contractual cost sharing obligation related to our collaboration agreement with Gilead for filgotinib. This is disclosed in the Corporate Governance chapter of this report, under "Agreements with major Galapagos NV shareholders". The contractual cost sharing commitment amounted to €129.0 million at 31 December 2017 (€199.0 million at 31 December 2016), for which we have direct purchase commitments of €10.1 million at 31 December 2017 (€2.0 million at 31 December 2016) reflected in the tables above.

## 27. 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., or CRL, for a total consideration of up to €134 million. CRL 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, was being held on an escrow account. Four claims were introduced by CRL, which have all been settled for a total amount of €1.3 million. The remaining balance of €6.6 million was released in full, as final agreement between the parties was reached in the first quarter of 2017.

Following the divestment, we remained guarantor until early February 2017 in respect of the lease obligations for certain U.K. premises. Finally, following common practice, we gave representations and warranties which are capped and limited in time (since 1 April 2016, CRL can only introduce a claim covered by the Tax Deed (during a period of 5 years), other claims related to the sale cannot be submitted anymore).

In the course of 2008, a former director of one of our subsidiaries sued for wrongful termination and seeks damages of €1.5 million. We believe that the amount of damages claimed is unrealistically high. On 29 January 2016, the court made a 1st degree judgment, dismissing all claims in full. In appeal, the 2nd degree court instructed the 1st degree court to conduct a new trial, which is currently pending. A first hearing was held on 24 January 2018, where a motion for a financial expertise was filed by the plaintiff. A decision on said motion is under consideration of the court and a further hearing will be scheduled. The timing of this further hearing can however not be predicted with any degree of certainty. Considering the defense elements provided to date, as well as the fact that so far the court has made no decision indicating that the claim would be sustained, our board and management evaluated the risk to be possible, but not likely. Accordingly, it was decided not to record any provision as the exposure was considered to be limited.

## 28. Retirement benefit plans

### Defined contribution plans

We operate defined contribution systems for our qualifying employees (except for Belgium and France). 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.

### Defined benefit plans in Belgium

In view of the minimum returns guarantees, the Belgian plans classify as defined benefit plans. As at 31 December 2016 a net defined benefit obligation of €386.6 thousand was recorded, which decreased to a net defined benefit obligation of €169.4 thousand on 31 December 2017.

Actuarial gains and losses are recognized immediately in equity, with a charge or credit to other comprehensive income (OCI), in accordance with IAS 19R Employee Benefits. They are not recycled subsequently. Actuarial gains of €53.9 thousand were recognized through other comprehensive income (OCI) at the end of 2017 (2016: €389.9 thousand of actuarial losses). The contributions to those plans that were due by the employer for the year ended 31 December 2017 and the year ended 31 December 2016, amounted respectively to €964.0 thousand and €528.0 thousand, of which €64.0 thousand was paid after 31 December 2017 (2016: €42.5 thousand). No contributions were made by the employees.

The plan assets as on 31 December 2017 consisted of €2,554.7 thousand (2016: €1,788.7 thousand) individual insurance reserves, which benefit from a weighted average guaranteed interest rate of 2.41% (2016: 2.82%).

### Defined benefit plans in France

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 €2,046.8 thousand for 2017 (2016: €1,808.5 thousand). This increase was mainly due to changed actuarial assumptions (decrease of discount rate from 1.44% to 1.30%).

Additionally, there are also seniority premiums obligations in France. The provisions for these premiums amounted to €1,365.7 thousand on 31 December 2017 (on 31 December 2016: €1,324.9 thousand).

Total obligation included in the balance sheet related to the defined benefit plans amounted to €3,412.5 thousand on 31 December 2017 (2016: €3,133.4 thousand).

Actuarial gains and losses are recognized in equity, with a charge or credit to other comprehensive income (OCI), in accordance with IAS 19R Employee Benefits. They are not recycled subsequently. Actuarial losses of €93.9 thousand were recognized through other comprehensive income (OCI) at the end of 2017 (2016: €193.2 thousand of actuarial losses).

Total amounts due by the group to the pension plans in 2017 were €2.2 million (2016: €1.7 million).

**Obligations included in the balance sheet**

| | 31 December | |
|---|---|---|
| **(thousands of €)** | **2017** | **2016** |
| Present value of funded defined benefit obligation | 2,724 | 2,175 |
| Plan assets | (2,555) | (1,789) |
| Deficit / surplus | 169 | 387 |
| Present value of unfunded defined benefit obligation | 3,412 | 3,133 |
| **Liability included in the balance sheet** | **3,582** | **3,520** |

**The present value of the gross obligation developed as follows**

| **(thousands of €)** | **2017** | **2016** |
|---|---|---|
| Opening balance | 5,308 | 3,757 |
| | | |
| Current service cost | 863 | 649 |
| Actual taxes on contributions paid | (87) | (48) |
| Interest cost | 87 | 82 |
| Benefits paid | (157) | (119) |
| Actuarial gains (–) or losses due to experience adjustments | (100) | 500 |
| Actuarial gains (–) or losses due to experience adjustments related to new financial assumptions | 222 | 432 |
| Actuarial gains (–) or losses due to experience adjustments related to new demographic assumptions | – | 56 |
| **Closing balance** | **6,136** | **5,308** |

**The fair value of the plan assets developed as follows**

| (thousands of €) | 2017 | 2016 |
|---|---|---|
| Opening balance | (1,788) | (1,064) |
| Interest income on plan assets | (41) | (32) |
| Actual administration costs | 3 | 2 |
| Contributions from employer | (748) | (411) |
| Actual taxes on contributions paid | 87 | 48 |
| Plan assets gain during the period | (68) | (332) |
| **Closing balance** | **(2,555)** | **(1,788)** |

The expected rate of return on the plan assets is 1.7%.

The fair value of the plan assets is the fair market value of the plan assets. The fair value of the plan assets was calculated as the reduced lump sums (received from the plan administrators) actualized with the assumptions set (discount rate and mortality tables). The total plan assets are equal to the fair value of the plan assets increased with the financing fund.

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

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| Current service cost | 863 | 649 |
| Interest cost | 87 | 82 |
| Interest income | (41) | (32) |
| Administration expenses | 3 | 2 |
| Revaluations of net liability / net asset | 14 | 73 |
| **Total expense** | **926** | **773** |

**Obligation included in the balance sheet reconciles as follows**

| (thousands of €) | 2017 | 2016 |
|---|---|---|
| Opening balance | 3,520 | 2,693 |
| Real employer contributions | (748) | (411) |
| Total expense recognized in the income statement | 926 | 773 |
| Re-measurement on the net defined benefit liability | 40 | 583 |
| Benefits paid | (157) | (119) |
| **Closing balance** | **3,582** | **3,520** |

**The most important actuarial assumptions are**

| | 31 December | |
|---|---|---|
| (%) | 2017 | 2016 |
| Weighted average discount rate | 1.48% | 1.60% |
| Expected salary increase | 2.50% | 2.50% |
| Inflation rate | 1.86% | 1.75% |

The discount rate was based on the Merrill Lynch yields for AA rated Eurozone corporate bonds (bonds with maturity dates which correspond with the commitments). In addition to the above table, we used mortality tables issued by Belgian and French national institutions for statistics applicable respectively for the Belgian and the French population.

Breakdown of defined benefit obligation by type of plan participants:

| | 31 December | |
|---|---|---|
| (number of participants) | 2017 | 2016 |
| Active plan participants | 324 | 267 |

Breakdown of defined benefit obligation by type of benefits:

| | 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| Retirement and death benefits | 4,770 | 3,983 |
| Other post-employment benefits | 1,366 | 1,325 |

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

| | 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| Equity | 153 | 89 |
| Debt | 2,402 | 1,698 |

**Sensitivity analysis on weighted average discount rate: effect on gross obligation**

| | 31 December |
|---|---|
| Obligation (thousands of €) | 2017 |
| Discount rate 0.98% | 6,663 |
| Discount rate 1.23% | 6,393 |
| Discount rate 1.48% | 6,136 |
| Discount rate 1.73% | 5,895 |
| Discount rate 1.98% | 5,666 |

Sensitivity analysis on weighted average discount rate: effect on gross obligation

| | 31 December |
|---|---|
| Obligation (thousands of €) | 2016 |
| Discount rate 1.10% | 3,792 |
| Discount rate 1.35% | 3,661 |
| Discount rate 1.60% | 3,520 |
| Discount rate 1.85% | 3,419 |
| Discount rate 2.10% | 3,312 |

## 29. Warrant plans

Presented below is a summary of warrant 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 onwards vest at the end of the third calendar year following the year of the grant, with no intermediate vesting, with the exception of the warrants granted under Warrant Plan 2015 (B), Warrant Plan 2015 RMV, and Warrant Plan 2016 (B), which vest on the third anniversary of the notary deed enacting the acceptance and issuance 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), Warrant Plan 2015 RMV, and Warrant Plan 2016 (B), which become exercisable on the third anniversary of the notary deed enacting the acceptance and issuance of the warrants. 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 extraordinary shareholders' meeting of 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 table below sets forth a summary of warrants outstanding and exercisable at 31 December 2017, per warrant plan:

| Warrant plan | Allocation date | Expiry date | Exercise price (€) | Outstanding per 1 January 2016 | Granted during the year | Exercised during the year | Forfeited during the year | Expired during the year | Outstanding per 31 December 2017 | Exercisable per 31 December 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2002 B | 31.01.2005 | 30.01.2017 | 6.76 | 25,000 | | (25,000) | | | – | – |
| 2005 | 04.07.2005 | 03.07.2018 | 6.91 | 90,000 | | (60,000) | | | 30,000 | 30,000 |
| 2005 | 15.12.2005 | 14.12.2018 | 8.60 | 12,500 | | (5,000) | | | 7,500 | 7,500 |
| 2006 BNL | 04.05.2007 | 03.05.2020 | 9.22 | 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 | 1,050 | | | | | 1,050 | 1,050 |
| 2007 | 28.06.2007 | 27.06.2020 | 8.65 | 48,909 | | | | | 48,909 | 48,909 |
| 2007 RMV | 25.10.2007 | 24.10.2020 | 8.65 | 37,650 | | (5,050) | | | 32,600 | 32,600 |
| 2008 | 26.06.2008 | 25.06.2021 | 5.60 | 79,600 | | (2,500) | | | 77,100 | 77,100 |
| 2009 | 01.04.2009 | 31.03.2017 | 5.87 | 7,500 | | (7,500) | | | – | – |
| 2010 | 27.04.2010 | 26.04.2018 | 11.55 | 53,000 | | (10,500) | | | 42,500 | 42,500 |
| 2011 | 23.05.2011 | 22.05.2019 | 9.95 | 59,100 | | (6,600) | | | 52,500 | 52,500 |
| 2012 | 03.09.2012 | 02.09.2020 | 14.19 | 247,160 | | (37,270) | | | 209,890 | 209,890 |
| 2013 | 16.05.2013 | 15.05.2021 | 19.38 | 432,240 | | (171,280) | | (400) | 260,560 | 260,560 |
| 2013 (B) | 18.09.2013 | 17.09.2021 | 15.18 | 30,000 | | (30,000) | | | – | – |
| 2014 | 25.07.2014 | 24.07.2022 | 14.54 | 536,660 | | | | | 536,660 | |
| 2014 (B) | 14.10.2014 | 13.10.2022 | 11.93 | 150,000 | | | | | 150,000 | |
| 2015 | 30.04.2015 | 29.04.2023 | 28.75 | 517,053 | | | | | 517,053 | |
| 2015 (B) | 22.12.2015 | 21.12.2023 | 49.00 | 399,000 | | | | | 399,000 | |
| 2015 RMV | 22.12.2015 | 21.12.2023 | 49.00 | 97,500 | | | | | 97,500 | |
| 2016 | 01.06.2016 | 31.05.2024 | 46.10 | 514,250 | | | | | 514,250 | |
| 2016 RMV | 01.06.2016 | 31.05.2024 | 46.10 | 120,000 | | | | | 120,000 | |
| 2016 (B) | 20.01.2017 | 19.01.2025 | 62.50 | | 150,000 | | | | 150,000 | |
| 2017 | 17.05.2017 | 16.05.2025 | 80.57 | | 595,500 | | | | 595,500 | |
| 2017 RMV | 17.05.2017 | 16.05.2025 | 80.57 | | 127,500 | | | | 127,500 | |
| **Total** | | | | **3,466,407** | **873,000** | **(368,200)** | **–** | **(400)** | **3,970,807** | **763,344** |

| | Warrants | Weighted average exercise price (€) |
|---|---|---|
| **Outstanding on 31 December, 2015** | **2,805,692** | **16.22** |
| Exercisable on 31 December, 2015 | 720,749 | |
| | | |
| Granted during the period | 1,130,750 | |
| Forfeited during the year | (48,500) | |
| Exercised during the period | (419,035) | |
| Expired during the year | (2,500) | |
| **Outstanding on 31 December, 2016** | **3,466,407** | **27.06** |
| Exercisable on 31 December, 2016 | 669,704 | |
| | | |
| Granted during the period | 873,000 | |
| Forfeited during the year | – | |
| Exercised during the period | (368,200) | |
| Expired during the year | (400) | |
| **Outstanding on 31 December, 2017** | **3,970,807** | **39.32** |
| Exercisable on 31 December, 2017 | 763,344 | |

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

## Warrant plans

| | 2017 | 2017 RMV | 2016 (B) | 2016 | 2016 RMV |
|---|---|---|---|---|---|
| | 17 May | 17 May | 20 January | 1 June | 1 June |
| Exercise price (€) | 80.57 | 80.57 | 62.50 | 46.10 | 46.10 |
| Share price at acceptance date (€) | 68.67 | 68.67 | 75.18 | 48.71 | 47.63 |
| Fair value on the acceptance date (€) | 26.85 | 26.80 | 37.27 | 21.95 | 21.16 |
| Estimated volatility (%) | 40.06 | 40.08 | 40.33 | 40.69 | 40.69 |
| Time to expiration (years) | 8 | 8 | 8 | 8 | 8 |
| Risk free rate (%) | 0.33 | 0.29 | 0.51 | 0 | 0 |
| Expected dividends | None | None | 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 were 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 2017 amounted to €16,536 thousand (2016: €11,034 thousand).

The following table provides an overview of the outstanding warrants per category of warrant holders at 31 December 2017 and 31 December 2016.

| | 31 December | |
|---|---|---|
| **Category (number of warrants)** | **2017** | **2016** |
| Non-executive directors | 216,060 | 165,240 |
| Executive team | 2,039,374 | 1,676,874 |
| Other | 1,715,373 | 1,624,293 |
| **Total warrants outstanding** | **3,970,807** | **3,466,407** |

The outstanding warrants at the end of the accounting period have an average exercise price of €39.32 (2016: €27.06) and a weighted average remaining expected life of 1,441 days (2016: 1,482 days).

# 30. Related parties

## Relationship and transactions with entities with (joint) control of, or significant influence over, Galapagos

There are no shareholders or other entities who, solely or jointly, control Galapagos or exercise significant influence over Galapagos.

## Relationship and transactions with subsidiaries

Please see Note 31 for an overview of the consolidated companies of the group, which are all wholly-owned subsidiaries of Galapagos NV.

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.

## Relationship and transactions with key management personnel

Our key management personnel consists of the members of our executive committee and the members of our board of directors. All amounts mentioned in this section are based on expenses recognized in the financial statements for the relevant financial year.

### Remuneration of key management personnel

On 31 December 2017, our executive committee had five members: Mr. Onno van de Stolpe, Mr. Bart Filius, Dr. Piet Wigerinck, Dr. Andre Hoekema and Dr. Walid Abi-Saab. On 31 December 2017, our board of directors consisted of eight members: Mr. Onno van de Stolpe, Dr. Raj Parekh, Dr. Werner Cautreels, Dr. Harrold van Barlingen, Mr. Howard Rowe, Ms. Katrine Bosley, Dr. Christine Mummery and Dr. Mary Kerr.

Only the CEO is a member of both the executive committee and the board of directors. Our 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.

The remuneration package of the members of key management personnel comprises:

| (thousands of €, except for the number of warrants) | Year ended 31 December 2017 | 2016 |
|---|---|---|
| **Remuneration of key management personnel:** | | |
| Short-term benefits[1] | | |
| Executive committee members as a group | 3,694 | 3,124 |
| Raj Parekh[2] | 91 | 73 |
| Harrold van Barlingen | 45 | 47 |
| Howard Rowe | 45 | 50 |
| Werner Cautreels | 55 | 56 |
| Katrine Bosley | 45 | 45 |
| Christine Mummery | 41 | 43 |
| Mary Kerr[3] | 41 | 18 |
| Post-employment benefits[4] | 248 | 228 |
| **Total benefits excluding warrants** | **4,305** | **3,683** |
| Number of warrants granted in the year | | |
| Executive committee members as a group | 475,000 | 515,000 |
| Raj Parekh | 15,000 | 30,000 |
| Harrold van Barlingen | 7,500 | 15,000 |
| Howard Rowe | 7,500 | 15,000 |
| Werner Cautreels | 7,500 | 15,000 |
| Katrine Bosley | 7,500 | 15,000 |
| Christine Mummery | 7,500 | 15,000 |
| Mary Kerr[3] | 7,500 | – |
| **Total number of warrants granted in the year** | **535,000** | **620,000** |

(1) Includes for executive committee members: salaries, employer social security contributions, other short-term benefits; includes for board members: board fees, other short-term benefits.
(2) During the first four months of 2016, Dr. Parekh did not receive remuneration for his directors' mandate, but was compensated through a consultancy agreement with his management company, Parekh Enterprises Ltd. (consultancy fee of €20 thousand in 2016).
(3) Dr. Kerr joined the board on 26 July 2016.
(4) Only executive committee members are granted post-employment benefits.

## Short-term employee benefits and board fees

The members of the executive committee provide their services to us on a full-time basis.

The five members of the executive committee (including the CEO) who were in function in the course of 2017 were paid an aggregate amount of € 1,638.71 thousand in remuneration and received an aggregate amount of € 1,908.81 thousand in bonuses (2016: €1,291.84 thousand in remuneration and €1,747.21 thousand in bonuses for the four members of the executive committee (including the CEO) who were in function in the course of 2016). The higher amounts in 2017 can be explained by the fact that the executive committee consisted of five members in 2017 compared to four members in 2016. The aggregate bonus amount for 2017 was composed of two parts: (i) an aggregate bonus of €692.06 thousand, being 50% of the bonus for performance over 2017 (paid in early January 2018), with the other 50% being deferred for 3 years, and (ii) an aggregate amount of €1,216.75 thousand as deferred part of the bonus for performance over 2014 (paid in early January 2018). The aggregate bonus amount for 2016 was composed of 2 parts: (i) an aggregate bonus of €573.05 thousand, being 50% of the bonus for performance over 2016 (paid in early January 2017), with the other 50% being deferred for 3 years, and (ii) an aggregate amount of €1,174.17 thousand as deferred part of the bonus for performance over 2013 (paid in early January 2017).

Other components of the remuneration of the executive committee members included contributions to health insurance schemes, company cars, tax advisory services and certain fringe benefits of non-material value.

Pursuant to the decision of the annual shareholders' meeting of 25 April 2017, Dr. Parekh received €90 thousand (€80 thousand as chairman of the board, and €10 thousand as chairman of the nomination and remuneration committee), Dr. Cautreels received €55 thousand (€40 thousand as non-executive director, €10 thousand as chairman of the audit committee and €5 thousand as member of the nomination and remuneration committee), Ms. Bosley, Mr. Rowe and Dr. Van Barlingen each received €45 thousand (€40 thousand as non-executive director and €5 thousand as member of the nomination and remuneration committee or audit committee) and Dr. Mummery and Dr. Kerr each received €40 thousand as non-executive director. Pursuant to the decision of the annual shareholders' meeting of 26 April 2016, Dr. Parekh received €70 thousand (or, taking into account €20 thousand received in consultancy fees for the first four months of 2016, an aggregate of €90 thousand: €80 thousand as chairman of the board and €10 thousand as chairman of the nomination and remuneration committee), Dr. Cautreels received €55 thousand (€40 thousand as non-executive director, €10 thousand as chairman of the audit committee and €5 thousand as member of the nomination and remuneration committee), Ms. Bosley, Mr. Rowe and Dr. Van Barlingen each received €45 thousand (€40 thousand as non-executive director and €5 thousand as member of the nomination and remuneration committee or audit committee) and Dr. Mummery received €40 thousand as non-executive director. Dr. Kerr, being appointed as non-executive director as from 26 July 2016, received €17 thousand as remuneration for the performance of her mandate during the remainder of 2016 pursuant to the decision of the special shareholders' meeting of 26 July 2016.

Dr. Parekh did not receive remuneration for his director's mandate in the first four months of 2016, but was instead compensated only through a consultancy agreement until 30 April 2016.

Finally, in 2017, a total amount of €2.7 thousand was paid as other short-term benefit for the non-executive directors (2016: €14.5 thousand). These benefits related to the payment of tax advisory services.

### Post-Employment Benefits

The post-employment benefits to the members of the executive committee are granted under separate retirement benefit schemes, including pension schemes, post-employment life insurance and additional individual pension contributions.

### Severance payments

The employment and management agreements of the members of the executive committee do not provide for severance compensation. They do not contain notice periods that exceed six months. However, Galapagos entered into undertakings with the 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 NV, they would be entitled to a severance compensation of 12 months' base salary for the Chief Executive Officer and nine months' base salary for the other executive committee members.

### Warrants granted in 2017

In 2017, 37,500 warrants were granted to independent directors (2016: 60,000) and 22,500 warrants were granted to the other non-executive directors (2016: 45,000). The higher number of warrants granted in 2016 can be explained by the fact that the final acceptance and issuance of the warrants under Warrant Plan 2015 (B) took place in 2016, and these warrants are counted as warrants granted in 2016 along with the warrants granted under Warrant Plan 2016.

### Other

No loans, quasi-loans or other guarantees were given by Galapagos NV or any of its subsidiaries to members of the board and of the executive committee. We have not entered into transactions with our key management personnel, other than as described above with respect to remuneration arrangements relating to the exercise of their mandates as members of the executive committee and the board of directors.

## 31. Consolidated companies as of 31 December 2017

| Name of the subsidiary | Country | % voting right Galapagos NV (directly or indirectly through subsidiaries) | Change in % voting right previous period (2017 vs 2016) |
|---|---|---|---|
| BioFocus DPI AG in liquidation | Switzerland | 100% | |
| Discovery Partners International GmbH | Germany | 0% | (100%) |
| Fidelta d.o.o. | Croatia | 100% | |
| Galapagos Biotech Ltd. (formerly Inpharmatica Ltd.) | United Kingdom | 100% | |
| Galapagos BV | The Netherlands | 100% | |
| Galapagos GmbH | Switzerland | 100% | 100% |
| Galapagos NV | Belgium | Parent company | |
| Galapagos SASU | France | 100% | |
| Galapagos, Inc. (formerly BioFocus, Inc.) | United States | 100% | |
| Xenometrix, Inc. | United States | 100% | |

Our German subsidiary, Discovery Partners International GmbH, was liquidated in 2017. In the fourth quarter of 2017 we incorporated a new legal entity in Basel, Switzerland: Galapagos GmbH.

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

## 32. 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 on borrowings, 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 financial assets and liabilities:

| | 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| **Financial assets** | | |
| Cash and cash equivalents | 1,151,211 | 973,241 |
| Restricted cash (current and non-current) | 1,158 | 7,668 |
| Trade receivables | 22,133 | 6,629 |
| R&D incentives receivables (current and non-current) | 75,783 | 64,342 |
| Financial assets available for sale | 1,754 | 2,351 |
| Other amounts receivable | 5,289 | 3,078 |
| **Total financial assets** | **1,257,329** | **1,057,309** |
| | | |
| **Financial liabilities** | | |
| Trade and other payables | 47,122 | 31,269 |
| Other non-current liabilities | 1,597 | 2,469 |
| Leasing debts | 9 | 63 |
| Tax payable | 865 | 1,022 |
| **Total financial liabilities** | **49,592** | **34,823** |

## Available-for-sale financial assets

On 15 July 2016, we invested €2.75 million in a French biopharmaceutical company developing new therapeutics for severe orphan and common neurological diseases, listed on Euronext. Galapagos has no restrictions on the sale of this equity investment and the asset is not pledged under any Galapagos' liabilities. This investment is classified as available-for-sale equity investment which qualifies for level 1 fair value measurement based upon the closing price of such securities on Euronext at each reporting date.

The market price of those shares might face fluctuations and might be affected by a variety of factors, such as the global economic situation, the business development of competitors, sector mergers and acquisitions; it is difficult to mitigate this risk.

## Liquidity risk

Our consolidated balance sheet shows an amount of €211.4 million as accumulated losses on 31 December 2017. Our cash and cash equivalents amounted to €1,151.2 million on 31 December 2017. Cash used in operating activities amounted to €147.0 million for the year ended 31 December 2017. Management forecasts our liquidity requirements to ensure that we have sufficient cash to meet operational needs. Based upon our current expected level of operating expenditures and our existing cash and cash equivalents, we believe that we will be able to fund our operating expenses and capital expenditure requirements at least for the next two to three years. 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**

| | 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| 60–90 days | | 170 |
| 90–120 days | 1 | – |
| more than 120 days | | 54 |

Our cash and cash equivalents are invested primarily in saving and deposit accounts. 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

The only variable interest-bearing financial instruments are cash and cash equivalents. Changes in interest rates may cause variations in interest income and expenses resulting from short term interest-bearing assets. Management does not expect the short term interest rates to decrease significantly in the immediate foreseeable future, which limits the interest exposure on our cash and cash equivalents.

### Effect of interest rate fluctuation

A 100 basis points increase in interest rates at balance sheet date would have increased profit and loss, and equity, by approximately €11.5 million (2016: €10 million); a 100 basis points decrease in interest rates would have decreased profit and loss, and equity, by approximately €11.5 million (2016: €10 million).

## 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 collaboration partners AbbVie and Gilead in U.S. dollars 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 and Gilead 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 €) | 2017 | 2016 |
| **Net book value** | | |
| Increase in Euros – U.S. Dollars | (21,083) | (16,863) |
| Increase in Euros – GB Pounds | 122 | 130 |
| Increase in Euros – CH Francs | 203 | 165 |
| Increase in Euros – HR Kunas | (185) | (95) |
| Increase in U.S. Dollars – GB Pounds | (831) | (913) |

The exchange rate risk on the U.S. dollar is primarily related to our cash and cash equivalents held in U.S. dollars.

### 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 2017, we have no financial debt other than finance leases), 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.

## 33. Statutory auditor's remuneration

The statutory auditor's fees for carrying out his mandate at group level amounted to €310 thousand in 2017 (2016: €475.0 thousand). The fees for audit-related services executed by the statutory auditor, in particular other assurance engagements primarily related to the performance of the audit or review of the company's financial statements, amounted to €90.8 thousand in 2017 (2016: €186.0 thousand), of which €13.0 thousand related to legal assignments (2016: €6.2 thousand). Fees for persons related to the statutory auditor for carrying out an auditor's mandate at group level amounted to €40.0 thousand in 2017 (2016: €40.0 thousand). Other fees related to non-audit fees, in particular IT consulting fees, amounted to €40.5 thousand for the year 2017 (2016: nil). The audit committee and the board of directors are of the opinion that these non-audit services do not affect the independence of the statutory 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.

## 34. Events after balance sheet date

On 20 March 2018, 298,184 warrants were exercised (with an average exercise price of €13.16 per warrant). This resulted in a share capital increase (including issuance premium) of €3,924.2 thousand and the issuance of 298,184 new ordinary shares. The closing price of our share on 20 March 2018 was €83.72.

Our consolidated financial statements were approved by the board of directors and authorized for publication, on 20 March 2018. They were signed on behalf of the board of directors by:

(signed)

**Onno van de Stolpe**
Managing Director and CEO

20 March 2018

# Non-consolidated financial statements

Statement of profit and loss

| | Year ended 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| Turnover | 131,496 | 161,957 |
| Internally generated intangible assets | 198,401 | 125,083 |
| Other operating income | 20,753 | 16,283 |
| **Operating income** | **350,649** | **303,322** |
| Raw materials, consumables and goods for resale | (4,763) | (4,278) |
| Services and other goods | (201,196) | (119,319) |
| Remuneration, social security costs and pensions | (24,770) | (16,551) |
| Depreciation, impairment and other amounts written off on constitution costs, intangible and tangible assets | (251,434) | (203,524) |
| Other operating charges | (7,718) | (6,365) |
| Non-recurring operating costs | (543) | (5,855) |
| **Operating loss** | **(139,775)** | **(52,569)** |
| Finance income | 8,357 | 8,891 |
| Finance cost | (34,421) | (1,530) |
| **Loss before taxes** | **(165,839)** | **(45,209)** |
| Taxes | (34) | (19) |
| **Loss for the year** | **(165,874)** | **(45,228)** |
| Loss brought forward | (177,984) | (132,756) |
| **Accumulated losses to be carried forward** | **(343,858)** | **(177,984)** |

Balance sheet

| | 31 December | |
|---|---|---|
| (thousands of €) | 2017 | 2016 |
| **Assets** | | |
| | | |
| **Non-current assets** | **66,148** | **115,053** |
| Intangible fixed assets | 20,904 | 71,640 |
| Tangible fixed assets | 5,551 | 4,200 |
| Financial fixed assets | 39,693 | 39,212 |
| | | |
| **Current assets** | **1,220,685** | **1,024,868** |
| Inventories | 267 | 296 |
| Trade and other receivables | 32,098 | 18,576 |
| Deferred costs | 1,168 | 1,123 |
| Accrued income | 41,376 | 32,283 |
| Cash and cash equivalents | 1,145,775 | 972,591 |
| **Total assets** | **1,286,833** | **1,139,920** |
| | | |
| **Equity and liabilities** | | |
| | | |
| **Equity** | **985,031** | **783,252** |
| Share capital and reserves | 275,510 | 250,187 |
| Share premium account | 1,052,915 | 709,025 |
| Accumulated losses | (343,858) | (177,984) |
| Investment grants | 464 | 2,025 |
| | | |
| **Liabilities** | **301,802** | **356,667** |
| **Non-current liabilities** | **897** | **1,292** |
| Obligations under finance lease (non-current) | – | 9 |
| Other liabilities | 897 | 1,283 |
| **Current liabilities** | **300,905** | **355,375** |
| Trade and other payables | 94,665 | 73,315 |
| Obligations under finance lease (current) | 9 | 54 |
| Tax, payroll and social security liabilities | 6,168 | 3,785 |
| Accrued costs | 1,084 | 537 |
| Deferred income | 198,977 | 277,683 |
| **Total equity and liabilities** | **1,286,833** | **1,139,920** |

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 2017 closed with a loss of €165.9 million compared to a loss of €45.2 million in 2016. 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 negatively impacted

the net result of Galapagos NV by €17.4 million in 2017, compared to a negative impact of €29.9 million in 2016. The non-consolidated annual accounts of Galapagos NV show accumulated losses of €343.9 million as at 31 December 2017; 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 of Galapagos NV for the year ended 31 December 2017

## (Consolidated financial statements)

In the context of the statutory audit of the consolidated financial statements of Galapagos NV ("the company") and its subsidiaries (jointly "the Group"), we hereby submit our statutory audit report to you. This report includes our report on the consolidated financial statements together with our report on other legal and regulatory requirements. These reports are one and indivisible.

We were appointed in our capacity as statutory auditor by the shareholders' meeting of 25 April 2017 in accordance with the proposal of the board of directors issued upon recommendation of the audit committee. Our mandate will expire on the date of the shareholders' meeting deliberating on the consolidated financial statements for the year ending 31 December 2019. We have performed the statutory audit of the consolidated financial statements of Galapagos NV for 12 consecutive years. We are the statutory auditor of Galapagos NV for 18 consecutive years.

## Report on the audit of the consolidated financial statements

### Unqualified opinion

We have audited the consolidated financial statements of the Group, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated statement of financial position shows total assets of 1 286 274 (000) EUR and the consolidated income statement shows a consolidated loss for the year then ended of 115 704 (000) EUR.

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 2017 and of its consolidated results and its consolidated cash flow for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

### Basis for the unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the "Responsibilities of the statutory auditor for the audit of the consolidated financial statements" section of our report. We have complied with all ethical requirements relevant to the statutory audit of consolidated financial statements in Belgium, including those regarding independence.

We have obtained from the board of directors and the company's officials the explanations and information necessary for performing our audit.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Key audit matters

### Research and development expenses

The research and development expenses (R&D) for the year amount to 218,5 million EUR and consist of payroll costs of employees as well as invoices from third party suppliers and R&D partners. The R&D activities with these suppliers and co-development partners are documented in detailed agreements and are typically performed over an extended period of time. Allocation of these expenses in each reporting period based on the progress of the R&D projects involves judgement.

### Revenue recognition

Revenue for the year 2017 amounts to 127 million EUR. Revenue recognition involves accounting for R&D and collaboration agreements including simultaneous transactions and multiple elements remunerated using a combination of upfront payments, milestone payments, reimbursement income and other revenues. The review of multiple what is generally referred to as "collaboration agreements" were an important element in our audit because of the relatively more complex and industry specific nature and variety of these agreements.

### Cash and cash equivalents

The total cash and cash equivalents as per 31 December 2017 amounts to 1 151,2 million EUR. We focused on this area as the cash and cash equivalents represent around 90% of total assets.

## How our audit addressed the key audit matters?

Our audit procedures included, amongst others, the review of agreements with suppliers and R&D partners and testing relevant controls in regard of the R&D process. In addition, we tested progress of R&D projects based on inquiry with project managers and inspection of supporting documentation in order to determine completeness and cut-off of R&D expenses and valuation of the related accruals recorded. We also challenged management's estimates based on its historical track record in setting up R&D progress accruals.

The company's disclosures about the research and development expenses is included in note 6 of the consolidated financial statements.

We discussed revenue recognition principles with Management. Our audit procedures included testing relevant controls in regard of revenue recognition. We read the relevant agreements to assess whether the company correctly applied the revenue recognition principles as defined in the applicable IFRS standard and we considered and challenged the reasonableness of the judgements made by Management in calculating recognized revenue.

We tested a sample of transactions of revenue recognized in the income statement (revenue) and the balance sheet (deferred income) for accurate calculation and appropriate recognition based on the agreements, recognition principles and Managements estimates and judgements.

The company's disclosures about revenue is included in note 5 of the consolidated financial statements.

We reconciled the bank balances and money market funds to bank confirmations, bank statements and recalculated the translation of foreign currencies held. For money market funds we reviewed underlying agreements to assess their presentation and disclosure in the consolidated financial statements. In addition, our audit procedures included review of the classification of the cash and cash equivalents and the restrictions on the use of the cash and cash equivalents.

The company's disclosures about the cash and cash equivalents is included in note 18 of the consolidated financial statements.

## Responsibilities of the board of directors for the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters to be considered for going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## Responsibilities of the statutory auditor for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, if a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and we communicate with them about all relationships and other matters that may reasonably be thought to bear our independence, and where applicable, related safeguards.

From the matters communicated the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes any public disclosure about the matter.

## Report on other legal and regulatory requirements

### Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements and other matters disclosed in this report.

### Responsibilities of the statutory auditor

As part of our mandate and in accordance with the Belgian standard complementary (Revised in 2018) to the International Standards on Auditing applicable (ISA), our responsibility is to verify, in all material respects, the director's report on the consolidated financial statements and other matters disclosed in the annual report, as well as to report on these matters.

### Aspects regarding the directors' report on the consolidated financial statements and other matters disclosed in this report

In our opinion, after performing the specific procedures on the directors' report on the consolidated financial statements, this report is consistent with the consolidated financial statements for the period ended 31 December 2017 and it has been established in accordance with the requirements of article 119 of the Companies Code.

In the context of our statutory audit of the consolidated financial statements we are also responsible to consider, in particular based on information that we became aware of during the audit, if the directors' report on the consolidated financial statements is free of material misstatement, either by information that is incorrectly stated or otherwise misleading. In the context of the procedures performed, we are not aware of such material misstatement. We do not express and will not express any kind of assurance on the annual report.

The non-financial information as required by article 119, § 2 of the Companies Code, has been disclosed in the the directors' report on the consolidated financial statements that is part of section Corporate Social Responsibility. The ambition of the company is to report the non-financial information in the future in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Standards (SRS) and European Federation of Financial Analysts Societies Guideline for the Integration of ESG into Financial Analysis and Corporate Valuation. We do however not express any opinion on the question whether this non-financial information has been established, in all material respects, in accordance with this Global Reporting Initiative (GRI) Sustainability Reporting Standars (SRS) and European Federation of Financial Analysts Societies Guideline for the Integration of ESG into Financial Analysis and Corporate Valuation. Furthermore, we do not express any assurance on individual elements that have been disclosed in this non-financial information.

## Statements regarding independence

- No prohibited non-audit services, as referred to by the law, have been performed and our audit firm and, if applicable, our network of audit firms, remained independent from the company during the performance of our mandate.
- The fees for the additional non-audit services compatible with the statutory audit of the consolidated financial statements, as defined in article 134 of the Companies Code, have been properly disclosed and disaggregated in the notes to the consolidated financial statements.

## Other statements

- This report is consistent with our additional report to the audit committee referred to in article 11 of Regulation (EU) No 537/2014.

Zaventem, 22 March 2018
**The statutory auditor**

**DELOITTE Bedrijfsrevisoren/Reviseurs d'Entreprises**
BV o.v.v.e. CVBA/SC s.f.d. SCRL
Represented by Gert Vanhees

The original text of this report is in Dutch.

# Glossary of terms

Glossary of terms, to be read only in conjunction with this annual report 2017.

### 100 points clinical response

Percentage of patients achieving a 100-point decrease in CDAI score during a clinical trial in CD patients

### 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. ACR50 and ACR70 reflect the same, for 50% and 70% response rates, respectively

### ADAMTS-5

ADAMTS-5 is a key enzyme involved in cartilage breakdown (Larkin 2015)

### ADS

American Depositary Share; Galapagos has a Level 3 ADS listed on NASDAQ with ticker symbol GLPG and CUSIP number 36315X101. One ADS is equivalent to one ordinary share in Galapagos NV

### AFM

Dutch Authority for the Financial Markets

### ALBATROSS

A Phase 2 trial to evaluate GLPG2222 in ivacaftor-treated CF patients with the Class II mutation on one allele

### Anemia

Condition in which the patient has an inadequate number of red blood cells to carry oxygen to the body's tissues

### Ankylosing spondylitis (AS)

AS is a systemic, chronic, and progressive spondyloarthropathy primarily affecting the spine and sacroiliac joints, and progressing into severe inflammation that fuses the spine, leading to permanent painful stiffness of the back

### (anti-)TNF

Tumor necrosis factor. An anti-TNF drug acts by modulation of TNF

### ASDAS

Ankylosing Spondylitis Disease Activity Score, a composite score of symptoms such as back pain, duration of morning stiffness, and peripheral pain and swelling. We measure ASDAS scores in the TORTUGA trial with filgotinib in AS

## Atherogenic index

Total cholesterol over HDL ratio. Improvement of the atherogenic index may be a forecast of cardiovascular health

## Atopic dermatitis (AtD)

Also known as atopic eczema, atopic dermatitis is a common pruritis inflammatory condition affecting the skin, which most frequently starts in childhood

## 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

## Autotaxin (ATX)

An enzyme important for generating the signaling molecule lypophosphatidic acid (LPA). GLPG1690 targets autotaxin for IPF

## BID dosing

Twice-daily dosing (bis in die)

## Bioavailability

Assessment of the amount of product candidate 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 product candidate has a 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

## Bleomycin model

A pre-clinical model involving use of bleomycin (a cancer medication) to induce IPF symptoms

## CDAI

Crohn's Disease Activity Index, evaluating patients on eight different factors, each of which has a pre-defined weight as a way to quantify the impact of CD

## CDAI remission

In the FITZROY trial, the percentage of patients with CD who showed a reduction of CDAI score to <150

## CFTR

Cystic Fibrosis Transmembrane conductance Regulator 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 CF

## 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 CF 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. About 90% of CF 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 and Symdeko are the only approved disease-modifying therapies for Class II mutation patients today

## Class III mutation

A genetic mutation in CF 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 8% of CF 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 product candidate 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 CF 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 be investigated in CF patients with the most prevalent mutation of CFTR

## Crohn's disease (CD)

An IBD involving inflammation of the small and large intestines, leading to pain, bleeding, and ultimately in some cases surgical removal of parts of the bowel

## 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

## Cytokine

A category of small proteins which play important roles in signaling in processes in the body

## Dactylitis

Dactylitis is inflammation of a digit (either finger or toe) and is derived from the Greek word dactylos meaning finger. The affected fingers and/or toes swell up into a sausage shape and can become painful. Dactylitis will be measured in the EQUATOR trial with filgotinib in psoriatic arthritis

## DARWIN

Phase 2 program for filgotinib in RA. Completed and reported in 2015 (except for the currently still ongoing DARWIN 3 study). DARWIN 1 explored three doses, in twice-daily and once-daily administration, for up to 24 weeks in RA patients with insufficient response to methotrexate (MTX) and who remained on their stable background treatment with MTX. DARWIN 2 explored three once-daily doses for up to 24 weeks in RA patients with insufficient response to methotrexate (MTX) and who washed out of their treatment with MTX. DARWIN 1 and 2 were double-blind, placebo-controlled trials which recruited approximately 900 patients globally. DARWIN 3 is a long term extension trial currently ongoing; all patients are on 200 mg filgotinib, except for U.S. males who are on 100 mg

## DAS28(CRP)

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. DAS28(CRP) includes c-reactive protein the score calculation: scores range from 2.0 to 10.0, with scores below 2.6 being considered remission

## 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 product 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 disease itself, modifying the disease progression, not just the symptoms of the disease

## DIVERSITY

Phase 3 program evaluating filgotinib in CD

## DLCO

DLCO (diffusion capacity of the lung for carbon monoxide) is the extent to which oxygen passes from the air sacs of the lungs into the blood. This is measured in IPF patients

## Dose-range finding study

Phase 2 clinical study exploring the balance between efficacy and safety among various doses of treatment in patients. Results are used to determine doses for later studies

## Double-blind

Term to characterize a clinical trial in which neither the physician nor the patient knows if the patient is taking placebo or the treatment being evaluated

## Efficacy

Effectiveness for intended use

## EMA

European Medicines Agency, in charge of European market authorization of new medications

## Endoscopy

A non-surgical procedure involving use of an endoscope to examine a person's digestive tract

## Enthesitis

Inflammation of the tendons or ligaments; this is one of the key symptoms of psoriatic arthritis

## EQUATOR

A Phase 2 trial with filgotinib in psoriatic arthritis patients

## Esbriet

An approved drug (pirfenidone) for IPF, marketed by Roche

## FDA

The U.S. Food and Drug Administration is an agency responsible for protecting and promoting public health and in charge of American market approval of new medications

## Fee-for-service

Payment system where the service provider is paid a specific amount for each procedure or service performed

## FEV

Forced expiratory volume measures how much air a person can exhale during a forced breath. The amount of air exhaled may be measured during the first (FEV1), second (FEV2), and/or third seconds (FEV3) of the forced breath

## Fibrotic score

The Ashcroft fibrotic score involves measuring pulmonary fibrosis through examination of histopathology tissue

## FIH

First-in-human clinical trial, usually conducted in healthy volunteers with the aim to assess the safety, tolerability and pharmacokinetics of the product candidate

## Filgotinib

Formerly known as GLPG0634. Small molecule selective JAK1 inhibitor which showed activity and favorable tolerability in RA and CD patients in Phase 2 trials. Filgotinib is partnered with Gilead. Galapagos and Gilead are running Phase 3 trials with filgotinib in RA, CD, and UC and Phase 2 trials with filgotinib in additional indications. Filgotinib is an investigational drug and its efficacy and safety have not been established

## FINCH

Phase 3 program evaluating filgotinib in RA

## Fistulizing CD

Fistulae are inflammatory tracts that most often occur between the distal colon and the perianal region. Fistulae are one of the most severe sequelae of luminal CD and the lifetime risk of occurrence is close to 50% of those with active CD

## FITZROY

A double-blind, placebo controlled Phase 2 trial with filgotinib in 177 CD patients for up to 20 weeks. Full results were published in The Lancet in 2016

## FLAMINGO

A Phase 2 study to evaluate GLPG2222 in patients with CF with the F508del mutation on both alleles

## FLORA

A double-blind, placebo-controlled exploratory Phase 2a trial with GLPG1690 in up to 24 IPF patients; topline results were reported in August 2017

## FRI

Functional respiratory imaging is a technology which enhances 3D visualization and quantification of a patient's airway and lung geometry

## 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 an employee'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

## FVC

Forced vital capacity is the amount of air which can be forcibly exhaled from the lungs after taking the deepest breath possible. FVC is used to help determine both the presence and severity of lung diseases such as IPF

## GLPG0634

Molecule number currently known as filgotinib

## GLPG1205

A GPR84 inhibitor fully proprietary to us. We plan to initiate a patient trial with GLPG1205 in IPF

## GLPG1690

A novel drug targeting autotaxin, with potential application in IPF. Fully proprietary to Galapagos. Topline results from the Phase 2a FLORA trial were reported in August 2017

## GLPG1837

A potentiator product candidate which showed activity and favorable tolerability in the Phase 2 SAPHIRA 1 and 2 trials in Class III CF mutation patients

## GLPG1972

A novel mode-of-action product candidate that is part of the OA alliance with Servier. Galapagos reported positive results in a Phase 1b trial with GLPG1972 in OA patients in the United States in 2017

## GLPG2222

A C1 (early) corrector drug candidate which showed favorable tolerability in Phase 1 and activity and favorable tolerability in the ALBATROSS Phase 2 trial in combination with Kalydeco in Class III mutation patients and in the FLAMINGO trial as monotherapy in Class II mutation patients

## GLPG2451

A potentiator drug candidate which showed favorable tolerability in Phase 1, also in combination with C1 corrector GLPG2222

## GLPG2534

A pre-clinical candidate with a novel mode of action. GLPG2534 is expected to enter Phase 1 trials in 2018

## GLPG2737

A C2 (late) corrector drug candidate which showed favorable tolerability in a Phase 1 safety trial. GLPG2737 is currently being tested in the PELICAN trial in combination with Orkambi in Class II mutation CF patients

## GLPG2851

A C1 (early) corrector drug candidate which entered Phase 1 trials in 2017

## GLPG3067

A potentiator drug candidate which showed favorable tolerability in a Phase 1 trial in 2017, in combination with GLPG2222

## GLPG3121

A pre-clinical candidate with undisclosed novel mode of action directed toward inflammation

## GLPG3221

A C2 (late) corrector drug candidate currently at the pre-clinical stage. GLPG3221 entered Phase 1 trials in 2017

## GLPG3312

A pre-clinical candidate with undisclosed mode of action directed toward inflammation

## GLPG3499

A pre-clinical candidate with undisclosed mode of action in the IPF program

## GLPG3535

A pre-clinical candidate with undisclosed mode of action directed toward pain in the alliance with Calchan

## GLPG3667

A pre-clinical candidate with novel mode of action directed toward inflammation

## HDL

High-density lipoprotein. HDL scavenges and reduces low-density lipoprotein (LDL) which contributes to heart disease at high levels. High levels of HDL reduce the risk for heart disease, while low levels of HDL increase the risk of heart disease

## Hemoglobin

A protein inside red blood cells that carries oxygen from the lungs to tissues and organs in the body and carries carbon dioxide back to the lungs

## Heterozygous

Genetic term meaning a cell containing different alleles for a gene

## Histopathology

Microscopic examination of tissues for manifestations of a disease

## Homozygous

Genetic term meaning identical alleles of the gene are present on both homologous chromosomes

## IBD

Inflammatory Bowel Disease. This is a general term for an autoimmune disease affecting the bowel, including CD and UC. CD affects the small and large intestine, while UC 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

## IL-17C

IL-17C has been shown to be distinct from other members of the IL-17 family of cytokines. IL-17C has been shown to be an important mediator in inflammatory skin diseases, and is the target of MOR106

## 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

## In vitro

Studies performed with cells outside their natural context, for example in a laboratory

## Inflammatory diseases

A large, unrelated group of disorders associated with abnormalities in inflammation

## Inspiratory capacity

Total lung capacity or the amount of gas contained in the lung at the end of a maximal inhalation

## Intellectual property

Creations of the mind that have commercial value and are protected or protectable, including 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 obtains this exemption, allowing them to perform clinical studies

## 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

## 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 RA. Filgotinib is a selective JAK1 inhibitor

## Kalydeco

A potentiator drug (ivacaftor) marketed by Vertex Pharmaceuticals

## LDL

Low-density lipoprotein. LDL contributes to heart disease at high levels

## Liver enzymes

Inflamed or injured liver cells secrete higher than normal amounts of certain chemicals, including liver enzymes, into the bloodstream

## LPA

Lysophosphatidic acid (LPA) is a signaling molecule involved in fibrosis

## Lymphocyte

Type of white blood cell that is part of the immune system

## Milestone

Major achievement in a project or program; in our alliances, this is usually associated with a payment

## Molecule collections

Chemical libraries, usually consisting of drug-like small molecules that are designed to interact with 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 product candidate which completed a Phase 1b trial in AtD patients. MOR106 acts on IL-17C, a novel antibody target discovered by Galapagos. MOR106 is part of the alliance with MorphoSys

## MTX

Methotrexate; a first-line therapy for inflammatory diseases

## NDA

New Drug Application

## Neutrophil

Type of immune system cell which is one of the first cell types to travel to the site of an infection in the body. Neutrophils are another type of white blood cell which fight infection by ingesting and killing microorganisms

## NK cells

Natural killer cells, type of white blood cell with granules of enzymes which can attack tumors or viruses

## Ofev

An approved drug (nintedanib) for IPF, marketed by Boehringer Ingelheim

## Oral dosing

Administration of medicine by the mouth, either as a solution or solid (capsule, pill) form

## Organoids

Miniature organ produced from cells from a donor; organoids have all the phenotypic characteristics of the patient donor, making them useful tools for *in vitro* drug research

## Orkambi

A combination potentiator-corrector therapy marketed by Vertex Pharmaceuticals

## Osteoarthritis (OA)

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

## PELICAN

Phase 2 trial of C2 corrector GLPG2737 in combination with Orkambi in Class II mutation CF patients

## 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 an investigational drug 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 no more than several hundred patients, in order to determine efficacy, tolerability and the dose to use

## Phase 3

Large clinical trials, usually conducted in several hundred to several thousand patients to gain a definitive understanding of the efficacy and tolerability of the candidate treatment; serves as the principal basis for regulatory approval

## Placebo-controlled

A substance having no pharmacological effect but administered as a control in testing a biologically active preparation

## Potentiator drug

Drug that restores the CFTR ion channel opening in CF 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 investigate in 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

## Product candidate

Substance that has satisfied the requirements of early pre-clinical testing and has been selected for development, starting with formal pre-clinical safety evaluation followed by clinical testing for the treatment of a certain disorder in humans

## Proof of Concept study

Phase 2 patient study in which activity as well as safety in patients is evaluated, usually for a new mechanism of action

## Pruritis

Extreme itching, as observed in AtD patients

## Psoriatic arthritis

Psoriatic arthritis is an inflammatory form of arthritis, affecting up to 30% of psoriasis patients. Psoriatic arthritis can cause swelling, stiffness and pain in and around the joints, and cause nail changes and overall fatigue

## QD dosing

Once-daily dosing (qd from the Latin quaque die)

## R&D operations

Research and development operations; unit responsible for discovery and developing new product candidates for internal pipeline or as part of risk/reward sharing alliances with partners

## Rheumatoid arthritis (RA)

A chronic, systemic inflammatory disease that causes joint inflammation, and usually leads to cartilage destruction, bone erosion and disability

## SAPHIRA

A Phase 2 trial of potentiator GLPG1837 in CF patients carrying a Class III mutation

## 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

## SELECTION

Phase 2/3 program evaluating filgotinib in UC patients

## Service operations

Business unit primarily focused on delivering products and conducting fee-for-service work for clients. Our service operations included the BioFocus and Argenta business units, which were both sold in April 2014 to Charles River Laboratories

## SES-CD scores

Simple endoscopic score for CD, involving review of five pre-defined bowel segments, assigning values from 0 (unaffected) to 3 (highly affected)

## Sjögren's syndrome

Sjögren's Syndrome is a systemic inflammatory disease which can be felt throughout the body, often resulting in chronic dryness of the eyes and mouth

## Small bowel CD (SBCD)

CD causes chronic inflammation and erosion of the intestines. It can affect different regions of gastrointestinal tract including the stomach and small and large intestines. While isolated SBCD is an uncommon presentation of CD, involvement of some portion of the small bowel, particularly the ileum, is common

## Spondylitis

About 20% of patients with psoriatic arthritis will develop spinal involvement, which is called psoriatic spondylitis. Inflammation of the spine can lead to complete fusion, as in AS, or affect only certain areas such as the lower back or neck. We measure spondylitis in the EQUATOR trial with filgotinib in psoriatic arthritis

## Sweat chloride

The sweat test measures the concentration of chloride that is excreted in sweat. It is used to screen for CF. Due to defective chloride channels (CFTR), the concentration of chloride in sweat is elevated in individuals with CF

## Symdeko

A corrector-potentiator combination for CF patients with the Class II mutation; marketed by Vertex Pharmaceuticals

## 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)

## Tendinitis

Tendinitis is inflammation or irritation of a tendon, the thick fibrous cords that attach muscle to bone. The condition causes pain and tenderness just outside a joint. We measure tendinitis in the EQUATOR trial with filgotinib in psoriatic arthritis

## Tezacaftor

C1 corrector for CF therapy developed by Vertex Pharmaceuticals

## TORTUGA

Phase 2 trial with filgotinib in patients with ankylosing spondylitis

## Ulcerative colitis (UC)

UC is an IBD causing chronic inflammation of the lining of the colon and rectum (unlike CD with inflammation throughout the gastrointestinal tract)

## Uveitis

Uveitis is the term that refers to inflammation inside the eye. This inflammation can be caused by infection, autoimmune reaction, or by conditions confined primarily to the eye

# Financial calendar

## 24 April 2018

Annual Shareholders' Meeting in Mechelen

## 25 April 2018

First quarter 2017 results

## 2 August 2018

Half year 2018 results

## 25 October 2018

Third quarter 2018 results

## 21 February 2019

Full year 2017 results

# Colophon

**Concept, design and online programming**
nexxar GmbH, Vienna – Online annual reports and online sustainability reports
www.nexxar.com

**Photography & visuals**
Aldo Allessi
Nicolas Triballeau

All shown medical innovations to be found in Rijksmuseum Boerhaave, Leiden, The Netherlands. Visuals in this annual report are an artist impression, the purpose is not to represent reality.

Copy deadline: 23 March 2018

This annual report is also available in Dutch and available for download in the Downloads section of this report or at www.glpg.com

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