**Galapagos NV**

a public limited liability company (*naamloze vennootschap / société anonyme*) under Belgian law, with registered office at Generaal De Wittelaan L11 A3, 2800 Mechelen (Belgium), company number 0466.460.429

# Admission to trading of 6,760,701 New Shares to Euronext Brussels and Euronext Amsterdam

Galapagos NV requests the admission to trading on Euronext Brussels and Euronext Amsterdam of 6,760,701 New Shares without nominal value that were issued to Gilead Biopharmaceutics Ireland Unlimited Company in the context of a private placement, pursuant to a capital increase in the framework of the authorized capital and with the cancellation of the preferential subscription rights of the existing shareholders for the benefit of Gilead Biopharmaceutics Ireland Unlimited Company. The capital increase is part of the entering into a license and collaboration agreement between Gilead Biopharmaceutics Ireland Unlimited Company and Galapagos NV with respect to the compound known as filgotinib.

## Warning:

Investing in Galapagos NV shares involves important risks. Investors are advised to carefully consider the information contained in the prospectus and, in particular, the risks described in the section titled "Risk Factors". Specifically, investors should be aware that currently Galapagos NV has no approved products on the market and is a loss-making company. Investors must be able to bear the economic risk of an investment in shares and should be able to sustain a partial or total loss of their investment.

## 10 May 2016

*I, Onno van de Stolpe, director of Galapagos NV, hereby certify*
*that this is a true copy of the prospectus related to the admission to listing of 6,760,701 new shares of Galapagos NV on Euronext Brussels and Euronext Amsterdam as approved by the FSMA on 10 May 2016.*

{ /s/ Onno van de Stolpe }

# Contents

# Part I: Summary

*The summary has been prepared in accordance with the content and format requirements of the Prospectus Regulation.*

*Summaries are made up of disclosure requirements known as 'Elements'. These elements are numbered in Sections A – E (A.1 – E.7).*

*This summary contains all the Elements required to be included in a summary for this type of securities and Company. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.*

*Even though an Element may be required to be inserted in the summary because of the type of securities and Company, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of 'not applicable'.*

## Section A – Introduction and warnings

**A.1 Introduction**

This summary should be read as an introduction to the Prospectus and any decision to invest in the New Shares should be based on consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in the Prospectus is brought before a court in any Member State of the European Economic Area, the plaintiff investor might, under the national legislation of the Member State of the European Economic Area, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent, when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such New Shares.

**A.2 Consent for use of the Prospectus**

Not applicable.

## Section B – Company

**B.1 Legal and commercial name of the Company**

Galapagos NV

**B.2 Domicile and legal form of the Company, legislation under which the Company operates and country of incorporation**

The Company is a public company with limited liability (*naamloze vennootschap/société anonyme*) incorporated on 30 June 1999 under the laws of Belgium. The Company has its registered office at Generaal De Wittelaan L11 A3, 2800 Mechelen, Belgium and is registered with the Belgian Register of Legal Entities of Antwerp, division Mechelen, under number 0466.460.429.

**B.3 Key factors relating to the Company's current operations and principal activities**

Galapagos is a clinical-stage biotechnology company, with currently no approved products, specialized in the discovery and development of small molecule medicines with novel modes of action, addressing disease areas of high unmet medical need. Execution on its proprietary drug target discovery platform has delivered a pipeline that at the end of 2015 consisted of three Phase

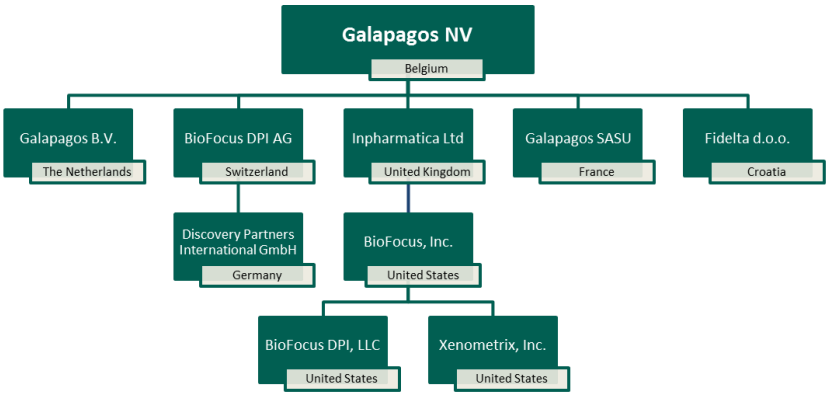
2, three Phase 1, five pre-clinical, and 20 discovery programs in inflammation, cystic fibrosis, fibrosis, osteoarthritis and other indications. Its highly flexible platform offers applicability across a broad set of therapeutic areas. Galapagos' lead program is selective JAK1 inhibitor filgotinib, which has shown potentially best-in-class efficacy and safety in Phase 2 studies in rheumatoid arthritis and Crohn's disease. Galapagos is developing filgotinib in collaboration with Gilead.

**B.4a Most significant recent trends affecting the Company and the industries in which it operates**

Industry revenues, profitability, and R&D spend continued to increase in 2015, also in Europe. Consolidation of the industry continued throughout 2015, with a number of large acquisitions driven for a large part by the need for large pharmaceutical companies to fill their pipelines with promising new drugs. 2015 was a large year for IPO's and fundraising for biotech, with fears about future drug pricing limitation fueling a slowdown in the first months of 2016. In the field of inflammation, one of the largest therapeutic areas in healthcare, there are many competitors, both with approved drugs and drugs in development. These competitors are investing in their inflammation franchises, maintaining a highly competitive market for inflammation drugs.

**B.5 Company group and Company's position within the group**

The diagram below is a simplified version of the corporate structure of Galapagos and the group of which the Company forms part at the date of this Prospectus. All stakes are 100% stakes.




**B.6 Major shareholders**

The following table sets forth each major shareholder of the Company as of the Date of this Prospectus who, to the best of the Company's knowledge, owns more than 5% of its outstanding shares.

| | Number of shares | Percentage |
|---|---|---|
| Gilead Sciences, Inc. | 6,760,701 (1) | 14.71% |
| Van Herk | 3,423,363 (2) | 7.45% |
| FMR LLC | 2,732,508 (1) | 5.94% |
| Federated Investors, Inc. | 2,528,773 (2) | 5.50% |

(1) At the time of the most recent transparency notification.

(2) On 31 December 2015, as set forth in the most recent statement of acquisition of beneficial ownership by

individuals filed on Schedule 13G with the United States Securities and Exchange Commission.

**B.7 Selected historical financial information**

The following tables set forth Galapagos' summary consolidated financial information as of and for the periods ended on the dates indicated below. The summary financial information as of 31 December 2013, 2014 and 2015, and for the years then ended has been derived from Galapagos' audited consolidated financial statements for the years ended 31 December 2013, 2014 and 2015.

Galapagos' consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, and as adopted by the European Union. The Company's historical results are not necessarily indicative of the results to be expected in the future.

(i) Consolidated statement of operations

| | Year Ended 31 December | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| Revenues | € 39,563 | € 69,368 | € 76,625 |
| Other income | 21,017 | 20,653 | 19,947 |
| **Total revenues and other income** | **60,579** | **90,021** | **96,572** |
| Service cost of sales | | | |
| Research and development expenditure | (129,714) | (111,110) | (99,380) |
| General and administrative expenses | (19,127) | (13,875) | (12,353) |
| Sales and marketing expenses | (1,182) | (992) | (1,464) |
| Restructuring and integration costs | - | (669) | (290) |
| **Operating loss** | **(89,444)** | **(36,624)** | **(16,915)** |
| Fair value remeasurement of share subscription agreement | (30,632) | | |
| Other financial income | 1,987 | 2,291 | 2,182 |
| Other financial expenses | (1,539) | (867) | (1,402) |
| **Loss before tax** | **(119,627)** | **(35,201)** | **(16,135)** |
| Income taxes | 1,218 | (2,103) | (676) |
| **Net loss from continuing operations** | **(118,410)** | **(37,303)** | **(16,811)** |
| **Net income from discontinued operations** | **-** | **70,514** | **8,732** |
| **Net income / loss (-)** | **€ (118,410)** | **€ 33,211** | **€ (8,079)** |
| **Net income / loss (-) attributable to:** | | | |
| Owners of the parent | (118,410) | 33,211 | (8,079) |
| **Basic and diluted income / loss (-) per share** | **€ (3.32)** | **€ 1.10** | **€ (0.28)** |
| **Basic and diluted loss per share from continuing operations** | **€ (3.32)** | **€ (1.24)** | **€ (0.58)** |
| Weighted average number of shares (in '000 shares) | 35,700 | 30,108 | 28,787 |

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

R&D expenditure increased by €18.6 million, or 17%, to €129.7 million for the year ended 31 December 2015, from €111.1 million for the year ended 31 December 2014. R&D expenditure under alliance increased by €4.5 million, or 6%, from €76.3 million for year ended 31 December 2014 to €80.8 million for the year ended 31 December 2015, mainly due to Galapagos CF program in collaboration with AbbVie. Galapagos also increased its investments in its own funded portfolio by €14.1 million, or 40%, from €34.8 million for the year ended 31 December 2014 to €48.9 million for the year ended 31 December 2015, primarily because GLPG1205 and GLPG1690 programs became own funded.

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

(ii) Condensed consolidated statement of financial position

**Condensed consolidated statement of financial position:**

| | 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| Cash and cash equivalents | € 340,314 | € 187,712 | € 138,175 |
| **Total Assets** | **442,514** | **270,467** | **287,374** |
| **Total Equity** | **364,999** | **206,135** | **167,137** |
| Total non-current liabilities | 5,103 | 3,976 | 7,678 |
| Total current liabilities | 72,412 | 60,356 | 112,559 |
| **Total Liabilities** | **77,515** | **64,332** | **120,237** |
| **Total Liabilities and Equity** | **€ 442,514** | **€ 270,467** | **€ 287,374** |

Cash and cash equivalents at 31 December 2015 amounted to €340.3 million. The substantial net cash inflow in the year 2015 can primarily be attributed to €259.4 million of net new funds from the recent global offering and concurrent listing on the NASDAQ Global Select Market on 19 May 2015. The increase in Galapagos cash position is explained more in details in the below comments to the condensed consolidated statement of cash flow.

(iii) Condensed consolidated statement of cash flow

**Condensed Consolidated Statement of Cash Flows:**

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| **Cash and cash equivalents at beginning of the period** | **€ 187,712** | **€ 138,175** | **€ 94,369** |
| Net cash flows generated / used (-) in operating activities | (114,590) | (75,555) | 1,846 |
| Net cash flows generated / used (-) in investing activities | (4,297) | 120,606 | (11,988) |
| Net cash flows generated in financing activities | 271,370 | 4,214 | 54,495 |
| Effect of exchange rate differences on cash and cash equivalents | 118 | 271 | (548) |
| **Cash and cash equivalents at end of the period** | **€ 340,314** | **€ 187,712** | **€ 138,175** |

Net cash outflow from operating activities increased by €39.0 million to a €114.6 million outflow for the year ended 31 December 2015 compared to a €75.6 million outflow for the year ended 31 December 2014. The higher cash burn from operations recorded in the year 2015 was primarily explained by increased R&D investments, €15.9 million less cash received from milestones and costs reimbursement, of which mainly €5.9 million in alliance related receivables for which revenues were recorded in 2013 and for which payment came in the first half of 2014.

The net cash inflow from investing activities decreased by €124.9 million to €4.3 million net cash outflow for the year ended 31 December 2015 compared to €120.6 million net cash inflow for the year ended 31 December 2014, which reflected €130.8 million of net cash and cash equivalents proceeds from the sale of the service operations to Charles River on 1 April 2014 (€129 million headline consideration adjusted with agreed price adjustments and costs of the sale for a total amount of €1.9 million), decreased by €7.4 million held as escrow account and presented as restricted cash in Galapagos' statement of financial position. Restricted cash amounted to €10.7 million for the year ended 31 December 2014, and decreased to €7.9 million for the year ended 31 December 2015. This decrease is related to (i) the release of the €3 million bank guarantee issued

in 2013 for the rental of the new premises in France which expired on 30 June 2015 following the move to the new offices, (ii) the payment of a claim to Charles River by decrease of the escrow account, and (iii) a €0.7 million bank guarantee issued in September 2015 for the rental of new premises in The Netherlands (to replace the current premises) which will expire on 1 October 2025.

The net cash inflow from financing activities have increased by €267.2 million, from €4.2 million net cash inflow for the year ended 31 December 2014, to €271.4 million net cash inflow for the year ended 31 December 2015. The substantial net cash inflow in 2015 can primarily be attributed to €259.4 million of net new funds from the recent global offering and concurrent listing on the NASDAQ Global Select Market on 19 May 2015. In addition, proceeds received on exercise of warrants contributed to cash generated by financing activities in 2015 for €12.0 million and to a lesser extent for €4.4 million in 2014.

**B.8 Selected key pro forma financial information**

Not applicable. No pro forma information is included in the Prospectus.

**B.9 Forecast or estimate of the profit**

Not applicable. No profit forecast or estimates are included in the Prospectus.

**B.10 Qualification of the auditor**

Not applicable. There are no qualifications in the Statutory Auditor's reports on the historical financial information.

**B.11 Working capital statement**

The Company is of the opinion that is has sufficient working capital to meet is present working capital expenditure requirements for at least the next 2 or 3 years following the Date of this Prospectus.

## Section C – Securities

**C.1 Type and class of the securities being admitted to trading**

The Prospectus relates to the admission to trading on Euronext Brussels and Euronext Amsterdam of ordinary shares of the only existing class in the capital of the Company. They are registered in form and have no nominal value.

When admission to trading is being granted, the New Shares shall be listed on Euronext Brussels and Euronext Amsterdam.

ISIN: BE0003818359

Euronext Brussels and Euronext Amsterdam Symbol: "GLPG"

**C.2 Currency of the securities issue**

EUR

**C.3 Number of shares issued and share capital**

The Prospectus relates to the admission to trading on Euronext Brussels and Euronext Amsterdam of 6,760,701 fully paid-up New Shares.

The share capital of the Company amounts to EUR 248,632,657.08 (excluding issuance premium) on the Date of this Prospectus represented by 45,968,738 shares (including the New Shares), all fully paid-up.

As per 15 April 2016, 8,510,271 of the aforementioned 45,968,738 shares are on deposit with the Custodian and traded on the NASDAQ Global Select Market as ADSs.

In In addition, as of the Date of this Prospectus, there are 3,139,497 outstanding warrants (i.e. warrants that have been granted and accepted and that have not yet become null and void for any reason as per the Date of this Prospectus). In accordance with the terms and conditions of the warrant plans under which they were issued, upon exercise, the outstanding warrants entitle the warrant holders to one new share in the Company per exercised warrant, being a total of 3,139,497 new shares in the Company in case all 3,139,497 outstanding warrants are exercised.

**C.4 Rights attached to the shares issued**

All shares, including the New Shares have the same rights as provided for in the Company's Articles of Association and Belgian Companies Code.

- **Dividend rights.** All shares, including the New Shares, participate in the same manner in the Company's profits (if any).
- **Voting rights.** Each shareholder is entitled to one vote per share. Voting rights can be suspended in certain circumstances.
- **Right to attend shareholders' meetings.** Subject to certain formalities being met, each shareholder is entitled to attend any shareholders' meeting of the Company. Subject to certain conditions being met, one or more shareholders may request for items to be added to the agenda and submit proposed resolutions in relation to existing agenda items. In general, there is no quorum requirement for a shareholders' meeting and decisions are generally passed with a simple majority of the votes of the shares present and represented. Special quorum requirements apply to, among others, capital increases not decided by the Company's Board of Directors within the framework of the authorized capital, decisions with respect to the Company's dissolution or the redemption or sale of the Company's shares, certain reorganizations of the Company and amendments to the Company's Articles of Association.
- **Preferential subscription rights.** In the event of a capital increase in cash with issuance of new shares, or in the event of an issuance of convertible bonds or warrants, the existing shareholders have a preferential right to subscribe to the new shares, convertible bonds or warrants, pro rata of the part of the share capital represented by the shares that they already have. The shareholders' meeting and, within the framework of the authorized capital, the Company's Board of Directors can decide to limit or cancel this preferential subscription right, subject to special reporting requirements.
- **Liquidation rights.** After payment of all obligations of the Company, debts, expenses and liquidation costs, the proceeds of the liquidation are distributed pro rata amongst all shareholders, in proportion to their shareholding.
- **Buy back of shares.** In accordance with its Articles of Association and the Belgian Companies Code, the Company can only purchase and sell its own shares by virtue of a special shareholders' resolution. The prior approval by the shareholders is not required if

the Company purchase its shares to offer them to its personnel.

**C.5 Restrictions on the free transferability of the securities**

All shares are freely transferable subject to the lock-up and standstill arrangements between the Company and Gilead. Under the Subscription Agreement dated 16 December 2015 relating to the subscription of the New Shares by Gilead, the Company and Gilead have agreed to a lock-up arrangement (expiring on 31 December 2017) and a standstill arrangement with respect to the Company's shares held by Gilead.

**C.6 Application for admission to trading on a regulated market**

An application has been made in order to admit the New Shares to trading on the regulated market of Euronext Brussels and Euronext Amsterdam. When admission to trading is granted, the New Shares will be available for trade under ISIN Code BE0003818359 and carrying symbol "GLPG".

**C.7 Dividend Policy**

The Company has never declared or paid any cash dividends on its ordinary shares. The Company does not anticipate paying cash dividends on its ordinary shares in the foreseeable future and intends to retain all available funds (if any) and any future earnings for use in the operation and expansion of its business. In general, distributions of dividends proposed by the board of directors require the approval of the Company's shareholders' meeting with a simple majority vote, although the Company's board of directors may declare interim dividends without shareholder approval, subject to the terms and conditions of the Belgian Companies Code.

## Section D - Risks

**D.1 Risks relating to the Company's business and industry**

### Risks related to product development, regulatory approval and commercialization

***The Company is heavily dependent on the success of product candidate filgotinib. It is also dependent on the success of other product candidates, such as GLPG1837, GLPG2222, GLPG1690 and GLPG1972.***

The Company 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. The Company is not permitted to market or promote any of its product candidates before it receives regulatory approval from the FDA, the EMA or any other comparable regulatory authority, and it may never receive such regulatory approval for any of its product candidates. The Company cannot be certain that it will advance any other product candidates into clinical trials. If any of filgotinib, GLPG1837, GLPG2222, GLPG1690, GLPG1972, MOR106 or any future product candidate is not approved and commercialized, the Company will not be able to generate any product revenues for that product candidate.

***Due to limited resources and access to capital, the Company must and has in the past decided to prioritize development of certain product candidates; these decisions may prove to have been wrong and may adversely affect the Company's revenues.***

***The regulatory approval processes of the FDA, the EMA and other comparable regulatory authorities are lengthy, time consuming and inherently unpredictable, and if the Company were ultimately unable to obtain regulatory approval for its product candidates, the Company's***

***business will be substantially harmed.***

***Filgotinib, if approved, may be subject to box warnings, labeling restrictions or dose limitations in certain jurisdictions, which could have a material adverse impact on the Company's ability to market filgotinib in these jurisdictions.***

***Clinical development is a lengthy and expensive process with an uncertain outcome, and 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. Clinical failure can occur at any stage of clinical development. The Company has never completed a Phase 3 trial or submitted a New Drug Application, or NDA.***

Clinical testing is expensive and can take many years to complete, and its outcome is inherently uncertain. Failure can occur at any time during the clinical trial process. If the Company experiences delays in the completion of, or termination of, any clinical trial of its product candidates, the commercial prospects of the product candidates will be harmed, and the Company's ability to generate product revenues from any of these product candidates will be delayed. If filgotinib, GLPG1837, GLPG2222, GLPG1690, GLPG1972, MOR106 or any other product candidate is found to be unsafe or lack efficacy, the Company will not be able to obtain regulatory approval for it and its business would be materially harmed.

***The rates at which the Company completes its scientific studies and clinical trials depend on many factors, including, but not limited to, patient enrollment.***

Patient enrollment, a significant factor in the timing of clinical trials, is affected by many factors including competing clinical trials and clinicians' and patients' perceptions as to the potential advantages of the drug being studied in relation to other available therapies, including any new drugs that may be approved for the indications the Company is investigating. Any of these occurrences may harm the Company's clinical trials and by extension, its business, financial condition and prospects.

***The Company may not be successful in its efforts to use and expand its novel, proprietary target discovery platform to build a pipeline of product candidates.***

***The Company faces significant competition for its drug discovery and development efforts, and if the Company does not compete effectively, its commercial opportunities may be reduced or eliminated.***

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

***The Company's 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 the Company's product candidates could cause it 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 the Company's business, financial condition and prospects significantly.

## Risks related to the Company's financial position and need for additional capital

***The Company is a clinical-stage company with no approved products and no historical product revenues, which makes it difficult to assess future prospects and financial results***.

The Company is a clinical-stage biotechnology company and has not yet generated any product income. The Company's operations to date have been limited to developing the Company's technology and undertaking pre-clinical studies and clinical trials of the Company's product candidates. The ability of the Company to predict future operating results or business prospects is more limited than if the Company had a longer operating history or approved products on the market.

***The Company has incurred significant losses since its inception and anticipates that it will continue to incur significant losses for the foreseeable future.***

The Company has incurred significant operating losses since its inception. The Company expects to continue incurring significant research, development and other expenses related to its ongoing operations, and to continue incurring losses for the foreseeable future. The Company does 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, the Company is unable to predict the timing or amount of expenses and when it will be able to achieve or maintain profitability, if ever.

***The Company will require additional funding, which may not be available to it on acceptable terms, or at all.***

The Company may require additional future capital in order to complete clinical development and, if it is successful, to commercialize current product candidates. Because successful development of product candidates is uncertain, the Company is unable to estimate the actual funds required to complete research and development and commercialize product candidates. Additional funding may not be available to the Company on acceptable terms, or at all.

***Raising additional capital may cause dilution to the existing shareholders, restrict the Company's operations or require it to relinquish rights to the Company's product candidates or technologies.***

To the extent that the Company raises additional capital through the sale of equity or convertible debt securities, the existing shareholders ownership interest will be diluted. The incurrence of additional indebtedness and/or the issuance of certain equity securities could result in increased fixed payment obligations and could also result in certain additional restrictive covenants that could adversely impact the Company's ability to conduct its business. In the event that the Company enters into collaborations and/or licensing arrangements in order to raise capital, it may be required to accept unfavorable terms, including relinquishing or licensing to a third party on unfavorable terms rights to technologies or product candidates.

## Risks related to the Company's reliance on third parties

***The Company may not be successful in maintaining development and commercialization collaborations, and any partner may not devote sufficient resources to the development or commercialization of its product candidates.***

The collaboration arrangements that the Company has established, and any collaboration arrangements that it may enter into in the future may not ultimately be successful, which could have a negative impact on the Company's business, results of operations, financial condition and growth prospects. In particular, the Company is heavily dependent on its collaboration partner Gilead in its further development of its product candidate filgotinib. It is possible that a partner may not devote sufficient resources to the development or commercialization of the Company's 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 the Company's business could be substantially harmed.

***The Company relies on third parties to conduct its pre-clinical studies and clinical trials.***

The Company has relied upon and plans to continue to rely upon contract research organizations ("**CROs**") to monitor and manage data for the Company's pre-clinical and clinical programs. The Company and its CROs also rely upon clinical sites and investigators for the performance of the Company's 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 expected deadlines, if they need to be replaced, or if the quality or accuracy of the clinical data they obtain is compromised due to the failure (including by clinical sites or investigators) to adhere to the Company's clinical protocols, regulatory requirements or for other reasons, the Company's clinical trials may be extended, delayed or terminated and the Company may not be able to obtain regulatory approval for or successfully commercialize its product candidates.

***The Company relies on clinical data and results obtained by third parties that could ultimately prove to be inaccurate or unreliable.***

As part of the Company's strategy to mitigate development risk, it seeks to develop product candidates with validated mechanisms of action and the Company utilizes biomarkers to assess potential clinical efficacy early in the development process. This strategy necessarily relies upon clinical data and other results obtained by third parties. If the third-party data and results the Company relies upon prove to be inaccurate, unreliable or not applicable to its product candidates, the Company could make inaccurate assumptions and conclusions about its product candidates and its research and development efforts could be materially adversely affected.

## Risks related to the Company's Intellectual Property

***The Company's ability to compete may decline if it does not adequately protect its proprietary rights.***

The Company's commercial success depends on obtaining and maintaining proprietary rights to its product candidates, as well as successfully defending these rights against third party challenges. The Company will only be able to protect its 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 the Company fails to protect or to enforce its intellectual property rights successfully, the Company's competitive position could suffer, which could harm the Company's results of operations.

***Pharmaceutical patents and patent applications involve highly complex legal and factual questions, which, if determined adversely to the Company, could negatively impact its patent position.***

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

***The Company will not seek to protect its intellectual property rights in all jurisdictions throughout the world and the Company may not be able to adequately enforce its intellectual property rights even in the jurisdictions where it seeks protection.***

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

## Risks related to the Company's organization, structure and operation

***The Company's future success depends on its ability to retain the members of its Executive Committee and to attract, retain and motivate qualified personnel. If the Company is not successful in attracting and retaining highly qualified personnel, it may not be able to successfully implement the Company's business strategy.***

***If the Company is unable to use tax loss carryforwards to reduce future taxable income or benefit from favorable tax legislation, the Company's business, results of operations and financial condition may be adversely affected.***

At 31 December 2015, the Company had cumulative carry forward tax losses in Belgium, in France and related to the other entities of the Galapagos group. These are available to carry forward and offset against future taxable income for an indefinite period in Belgium and France, certain of these tax loss carryforwards in Switzerland, Croatia, the United States and The Netherlands will expire between 2018 and 2030. If the Company is unable to use tax loss carryforwards to reduce future taxable income, its business, results of operations and financial condition may be adversely affected. As a company active in research and development in Belgium and France, the Company has 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, the Company's results of operations could be adversely affected. As a company active in research and development in Belgium, the Company also expects to benefit in the future from the "patent income deduction" initiative in Belgium. If, however, there are unexpected adverse changes to the Belgian "patent income deduction" initiative, or the Company is unable to qualify for such advantageous tax

legislation, the Company's business, results of operations and financial condition may be adversely affected.

***The Company may be forced to repay the technological innovation grants if it fails to comply with its contractual obligations under the applicable grant agreements.***

The Company has 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 the Company fails to comply with its contractual obligations under the applicable technological innovation grant agreements, the Company could be forced to repay all or part of the grants received. Such repayment could adversely affect the Company's ability to finance its research and development projects.

***If a claim is introduced by Charles River with regard to the Company's former service division, the Company's results of operations and financial condition may be adversely affected.***

On 13 March 2014, the Company announced the signing of a definitive agreement to sell the service division to Charles River Laboratories International, Inc. Approximately EUR 6.9 million is being held in an escrow account. The escrow account would have been released on 30 June 2015 if no claim had been introduced by Charles River. If Charles River makes a claim with respect to the sale of the service division, the Company could incur significant costs and expenses associated with the claim. To date, four claims have been made by Charles River, of which three claims have been settled for a total amount of EUR 1.0 million. One claim, which was made by Charles River in March 2015, is still being investigated. An amount of EUR 0.3 million was accrued in March 2015 based on a preliminary estimate of the exposure.

**D.3 Risks specific to the securities**

***The Company cannot guarantee that an active trading market will develop for the Company's shares.***

The Company cannot guarantee the extent to which a liquid market for the Company's shares will develop or be sustained. In the absence of such liquid market for the Company's shares, the price of the Company's shares could be influenced.

***The value of the New Shares may decrease.***

Following the listing, it is likely that the price of the New Shares will be subject to market fluctuations and the price of the shares may not always accurately reflect the underlying value of the Company's business.

***The Company has broad discretion in the use of the net proceeds from the Capital Increase and may not use them effectively.***

The Company's management will have broad discretion in the application of the net proceeds that it received from the Capital Increase, including applications for working capital, possible acquisitions and other general corporate purposes, and the Company may spend or invest these proceeds in a way with which its shareholders disagree. The failure by the Company's management to apply these funds effectively could harm its business and financial condition.

***Investment and trading in general is subject to risks.***

All securities investments involve the risk of loss of capital. There can be no assurance that the Company's investment objectives will be met. The Company's results have fluctuated in the past

and probably will fluctuate in the future. For this reason, the Company's results may not meet the expectations analysts have predicted.

***The Company has no present intention to pay dividends on its shares in the foreseeable future.***

***Takeover provisions in Belgian law may make a takeover difficult.***

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 the Company 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).

***The Company may not be able to complete equity offerings without cancellation or limitation of the preferential subscription rights of its existing shareholders, which may as a practical matter preclude the Company from timely completion of offerings.***

Absent renewal by the Company's shareholders of the authorization of the Board to increase the capital (possibly with cancellation or limitation of the preferential subscription rights) or absent cancellation or limitation by the Company's shareholders of the preferential subscription rights of the existing shareholders, the requirement to offer the Company's existing shareholders the preferential right to subscribe, pro rata, for new shares being offered may as a practical matter preclude the Company from timely raising of capital on commercially acceptable terms, or at all.

***Shareholders may not be able to participate in equity offerings the Company may conduct from time to time.***

Certain shareholders, including those in the United States, may, even in the case where preferential subscription rights have not been cancelled or limited, not be entitled to exercise such rights, unless the offering is registered or the shares are qualified for sale under the relevant regulatory framework. As a result, there is the risk that investors may suffer dilution of their shareholdings should they not be permitted to participate in preference right equity or other offerings that the Company may conduct in the future.

***Future sales of shares by existing shareholders could depress the market price of the Company's shares.***

Sales of a significant number of shares could lead to a drop in the market price of the shares issued by the Company.

***Securities from companies active in the biotech sector are highly volatile.***

The biotech sector is characterized by share price volatility due to the dependence on research hopes and final outcomes. A number of factors may significantly affect the market price of the shares.

***Future issuances of shares or warrants may affect the market price of the shares and could dilute the interests of existing shareholders.***

The Company may decide to raise capital in the future through public or private offerings of equity securities, convertible debt or rights to acquire these securities. The Company may decide to exclude or limit the preferential subscription rights attached to the then outstanding securities in accordance with applicable law. If the Company raises significant amounts by these or other

means, it could cause dilution for the holders of its securities and could have a negative impact on the share price, earnings per share and net asset value per share. In addition, the dilution from issue and exercise of warrants could adversely affect the price of shares.

***Shareholders of the Company residing in countries other than Belgium may be subject to double withholding taxation with respect to dividends or other distributions made by the Company.***

The Company's shareholders residing in countries other than Belgium may not be able to credit the amount of such withholding tax to any tax due on such dividends or other distributions in any other country than Belgium. As a result, such shareholders may be subject to double taxation in respect of such dividends or other distributions.

## Section E - Offer

**E.1 Total net proceeds and estimates of total expenses of the issue**

The Company estimates to receive net proceeds from the transaction of approximately EUR 391.9 million after deducting estimated expenses of the capital increase. The total estimated expenses which are expected to be incurred in connection with the issuance of the 6,760,701 New Shares from the share subscription of Gilead Biopharmaceutics Ireland Unlimited Company amount to EUR 195,109.

**E.2a Reasons for the offer, use of proceeds, estimated net amount of proceeds**

(i) Reasons for the offer

On 16 December 2015, the Company entered into a license and collaboration agreement with Gilead Biopharmaceutics Ireland Unlimited Company, granting Gilead a license under the intellectual property right with respect to filgotinib with a view to co-developing and co-promoting products comprising filgotinib. As part of the collaboration between the Company and Gilead, the latter committed, by entering into a subscription agreement with the Company, to invest an aggregate cash amount in euro of up to USD 425,000,000 in the share capital of the Company through a private placement of shares. Accordingly, the Company has realized a capital increase on 19 January 2016 amounting to EUR 392,120,658 pursuant to a decision of the Board of Directors within the framework of the Company's authorized capital with the cancellation of the preferential subscription rights of the existing shareholders for the benefit of Gilead (the "**Capital Increase**"). Following the Capital Increase the Company issued the 6,760,701 New Shares at an Issue Price of EUR 58.00. This Prospectus is published in view of the admission to trading on Euronext Brussels and Euronext Amsterdam of the New Shares issued pursuant to the Capital Increase.

The global collaboration with Gilead, of which this equity investment forms an integral part, will allow Galapagos to pursue its goal of rapidly delivering therapies to patients. Therefore, the collaboration is of strategic importance for the future growth and development of Galapagos.

(ii) Use of proceeds

The collaboration and the subscription agreements do not contain provisions with respect to the use of proceeds from the license fee and the Capital Increase. The cash raised with this transaction can be used freely by Galapagos. In the license and collaboration agreement, the parties agreed on a 20-80 (Galapagos – Gilead) split for development costs of the licensed product.

Based on the forecast for the remainder of the year, management retains 2016 guidance for operational cash burn, excluding payments received from Gilead for filgotinib, of €100 - €120

million, of which cash use for filgotinib in 2016 would represent €17-27 million. The newly injected capital shall significantly strengthen the cash position of the Company. The proceeds will be used (i) to invest in Galapagos' considerable R&D pipeline of more than 25 programs (ii) for the co-development and co-promotion of filgotinib and (iii) for further research and development activities exploring possible other indications and new compounds. More specifically, in addition to supporting the further development of filgotinib, Galapagos has set a high priority to co-fund development of the cystic fibrosis portfolio, develop GLPG1690 in idiopathic pulmonary fibrosis, explore potential application of GLPG1972 in osteoarthritis and co-fund MOR106 in inflammation. Galapagos also intends to invest in earlier stage programs in metabolic disease, fibrosis, and other indications.

(iii) Estimated net amount of proceeds

The estimated total net proceeds amount to EUR 391.9 million.

**E.3 Terms and conditions of the offer**

Not applicable. There will not be a public offering.

**E.4 Interest material to the issue**

Not applicable. There will not be a public offering.

**E.5 Name of the person or entity offering to sell the securities.**

Not applicable. There will not be a public offering.

**E.6 Amount and percentage of immediate dilution resulting from the offering**

(i) Dilution of voting power and dividend rights

The table below shows the dilution of voting power and liquidation and dividend rights resulting from the Capital Increase, based on the number of shares outstanding in the capital of the Company on the date of signing of the Subscription Agreement in which Gilead has committed to subscribe to the Capital Increase (i.e. the date on which the Company's Board of Directors decided to proceed with the Capital Increase).

| Number of shares prior to Capital Increase | Number of shares issued as a result of the Capital Increase | Dilution of existing shareholders |
|---|---|---|
| 39,076,342 | 6,760,701 | 14.75% |

(ii) Effect on the equity of the Company

Following the Capital Increase, the equity of Galapagos has been increased for an amount of EUR 352,922,734 compared to the equity as at 31 December 2015 corrected from the effects of the share subscription agreement. As the Issue Price was higher than the equity value per share before the Capital Increase, there is a positive effect on the equity value per share for the existing shareholders as the equity value per share before the share subscription agreement and Capital Increase as at 31 December 2015 amounted to EUR 10.12 and the equity value per share after the Capital Increase amounted to EUR 16.33.

**E.7 Expenses charged to the investor**

Not applicable. There will not be a public offering.

# Part II: Risk Factors

*The following risk factors may affect the business, financial condition, results of operations and prospects of the Company and the value of an investment in the Company. Investors should carefully consider the following risk factors, as well as the other information contained in this Prospectus, before making an investment decision. Additional risks and uncertainties not presently known to management, or that management currently believes to be immaterial, may also affect the Company's business, financial condition, results of operations and prospects. If any risk referred to in this Prospectus were to occur, the financial position of the Company could be materially adversely affected and the price of the shares of the Company or the ADSs could decline and investors could lose part or all of your investment. The risk factors included in this Part II of the Prospectus are not intended to be presented in any assumed order of priority.*

## 1 Risk factors specific to the Company and its activities

### 1.1 Risks Related to Product Development, Regulatory Approval and Commercialization

**1.1.1** The Company is heavily dependent on the success of product candidate filgotinib. It is also dependent on the success of other product candidates, such as GLPG1837, GLPG2222, GLPG1690 and GLPG1972. The Company 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.

Filgotinib is currently being prepared for Phase 3 studies in rheumatoid arthritis ("RA"), in Crohn's disease ("CD"), and for a Phase 2 study in ulcerative colitis ("UC") by the Company's collaboration partner Gilead, which the Company expects will be initiated in 2016. Preparation for Phase 3 studies includes steps such as preparation of study designs, selection of a clinical research organization to perform the studies, recruitment of research centers, preparation of drug formulation and production, preparation of discussions with regulatory authorities. Potential timing of results from these Phase 3 and Phase 2 studies will depend on the outcomes of discussions with regulatory authorities about trial designs, as well as the success in recruitment for these studies. The Company's business and future success is substantially dependent on its ability to develop, either alone or in partnership, successfully, obtain regulatory approval for, and then successfully commercialize its product candidate filgotinib, which has completed the DARWIN 1 and 2 trials and still is in the DARWIN 3 trial for rheumatoid arthritis, and has completed a Phase 2 trial for Crohn's disease. Its business and future success also depend on its ability to develop successfully, obtain regulatory approval for, and then successfully commercialize the other product candidates, such as GLPG1837, GLPG2222, GLPG1690, GLPG1972 and MOR106. The Company initiated Phase 2 SAPHIRA trials with potentiator GLPG1837 in Class III mutation patients in February 2016 in cystic fibrosis ("CF"); the Company has initiated a Phase 1 trial with GLPG2222 in CF; the Company has initiated a Phase 1 first-in-human trial with GLPG1972 in osteoarthritis and a Phase 2a trial with GLPG1690 in idiopathic pulmonary fibrosis ("IPF"). Galapagos and its collaboration partner MorphoSys initiated a Phase 1 study with novel monoclonal antibody MOR106. The product candidates will require additional clinical development, management of clinical and manufacturing activities, regulatory approval in multiple jurisdictions (if regulatory approval can be obtained at all), securing sources of commercial manufacturing supply, building of, or partnering with, a commercial organization, substantial investment and significant marketing efforts before any revenues can be generated from product sales. The Company is not

permitted to market or promote any of its product candidates before it receives regulatory approval from the FDA, the EMA or any other comparable regulatory authority, and it may never receive such regulatory approval for any of its product candidates. The Company cannot assure that clinical trials for filgotinib, GLPG1837, GLPG2222, GLPG1690, GLPG1972 or MOR106 will be completed in a timely manner, or at all, or that it will be able to obtain approval from the FDA, the EMA or any other comparable regulatory authority for any of these product candidates. The Company cannot be certain that it will advance any other product candidates into clinical trials. If any of filgotinib, GLPG1837, GLPG2222, GLPG1690, GLPG1972, MOR106 or any future product candidate is not approved and commercialized, the Company will not be able to generate any product revenues for that product candidate. Moreover, any delay or setback in the development of any product candidate could adversely affect the Company's business and cause the price of the shares or ADSs fall.

**1.1.2** Due to limited resources and access to capital, the Company must and has in the past decided to prioritize development of certain product candidates; these decisions may prove to have been wrong and may adversely affect the Company's revenues.

Because the Company has limited resources and access to capital to fund its operations, it must decide which product candidates to pursue and the amount of resources to allocate to each. As such, the Company is currently primarily focused on the development of filgotinib, GLPG1837, GLPG2222, GLPG1690, GLPG1972 and MOR106. Its decisions concerning the allocation of research, collaboration, management and financial resources toward particular compounds, product candidates or therapeutic areas may not lead to the development of viable commercial products and may divert resources away from better opportunities. Similarly, potential decisions to delay, terminate or collaborate with third parties in respect of certain product development programs may also prove not to be optimal and could cause to miss valuable opportunities. If the Company makes incorrect determinations regarding the market potential of its product candidates or misreads trends in the pharmaceutical industry, its business, financial condition and results of operations could be materially adversely affected.

**1.1.3** The regulatory approval processes of the FDA, the EMA and other comparable regulatory authorities are lengthy, time consuming and inherently unpredictable, and if the Company were ultimately unable to obtain regulatory approval for its product candidates, the Company's business will be substantially harmed.

The time required to obtain approval by the FDA, the EMA and other comparable regulatory authorities is unpredictable but typically takes many years following the commencement of clinical trials and depends upon numerous factors, including the substantial discretion of the regulatory authorities. In addition, approval policies, regulations, or the type and amount of clinical data necessary to gain approval may change during the course of a product candidate's clinical development and may vary among jurisdictions. The Company has not obtained regulatory approval for any product candidate and it is possible that none of its existing product candidates or any product candidates it may seek to develop in the future will ever obtain regulatory approval.

The Company's product candidates could fail to receive regulatory approval for many reasons, including the following:

- the FDA, the EMA or other comparable regulatory authorities may disagree with the design or implementation of the Company's clinical trials;
- the Company may be unable to demonstrate to the satisfaction of the FDA, the EMA or other comparable regulatory authorities that a product candidate is safe and effective for its proposed indication;
- the results of clinical trials may not meet the level of statistical significance required by the FDA, the EMA or other comparable regulatory authorities for approval;
- the Company may be unable to demonstrate that a product candidate's clinical and other benefits outweigh its safety risks;
- filgotinib and the Company's other product candidates (except for its CF portfolio) are developed to act against targets discovered by it, and because the Company's product candidates are novel mode of action products, they carry an additional risk regarding desired level of efficacy and safety profile;
- the FDA, the EMA or other comparable regulatory authorities may disagree with the Company's interpretation of data from pre-clinical studies or clinical trials;
- the data collected from clinical trials of the Company's product candidates may not be sufficient to support the submission of a new drug application, or NDA, supplemental NDA, or sNDA, or other submission or to obtain regulatory approval in the United States, Europe or elsewhere;
- the FDA, the EMA or other comparable regulatory authorities may fail to approve the manufacturing processes or facilities of third-party manufacturers with which the Company contracts for clinical and commercial supplies or such processes or facilities may not pass a pre-approval inspection; and
- the approval policies or regulations of the FDA, the EMA or other comparable regulatory authorities may change or differ from one another significantly in a manner rendering the Company's clinical data insufficient for approval.

This lengthy approval process as well as the unpredictability of future clinical trial results may result in the Company's or the Company's alliance partners' failure to obtain regulatory approval to market filgotinib, GLPG1837, GLPG2222, GLPG1690, GLPG1972, MOR106 and/or other product candidates, which would harm the Company's business, results of operations and prospects significantly. In addition, even if the Company were to obtain approval, regulatory authorities may approve any of its product candidates for fewer or more limited indications than requested by the Company, may grant approval contingent on the performance of costly post-marketing clinical trials, or may approve a product candidate with a label that does not include the labeling claims necessary or desirable for the successful commercialization of that product candidate. In certain jurisdictions, regulatory authorities may not approve the price the Company intends to charge for its products. Any of the foregoing scenarios could materially harm the commercial prospects for the Company's product candidates.

The Company has not previously submitted an NDA, a Marketing Authorization Application, or MAA, or any similar drug approval filing to the FDA, the EMA or any comparable regulatory authority for any product candidate, and it cannot be certain that any of its product candidates will be successful in clinical trials or receive regulatory approval. Further, the Company's product candidates may not receive regulatory approval even if they are successful in clinical trials. If the Company does not receive regulatory approvals for its product candidates, it may not be able to continue its operations. Even if it successfully obtains regulatory approvals to market one or more of its product candidates, its revenues will be dependent, to a significant extent, upon the size of the markets in the territories for which the Company gains regulatory approval and has commercial rights or shares in revenues from the exercise of such rights. If the markets for patient subsets that the Company is targeting (such as RA, CD or CF) are not as significant as estimated, the Company may not generate significant revenues from sales of such products, if approved.

**1.1.4** In connection with the Company's global clinical trials, local regulatory authorities may have differing perspectives on clinical protocols and safety parameters, which impacts the manner in which the Company conducts these global clinical trials and could negatively impact its chances for obtaining regulatory approvals or marketing authorization in these jurisdictions, or for obtaining the requested dosage for its product candidates, if regulatory approvals or marketing authorizations are obtained.

In connection with the Company's global clinical trials, it is obliged to comply with the requirements of local regulatory authorities in each jurisdiction where it executes and locates a clinical trial. Local regulatory authorities can request specific changes to the clinical protocol or specific safety measures that differ from the positions taken in other jurisdictions. For example, in the Company's DARWIN Phase 2 clinical trials for filgotinib in subjects with RA, it agreed with the FDA to exclude the 200 mg filgotinib daily dose for male subjects enrolled in the USA pending further data to demonstrate a wider exposure margin in patients versus the safe exposure in animal studies, while there is no such restriction by health authorities outside the United States. The Company cannot assure that this view will not be adopted by other regulatory authorities in later stage trials or at the marketing authorization stage, if filgotinib successfully completes the registration trials. 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, and these differences could have a material adverse effect on the Company's ability to commercialize the Company's products in these jurisdictions.

**1.1.5** Even if the Company receives regulatory approval for any of its product candidates, the Company will be subject to ongoing obligations and continued regulatory review, which may result in significant additional expense. Additionally, the Company's product candidates, if approved, could be subject to labeling and other restrictions and market withdrawal and the Company may be subject to penalties if it fails to comply with regulatory requirements or experiences unanticipated problems with its products.

Any regulatory approvals that the Company receives for its product candidates may also be subject to limitations on the approved indicated uses for which the product may be marketed or to the conditions of approval, or contain requirements for potentially costly post-marketing testing, including Phase 4 clinical trials, and surveillance to monitor the safety and efficacy of

the product candidate, and the Company may be required to include labeling with significant use or distribution restrictions or significant safety warnings, including boxed warnings.

If the FDA, EMA or any other comparable regulatory authority approves any of the Company's product candidates, the manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, advertising, promotion and recordkeeping for the product will be subject to extensive and ongoing regulatory requirements. These requirements include submissions of safety and other post-marketing information and reports, registration requirements and continued compliance with current good manufacturing practices, or cGMPs, and good clinical practices, or GCPs, for any clinical trials that the Company conducts post-approval. Later discovery of previously unknown problems with a product, including adverse events of unanticipated severity or frequency, or with third-party manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may result in, among other things:

- restrictions on the marketing or manufacturing of the product, withdrawal of the product from the market, or voluntary product recalls;
- fines, untitled or warning letters or holds on clinical trials;
- refusal by the FDA, the EMA or any other comparable regulatory authority to approve pending applications or supplements to approved applications filed by the Company, or suspension or revocation of product approvals;
- product seizure or detention, or refusal to permit the import or export of products; and
- injunctions or the imposition of civil or criminal penalties.

The policies of the FDA, the EMA and other comparable regulatory authorities may change, and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of the Company's product candidates. If the Company is slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if the Company is not able to maintain regulatory compliance, it may lose any marketing approval that it may have obtained, which would adversely affect the Company's business, prospects and ability to achieve or sustain profitability.

**1.1.6** Filgotinib, if approved, may be subject to box warnings, labeling restrictions or dose limitations in certain jurisdictions, which could have a material adverse impact on the Company's ability to market filgotinib in these jurisdictions.

Based on pre-clinical findings, the Company expects 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 Phase 2 clinical program, the Company agreed with the FDA to exclude the 200 mg filgotinib daily dose for male subjects in the USA; 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. The Company 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 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 were dosed at 100 mg daily- 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, the Company monitors clinical laboratory changes in hormone levels for subjects in the DARWIN 3 clinical trial.

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

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

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

**1.1.7** Clinical development is a lengthy and expensive process with an uncertain outcome, and 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. Clinical failure can occur at any stage of clinical development. The Company has never completed a Phase 3 trial or submitted a New Drug Application, or NDA.

Clinical testing is expensive and can take many years to complete, and its outcome is inherently uncertain. Failure can occur at any time during the clinical trial process. Although product candidates may demonstrate promising results in early clinical (human) trials and pre-clinical (animal) studies, they may not prove to be effective in subsequent clinical trials. For example, testing on animals may occur under different conditions than testing in humans and therefore the results of animal studies may not accurately predict human experience. Likewise, early clinical studies may not be predictive of eventual safety or effectiveness results in larger-scale pivotal clinical trials. The results of pre-clinical studies and previous clinical trials as well as data from any interim analysis of ongoing clinical trials of the Company's product candidates, as well as studies and trials of other products with similar mechanisms of action to the Company's product candidates, may not be predictive of the results of ongoing or future clinical trials. For example, the positive results generated to date in pre-clinical studies and Phase 1, Phase 2a and Phase 2b clinical trials for filgotinib in RA or Phase 2b clinical trials for CD do not ensure that later clinical trials will continue to demonstrate similar results or observations. Product candidates in later stages of clinical trials may fail to show the desired safety and efficacy traits despite having progressed through pre-clinical studies and earlier clinical trials. In addition to the safety and efficacy traits of any product candidate, clinical trial

failures may result from a multitude of factors including flaws in trial design, dose selection, placebo effect and patient enrollment criteria. A number of companies in the pharmaceutical industry have suffered significant setbacks in advanced clinical trials due to lack of efficacy or adverse safety profiles, notwithstanding promising results in earlier trials, and it is possible that the Company will as well. Based upon negative or inconclusive results, the Company or its alliance partners may decide, or regulators may require it, to conduct additional clinical trials or pre-clinical studies. In addition, data obtained from trials and studies are susceptible to varying interpretations, and regulators may not interpret the Company's data as favorably as it does, which may delay, limit or prevent regulatory approval.

The Company may experience delays in its ongoing clinical trials and it does not know whether planned clinical trials will begin on time, need to be redesigned, enroll patients on time or be completed on schedule, if at all. Clinical trials can be delayed for a variety of reasons, including delays related to:

- obtaining regulatory approval to commence a trial;
- reaching agreement on acceptable terms with prospective contract research organizations, or CROs, and clinical trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- obtaining Institutional Review Board, or IRB, or ethics committee approval at each site;
- obtaining regulatory concurrence on the design and parameters for the trial;
- obtaining approval for the designs of the Company's clinical development programs for each country targeted for trial enrollment;
- recruiting suitable patients to participate in a trial, which may be impacted by the number of competing trials that are enrolling patients;
- having patients complete a trial or return for post-treatment follow-up;
- clinical sites deviating from trial protocol or dropping out of a trial;
- adding new clinical trial sites;
- manufacturing sufficient quantities of product candidate or obtaining sufficient quantities of comparator drug for use in clinical trials; or
- the availability of adequate financing and other resources.

The Company could encounter delays if a clinical trial is suspended or terminated by it, by the IRBs or ethics committees of the institutions in which such trials are being conducted, by the Data Monitoring Committee, or the DMC, for such trial or by the FDA, the EMA or other comparable regulatory authorities. A suspension or termination may be imposed due to a number of factors, including failure to conduct the clinical trial in accordance with regulatory requirements or clinical protocols, inspection of the clinical trial operations or trial site by the FDA, the EMA or other comparable regulatory authorities resulting in the imposition of a clinical hold, safety issues or adverse side effects, failure to demonstrate a benefit from using a drug, changes in governmental regulations or administrative actions, manufacturing issues or lack of adequate funding to continue the clinical trial. For example, it is possible that safety

issues or adverse side effects could be observed in the Company's trials for filgotinib in RA CD, and UC, for GLPG1837 in CF, for GLPG1690 in IPF, for GLPG1972 in osteoarthritis, or for MOR106 in inflammation which could result in a delay, suspension or termination of the ongoing trials of filgotinib (in one or both indications) or GLPG1837, or GLPG1690, or GLPG1972, or MOR106. If the Company experiences delays in the completion of, or termination of, any clinical trial of its product candidates, the commercial prospects of the product candidates will be harmed, and the Company's ability to generate product revenues from any of these product candidates will be delayed. In addition, any delays in completing the Company's clinical trials will increase its costs, slow down its product candidate development and approval process and jeopardize its ability to commence product sales and generate revenues. Any of these occurrences may harm the Company's business, financial condition and prospects significantly. In addition, many of the factors that cause or lead to a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of the Company's product candidates.

If filgotinib, GLPG1837, GLPG2222, GLPG1690, GLPG1972, MOR106 or any other product candidate is found to be unsafe or lack efficacy, the Company will not be able to obtain regulatory approval for it and its business would be materially harmed. For example, if the results of ongoing or future trials for filgotinib would not achieve the primary efficacy endpoints or demonstrate unexpected safety findings, the prospects for approval of filgotinib, as well as the price of the Company's shares and its ability to create shareholder value could be materially and adversely affected.

In some instances, there can be significant variability in safety and/or efficacy results between different trials of the same product candidate due to numerous factors, including changes in trial protocols, differences in composition of the patient populations, adherence to the dosing regimen and other trial protocols and the rate of dropout among clinical trial participants. The Company does not know whether any Phase 2, Phase 3 or other clinical trials it or any of its alliance partners may conduct will demonstrate consistent or adequate efficacy and safety to obtain regulatory approval to market the Company's product candidates. If the Company is unable to bring any of its current or future product candidates to market, its ability to create long-term shareholder value will be limited.

The Company initiated its first clinical study in 2009 and for six of the Company's compounds, Phase 2 studies were initiated. Filgotinib was the Company's first Phase 2b program, and the Company has yet to initiate a Phase 3 study.

**1.1.8** The rates at which the Company completes its scientific studies and clinical trials depends on many factors, including, but not limited to, patient enrollment.

Patient enrollment, a significant factor in the timing of clinical trials, is affected by many factors including the size and nature of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the trial, the design of the clinical trial, competing clinical trials and clinicians' and patients' perceptions as to the potential advantages of the drug being studied in relation to other available therapies, including any new drugs that may be approved for the indications the Company is investigating. With respect to the Company's clinical development of GLPG1837 in CF, the availability of Kalydeco® (ivacaftor), which is a drug developed by Vertex Pharmaceuticals to be used to treat patients with a certain mutation of CF, may cause patients to be less willing to participate in the Company's clinical trial for an oral therapy in regions in which an oral therapy has been approved. Since CF is a

competitive market in certain regions such as the United States and the European Union with a number of product candidates in development, patients may have other choices with respect to potential clinical trial participation and the Company may have difficulty in reaching its enrollment targets. In addition, the relatively limited number of patients worldwide (estimated to be 80,000) may make enrollment more challenging. Any of these occurrences may harm the Company's clinical trials and by extension, its business, financial condition and prospects.

**1.1.9** The Company may not be successful in its efforts to use and expand its novel, proprietary target discovery platform to build a pipeline of product candidates.

A key element of the Company's strategy is to use and expand its novel, proprietary target discovery platform to build a pipeline of product candidates and progress these product candidates through clinical development for the treatment of a variety of diseases. Although the Company's research and development efforts to date have resulted in a pipeline of product candidates directed at various diseases, it may not be able to develop product candidates that are safe and effective. Even if the Company is successful in continuing to build its pipeline, the potential product candidates that it identifies may not be suitable for clinical development, including as a result of being shown to have harmful side effects or other characteristics that indicate that they are unlikely to be products that will receive marketing approval and achieve market acceptance. If the Company does not continue to successfully develop and begin to commercialize product candidates, it may face difficulty in obtaining product revenues in future periods, which could result in significant harm to the Company's financial position and adversely affect the price of the Company's shares or ADSs.

**1.1.10** The Company's commercial success depends upon attaining significant market acceptance of its product candidates, if approved, among physicians, healthcare payors, patients and the medical community.

Even if the Company obtains regulatory approval for one or more of its product candidates, the product may not gain market acceptance among physicians, healthcare payors, patients and the medical community, which is critical to commercial success. Market acceptance of any product candidate for which the Company receives approval depends on a number of factors, including:

- the efficacy and safety as demonstrated in clinical trials;
- the timing of market introduction of the product candidate as well as competitive products;
- the clinical indications for which the product candidate is approved;
- acceptance by physicians, the medical community and patients of the product candidate as a safe and effective treatment;
- the convenience of prescribing and initiating patients on the product candidate;
- the potential and perceived advantages of such product candidate over alternative treatments;
- the cost of treatment in relation to alternative treatments, including any similar generic treatments;

- the availability of coverage and adequate reimbursement and pricing by third-party payors and government authorities;
- relative convenience and ease of administration;
- the prevalence and severity of adverse side effects; and
- the effectiveness of sales and marketing efforts.

If the Company's product candidates are approved but fail to achieve an adequate level of acceptance by physicians, healthcare payors, patients and the medical community, the Company will not be able to generate significant revenues, and the Company may not become or remain profitable.

**1.1.11** The Company currently has no marketing and sales organization. To the extent any of its product candidates for which it maintains commercial rights is approved for marketing, if it is unable to establish marketing and sales capabilities or enter into agreements with third parties to market and sell its product candidates, the Company may not be able to effectively market and sell any product candidates, or generate product revenues.

The Company currently does not have a marketing or sales organization for the marketing, sales and distribution of pharmaceutical products. In order to independently commercialize any product candidates that receive marketing approval and for which the Company maintains commercial rights, it would have to build marketing, sales, distribution, managerial and other non-technical capabilities or make arrangements with third parties to perform these services, and it may not be successful in doing so. In the event of successful development of filgotinib, GLPG1837, GLPG2222, GLPG1690, GLPG1972, MOR106 or any other product candidates for which it maintains commercial rights, the Company may elect to build a targeted specialty sales force which will be expensive and time consuming. Any failure or delay in the development of such internal sales, marketing and distribution capabilities would adversely impact the commercialization of these products. With respect to the Company's product candidates, it may choose to partner with third parties that have direct sales forces and established distribution systems, either to augment its own sales force and distribution systems or in lieu of an own sales force and distribution systems. In the instance of filgotinib, under the Company's collaboration agreement with Gilead, if the Company exercises its co-promotion option with respect to a licensed product in one or more of the territories eligible for co-promotion, it would assume a portion of the co-promotion effort in The United Kingdom, Germany, France, Italy, Spain, The Netherlands, Belgium and/or Luxembourg and share equally in the net profit and net losses in these territories instead of receiving royalties in those territories during the period of co-promotion.

If the Company is unable to enter into collaborations with third parties for the commercialization of approved products, if any, on acceptable terms or at all, or if any such partner does not devote sufficient resources to the commercialization of the relevant product or otherwise fails in commercialization efforts, the Company may not be able to successfully commercialize any of its product candidates that receive regulatory approval. If the Company is not successful in commercializing the Company's product candidates, either on its own or through collaborations with one or more third parties, its future revenue may be materially and adversely impacted.

**1.1.12** Coverage and reimbursement decisions by third-party payors may have an adverse effect on pricing and market acceptance.

There is significant uncertainty related to the third-party coverage and reimbursement of newly approved drugs. To the extent that the Company retains commercial rights following clinical development, it may seek approval to market its product candidates in the United States, the European Union and other selected jurisdictions. Market acceptance and sales of product candidates, if approved, in both domestic and international markets will depend significantly on the availability of adequate coverage and reimbursement from third-party payors for any of the Company's product candidates and may be affected by existing and future healthcare reform measures. Government authorities and third-party payors, such as private health insurers and health maintenance organizations, decide which drugs they will cover and establish payment levels. The Company cannot be certain that coverage and adequate reimbursement will be available for any of its product candidates, if approved. Also, the Company cannot be certain that reimbursement policies will not reduce the demand for, or the price paid for, any of its product candidates, if approved. If reimbursement is not available or is available on a limited basis for any of the Company's product candidates, if approved, the Company may not be able to commercialize successfully any such product candidate. Reimbursement by a third-party payor may depend upon a number of factors, including, without limitation, the third-party payor's determination that use of a product is:

- a covered benefit under its health plan;
- safe, effective and medically necessary;
- appropriate for the specific patient;
- cost-effective; and
- neither experimental nor investigational.

Obtaining coverage and reimbursement approval for a product from a government or other third-party payor is a time consuming and costly process that could require the Company to provide supporting scientific, clinical and cost effectiveness data for the use of its products to the payor. The Company may not be able to provide data sufficient to gain acceptance with respect to coverage and reimbursement or to have pricing set at a satisfactory level. If reimbursement of its future products, if any, is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels such as may result where alternative or generic treatments are available, the Company may be unable to achieve or sustain profitability.

In the United States, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, or MMA, changed the way Medicare covers and pays for pharmaceutical products. The legislation established Medicare Part D, which expanded Medicare coverage for outpatient prescription drug purchases by the elderly but provided authority for limiting the number of drugs that will be covered in any therapeutic class. The MMA also introduced a new reimbursement methodology based on average sales prices for physician-administered drugs. Any negotiated prices for any of the Company's product candidates, if approved, covered by a Part D prescription drug plan will likely be lower than the prices the Company might otherwise obtain outside of the Medicare Part D prescription drug plan. Moreover, while Medicare Part D applies only to drug benefits for Medicare beneficiaries; private payors often follow Medicare coverage policy and payment limitations in setting their own payment rates. Any

reduction in payment under Medicare Part D may result in a similar reduction in payments from non-governmental payors.

In certain countries, particularly in the European Union, the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product candidate. To obtain reimbursement or pricing approval in some countries, the Company may be required to conduct additional clinical trials that compare the cost-effectiveness of its product candidates to other available therapies. If reimbursement of any of its product candidates, if approved, is unavailable or limited in scope or amount in a particular country, or if pricing is set at unsatisfactory levels, the Company may be unable to achieve or sustain profitability of its products in such country.

The delivery of healthcare in the European Union, including the establishment and operation of health services and the pricing and reimbursement of medicines, is almost exclusively a matter for national, rather than EU, law and policy. National governments and health service providers have different priorities and approaches to the delivery of healthcare and the pricing and reimbursement of products in that context. In general, however, the healthcare budgetary constraints in most EU member states have resulted in restrictions on the pricing and reimbursement of medicines by relevant health service providers. Coupled with ever-increasing EU and national regulatory burdens on those wishing to develop and market products, this could prevent or delay marketing approval of the Company's product candidates, restrict or regulate post-approval activities and affect the Company's ability to commercialize any products for which it obtains marketing approval.

**1.1.13** Recent legislative and regulatory activity may exert downward pressure on potential pricing and reimbursement for any of the Company's product candidates, if approved, that could materially affect the opportunity to commercialize.

The United States and several other jurisdictions are considering, or have already enacted, a number of legislative and regulatory proposals to change the healthcare system in ways that could affect the Company's ability to sell any of the Company's product candidates profitably, if approved. Among policy-makers and payors in the United States and elsewhere, there is significant interest in promoting changes in healthcare systems with the stated goals of containing healthcare costs, improving quality and/or expanding access to healthcare. In the United States, the pharmaceutical industry has been a particular focus of these efforts and has been significantly affected by major legislative initiatives. There have been, and likely will continue to be, legislative and regulatory proposals at the federal and state levels directed at broadening the availability of healthcare and containing or lowering the cost of healthcare. The Company cannot predict the initiatives that may be adopted in the future.

The continuing efforts of governments, insurance companies, managed care organizations and other payors of healthcare services to contain or reduce costs of healthcare may adversely affect:

- the demand for any of the Company's product candidates, if approved;
- the ability to set a price that the Company believes is fair for any of its product candidates, if approved;

- the Company's ability to generate revenues and achieve or maintain profitability;
- the level of taxes that the Company is required to pay; and
- the availability of capital.

In 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or collectively, ACA, became law in the United States. The goal of the ACA is to reduce the cost of healthcare and substantially change the way healthcare is financed by both governmental and private insurers. The ACA may result in downward pressure on pharmaceutical reimbursement, which could negatively affect market acceptance of any of the Company's product candidates, if they are approved. Provisions of the ACA relevant to the pharmaceutical industry include the following:

- an annual, nondeductible fee on any entity that manufactures or imports certain branded prescription drugs and biologic agents, apportioned among these entities according to their market share in certain government healthcare programs;
- an increase in the rebates a manufacturer must pay under the Medicaid Drug Rebate Program to 23.1% and 13% of the average manufacturer price for branded and generic drugs, respectively;
- a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts on negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer's outpatient drugs to be covered under Medicare Part D;
- extension of manufacturers' Medicaid rebate liability to covered drugs dispensed to individuals who are enrolled in Medicaid managed care organizations;
- expansion of eligibility criteria for Medicaid programs by, among other things, allowing states to offer Medicaid coverage to additional individuals and by adding new mandatory eligibility categories for certain individuals with income at or below 133% of the Federal Poverty Level in 2014, thereby potentially increasing manufacturers' Medicaid rebate liability;
- expansion of the entities eligible for discounts under the Public Health Service pharmaceutical pricing program;
- new requirements under the federal Open Payments program and its implementing regulations;
- expansion of healthcare fraud and abuse laws, including the federal False Claims Act and the federal Anti- Kickback Statute, new government investigative powers and enhanced penalties for noncompliance;
- a licensure framework for follow-on biologic products; and

- a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in and conduct comparative clinical effectiveness research, along with funding for such research.

In addition, other legislative changes have been proposed and adopted since the ACA was enacted. These changes include aggregate reductions to Medicare payments to providers of up to 2% per fiscal year, which went into effect in April 2013. In January 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which, among other things, reduced Medicare payments to several types of providers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. These new laws may result in additional reductions in Medicare and other healthcare funding.

**1.1.14** The Company faces significant competition for its drug discovery and development efforts, and if the Company does not compete effectively, its commercial opportunities may be reduced or eliminated.

The biotechnology and pharmaceutical industries are intensely competitive and subject to rapid and significant technological change. The Company's drug discovery and development efforts may target diseases and conditions that are already subject to existing therapies or that are being developed by the Company's competitors, many of which have substantially greater resources, larger research and development staffs and facilities, more experience in completing pre-clinical testing and clinical trials, and formulation, marketing and manufacturing capabilities than the Company does. As a result of these resources, the Company's competitors may develop drug products that render its products obsolete or noncompetitive by developing more effective drugs or by developing their products more efficiently. The Company's ability to develop competitive products would be limited if its competitors succeeded in obtaining regulatory approvals for drug candidates more rapidly than it is able to or in obtaining patent protection or other intellectual property rights that limited the Company's drug development efforts. Any drug products resulting from the Company's research and development efforts, or from its joint efforts with alliance partners or licensees, might not be able to compete successfully with the competitors' existing and future products, or obtain regulatory approval in the United States, European Union or elsewhere. Further, the Company may be subject to additional competition from alternative forms of treatment, including generic or over-the-counter drugs.

In the field of RA, therapeutic approaches have traditionally relied on disease-modifying anti-rheumatic drugs, or DMARDS, such as methotrexate and sulphasalazine as first-line therapy. These oral drugs work primarily to suppress the immune system and, while effective in this regard, the suppression of the immune system leads to an increased risk of infections and other side effects. Accordingly, in addition to DMARDS, monoclonal antibodies targeting TNF, like AbbVie's Humira, or IL-6 like Roche's Actemra, have been developed. These biologics, which must be delivered via injection, are currently the standard of care as first- and second-line therapies for RA patients who have an inadequate response to DMARDS. In November 2012, Xeljanz (tofacitinib citrate), marketed by Pfizer, was approved by the FDA as an oral treatment for the treatment of adult patients with RA who have had an inadequate response to, or who are intolerant of, methotrexate. Xeljanz is the first and only JAK inhibitor for RA approved for commercial sale in the United States. The Company is aware of other JAK inhibitors in development for patients with RA, including a once-daily JAK1/2 inhibitor called

baricitinib which is being developed by Eli Lilly and expected to be approved as early as 2016, a JAK3/2/1 inhibitor called ASP015k which is being developed in Japan by Astellas, and a JAK inhibitor called ABT-494 which is being developed by AbbVie. Filgotinib, which is a selective JAK1 inhibitor, was developed in collaboration with AbbVie until AbbVie terminated such collaboration agreement on 25 September 2015. On 16 December 2015, the Company entered into the Collaboration Agreement with Gilead, under which it plans to initiate a Phase 3 trial for filgotinib. The Company expects that filgotinib, which the Company is developing to treat patients with moderate to severe RA who have an inadequate response to methotrexate, will compete with all of these therapies. If generic or biosimilar versions of these therapies are approved, the Company would expect to also compete against these versions of the therapies.

In the field of inflammatory bowel disease, or IBD, first line therapies are oral (or local) treatments with several low-cost generic compounds like mesalazine, more effective in UC, and azathioprine, more effective in CD. Steroids like budesonide are used in both UC and CD. Companies like Santarus have developed controlled-release oral formulation with the aim to have local intestinal delivery of budesonide thereby limiting systemic side effects. For more advanced therapy, monoclonal antibodies with various targets such as TNF and more recently, integrins by vedoluzimab (Entyvio) are approved. The Company is also aware of other biologics in clinical development for these indications, such as: ustekinumab, developed by Johnson & Johnson, which is in Phase 3 clinical trials and RPC1063, which is being developed by Celgene and has shown efficacy in a Phase 2 trial in UC. There are also several novel oral treatments being explored in Phase 2 and Phase 3, including Xeljanz. The large number of treatments for UC, and somewhat less for CD, presents a substantial level of competition for any new treatment entering the IBD market.

In the field of CF, all but two of the approved therapies to treat CF patients have been designed to treat the symptoms of the disease rather than its cause. Kalydeco®, marketed by Vertex Pharmaceuticals, is currently the only approved therapy to address the cause of Class III mutation CF. Kalydeco is a CFTR potentiator to treat CF in patients with a Class III (G551D) mutation of the CFTR gene. Vertex also markets Orkambi®, which is Kalydeco and lumacaftor, a corrector molecule for patients with a Class II (F508del) mutation of the CFTR gene, a broader patient population. Vertex obtained FDA approval in July 2015 for Orkambi in the United States and obtained European Commission Marketing Authorization for Orkambi in Europe in November 2015. The Company is also aware of other companies, including Novartis, Nivalis, Pfizer, Proteostasis, and ProQR, and non-for-profit organizations like Flatley Discovery Lab, which are actively developing drug candidates for the treatment of CF. These typically target the CFTR protein as potentiators, correctors, or other modulators of its activity.

In the field of idiopathic pulmonary fibrosis, there are two approved disease modifying drugs, pirfenidone, marketed by Roche, and nintenanib, marketed by Boehringer Ingelheim. These drugs prolong life for IPF patients by months, leaving an unmet medical need for those developing disease-modifying drugs in this field.

In the field of osteoarthritis, there are currently no disease-modifying drugs approved. Current treatment involves weight-loss, physical therapy, and pain management.

**1.1.15** The Company's 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 the Company's product candidates could cause it 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. Results of the Company's trials could reveal a high and unacceptable severity and prevalence of certain side effects. In such an event, the Company's trials could be suspended or terminated and the FDA, the EMA or comparable regulatory authorities could order the Company to cease further development of or deny approval of its product candidates for any or all targeted indications. 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 the Company's business, financial condition and prospects significantly.

If one or more of the Company's product candidates receive marketing approval, and the Company or others later identify undesirable side effects caused by such products, a number of potentially significant negative consequences could result, including:

- regulatory authorities may withdraw approvals of such product;
- regulatory authorities may require additional warnings on the label;
- the Company may be required to create a medication guide outlining the risks of such side effects for distribution to patients;
- the Company could be sued and held liable for harm caused to patients; and
- the Company's reputation may suffer.

Any of these events could prevent the Company from achieving or maintaining market acceptance of the particular product candidate, if approved, and could significantly harm the Company's business, results of operations and prospects.

## 1.2 Risks Related to the Company's financial position and need for additional capital

**1.2.1** The Company is a clinical-stage company with no approved products and no historical product revenues, which makes it difficult to assess future prospects and financial results.

The Company is a clinical-stage biotechnology company and has not yet generated any product income. Pharmaceutical product development is a highly speculative undertaking and involves a substantial degree of uncertainty. The Company's operations to date have been limited to developing the Company's technology and undertaking pre-clinical studies and clinical trials of the Company's product candidates, including filgotinib, GLPG1837, GLPG2222, GLPG1690, GLPG1972 and MOR106. The Company may not have the ability to overcome many of the risks and uncertainties frequently encountered by companies in new and rapidly evolving fields, particularly in the pharmaceutical area. Consequently, the ability to predict future operating results or business prospects is more limited than if the Company had a longer operating history or approved products on the market.

**1.2.2** The Company has incurred significant losses since its inception and anticipates that it will continue to incur significant losses for the foreseeable future.

The Company has incurred significant operating losses since its inception in 1999.

The Company has incurred net losses of EUR 8.1 million for the year ended 31 December 2013, net profit of EUR 33.2 million for the year ended 31 December 2014 and net losses of

EUR 118.4 million for the year ended 31 December 2015. The Company's prior losses, combined with expected future losses, have had and will continue to have an adverse effect on the Company's shareholders' equity and working capital. In April 2014, the Company sold its service division for net proceeds of EUR 130.8 million. The sale of the service division will impact future results as the service division contributed to the net result of EUR 8.7 million for the year ended 31 December 2013, the last full calendar year where the service division was part of the Galapagos group. The Company expects to continue incurring significant research, development and other expenses related to its ongoing operations, and to continue incurring losses for the foreseeable future. The Company also expects these losses to increase, due to higher costs of later stage development, as it continues the development of, and to seek regulatory approvals for, product candidates.

The Company does not anticipate generating revenues from sales of products for the foreseeable future, if ever. If any of its product candidates fail in clinical trials or do not gain regulatory approval, or if any of its product candidates, if approved, fail to achieve market acceptance, the Company may never become profitable. Even if it achieves profitability in the future, it may not be able to sustain profitability in subsequent periods.

If one or more of the Company's product candidates is approved for commercial sale and it retains commercial rights, the Company anticipates incurring significant costs associated with commercializing any such approved product candidate. Therefore, even if the Company would be able to generate revenues from the sale of any approved product, it may never become profitable. Because of the numerous risks and uncertainties associated with pharmaceutical product development, the Company is unable to predict the timing or amount of expenses and when it will be able to achieve or maintain profitability, if ever.

**1.2.3** The Company will require additional funding, which may not be available to it on acceptable terms, or at all.

The Company's operations have consumed substantial amounts of cash since inception. The Company is currently conducting clinical trials for filgotinib, GLPG1837, GLPG2222, GLPG1690, GLPG1972 and MOR106. Developing pharmaceutical product candidates, including conducting clinical trials, is expensive. The Company may require additional future capital in order to complete clinical development and, if it is successful, to commercialize current product candidates. If the U.S. Food and Drug Administration, or the FDA, or any other comparable regulatory agency, such as the European Medicines Agency, or the EMA, requires that the Company performs studies or trials in addition to those that are currently anticipated with respect to the development of product candidates, or repeat studies or trials, the Company's expenses would further increase beyond what is currently expected, and any delay resulting from such further or repeat studies or trials could also result in the need for additional financing.

The Company's existing cash and cash equivalents may not be sufficient for us to complete advanced clinical development of all product candidates or, if applicable, to commercialize any product candidate that is approved.

Accordingly, the Company will continue to require substantial additional capital to continue clinical development activities and potentially engage in commercialization activities. Because successful development of product candidates is uncertain, the Company is unable to estimate the actual funds required to complete research and development and commercialize product

candidates. The amount and timing of future funding requirements will depend on many factors, including but not limited to:

- the progress, costs, results of and timing of ongoing and planned clinical trials;
- ability to reach milestones under existing collaboration arrangements and enter into additional collaborative agreements for the development and commercialization of product candidates;
- the willingness of the FDA, EMA and other comparable regulatory authorities to accept clinical trials and pre-clinical studies and other work as the basis for review and approval of product candidates;
- the outcome, costs and timing of seeking and obtaining regulatory approvals from the FDA, EMA and other comparable regulatory authorities;
- whether pharma partners continue to collaborate with the Company on the development and commercialization of product candidates;
- the number of product candidates and indications that the Company pursues, whether developed from novel, proprietary target discovery platform, otherwise developed internally or in-licensed;
- the timing and costs associated with manufacturing product candidates for clinical trials and other studies and, if approved, for commercial sale;
- the Company's need to expand development activities and, potentially, research activities;
- the timing and costs associated with establishing sales and marketing capabilities;
- market acceptance of any approved product candidates;
- the costs of acquiring, licensing or investing in additional businesses, products, product candidates and technologies;
- the cost to maintain, expand and defend the scope of the Company's intellectual property portfolio, including the amount and timing of any payments it may be required to make, or that it may receive, in connection with licensing, filing, prosecution, defense and enforcement of any patents or other intellectual property rights;
- the extent to which the Company may be required to pay milestone or other payments under in-license agreements and the timing of such payments;
- the Company's need and ability to hire additional management, development and scientific personnel; and
- the Company's need to implement additional internal systems and infrastructure, including financial and reporting systems.

Some of these factors are outside of the Company's control. Based upon its current expected level of operating expenditures and existing cash and cash equivalents, excluding any payment from its Collaboration Agreement with Gilead, the Company believes that it will be able to

fund the Company's operating expenses and capital expenditure requirements until at least through next 12 months. This period could be shortened if there are any significant increases beyond the Company's expectations in spending on development programs or more rapid progress of development programs than anticipated. Accordingly, the Company expects that it may need to raise additional funds in the future. Additional funding may not be available to the Company on acceptable terms, or at all. If it were unable to obtain funding from equity offerings or debt financings, including on a timely basis, the Company may be required to:

- seek partners for one or more of the Company's product candidates at an earlier stage than otherwise would be desirable or on terms that are less favorable than might otherwise be available;
- relinquish or license on unfavorable terms the Company's rights to technologies or product candidates that it otherwise would seek to develop or commercialize itself; or
- significantly curtail one or more of the Company's research or development programs or cease operations altogether.

**1.2.4** Raising additional capital may cause dilution to the existing shareholders, restrict the Company's operations or require it to relinquish rights to the Company's product candidates or technologies.

The Company may seek additional funding through a combination of equity offerings, debt financings, collaborations and/or licensing arrangements. To the extent that the Company raises additional capital through the sale of equity or convertible debt securities, the existing shareholders ownership interest will be diluted, and the terms may include liquidation or other preferences that adversely affect the rights of existing shareholders or holders of ADSs rights. The incurrence of additional indebtedness and/or the issuance of certain equity securities could result in increased fixed payment obligations and could also result in certain additional restrictive covenants, such as limitations on the Company's ability to incur additional debt and/or issue additional equity, limitations on its ability to acquire or license intellectual property rights and other operating restrictions that could adversely impact the Company's ability to conduct its business. In addition, issuance of additional equity securities, or the possibility of such issuance, may cause the market price of the ADSs or the Company's ordinary shares to decline. In the event that the Company enters into collaborations and/or licensing arrangements in order to raise capital, it may be required to accept unfavorable terms, including relinquishing or licensing to a third party on unfavorable terms rights to technologies or product candidates that it otherwise would seek to develop or commercialize itself or potentially reserve for future potential arrangements when it might be able to achieve more favorable terms.

## 1.3 Risks Related to the Company's reliance on third parties

**1.3.1** The Company may not be successful in maintaining development and commercialization collaborations, and any partner may not devote sufficient resources to the development or commercialization of its product candidates or may otherwise fail in development or commercialization efforts, which could adversely affect the Company's ability to develop certain of its product candidates and the Company's financial condition and operating results.

The collaboration arrangements that the Company has established, and any collaboration arrangements that it may enter into in the future may not ultimately be successful, which could have a negative impact on the Company's business, results of operations, financial condition and growth prospects. If the Company partners with a third party for development and commercialization of a product candidate, it can expect to relinquish some or all of the control over the future success of that product candidate to the third party. It is possible that a partner may not devote sufficient resources to the development or commercialization of the Company's 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 the Company's business could be substantially harmed. In particular, the Company is heavily dependent on Gilead in its further development of its product candidate filgotinib. Gilead may not devote sufficient resources or give sufficient priority to the filgotinib program. Even when they do resource and prioritize the efforts for filgotinib, Gilead may not be successful in the further development and commercialization of filgotinib.

In addition, the terms of any collaboration or other arrangement that the Company establishes may not be favorable to it or may not be perceived as favorable, which may negatively impact the trading price of the Company's shares or ADSs. In some cases, the Company may be responsible for continuing development of a product candidate or research program under a collaboration and the payment the Company receives from its partner may be insufficient to cover the cost of this development. Moreover, collaborations and sales and marketing arrangements are complex and time consuming to negotiate, document and implement and they may require substantial resources to maintain.

The Company is subject to a number of additional risks associated with its dependence on collaborations with third parties, the occurrence of which could cause such collaboration arrangements to fail. Conflicts may arise between the Company and the partners, such as conflicts concerning the interpretation of clinical data, the achievement of milestones, the interpretation of financial provisions or the ownership of intellectual property developed during the collaboration. If any such conflicts arise, a partner could act in its own self-interest, which may be adverse to the Company's best interests. Any such disagreement between the Company and a partner could result in one or more of the following, each of which could delay or prevent the development or commercialization of the Company's product candidates, and in turn prevent the Company from generating sufficient revenues to achieve or maintain profitability:

- reductions in the payment of royalties or other payments the Company believes are due pursuant to the applicable collaboration arrangement;
- actions taken by a partner inside or outside the collaboration with the Company which could negatively impact the Company's rights or benefits under the collaboration including termination of the collaboration for convenience by the partner; or
- unwillingness on the part of a partner to keep the Company informed regarding the progress of its development and commercialization activities or to permit public disclosure of the results of those activities.

If the Company's collaborations on research and development candidates do not result in the successful development and commercialization of products or if one of the Company's partners terminates the agreement with the Company, the latter may not receive any future research funding or milestone or royalty payments under the collaboration. If the Company does not receive the funding it expected under these agreements, the Company's development of its product candidates could be delayed and the Company may need additional resources to develop product candidates.

**1.3.2** The Company may not be successful in establishing development and commercialization collaborations, which could adversely affect, and potentially prohibit, the Company's ability to develop its product candidates.

Developing pharmaceutical products, conducting clinical trials, obtaining regulatory approval, establishing manufacturing capabilities and marketing approved products are expensive. Accordingly, the Company has sought and may in the future seek to enter into collaborations with companies that have more resources and experience. If the Company is unable to obtain a partner for its product candidates, the Company may be unable to advance the development of its product candidates through late-stage clinical development and seek approval in any market. In situations where the Company enters into a development and commercial collaboration arrangement for a product candidate, it may also seek to establish additional collaborations for development and commercialization in territories outside of those addressed by the first collaboration arrangement for such product candidate. If any of the Company's product candidates receives marketing approval, it may enter into sales and marketing arrangements with third parties with respect to otherwise unlicensed or unaddressed territories. There are a limited number of potential partners, and the Company expects to face competition in seeking appropriate partners. If the Company proves unable to enter into any development and commercial collaborations and/ or sales and marketing arrangements on acceptable terms, or at all, it may be unable to successfully develop and seek regulatory approval for its product candidates and/or effectively market and sell approved products, if any.

**1.3.3** The Company relies on third parties to conduct its pre-clinical studies and clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, the Company may not be able to obtain regulatory approval for or commercialize its product candidates and the Company's business could be substantially harmed.

The Company has relied upon and plans to continue to rely upon CROs to monitor and manage data for the Company's pre-clinical and clinical programs. The Company relies on these parties for execution of its pre-clinical studies and clinical trials, and the Company controls only certain aspects of its activities. The Company and its CROs also rely upon clinical sites and investigators for the performance of the Company's clinical trials in accordance with the applicable protocols and applicable legal, regulatory and scientific standards. Nevertheless, the Company is responsible for ensuring that each of its studies and trials is conducted in accordance with the applicable protocol and applicable legal and regulatory requirements and scientific standards, and the Company's reliance on CROs as well as clinical sites and investigators does not relieve it of its regulatory responsibilities. The Company, its CROs, as well as the clinical sites and investigators are required to comply with current good clinical practices, or GCPs, which are regulations and guidelines enforced by the FDA, the Competent Authorities of the Member States of the European Economic Area, or EEA, and

comparable regulatory authorities for all of the Company's products in clinical development. Regulatory authorities enforce these GCPs through periodic inspections of trial sponsors, investigators and clinical sites. If the Company, any of its CROs or any of the clinical sites or investigators fail to comply with applicable GCPs, the clinical data generated in the Company's clinical trials may be deemed unreliable and the FDA, EMA or comparable regulatory authorities may require the Company to perform additional clinical trials before approving the Company's marketing applications. The Company cannot assure that upon inspection by a given regulatory authority, such regulatory authority will determine that any of its clinical trials comply with GCP regulations. The Company also cannot assure that its CROs, as well as the clinical sites and investigators, will perform clinical trials in accordance with the applicable protocols as well as applicable legal and regulatory requirements and scientific standards, or report the results obtained in a timely and accurate manner. In addition to GCPs, the Company's clinical trials must be conducted with product produced under cGMP regulations. While the Company has agreements governing activities of its CROs, the Company has limited influence over the actual performance of its CROs as well as the performance of clinical sites and investigators. In addition, significant portions of the clinical trials for the Company's product candidates will be conducted outside of Belgium, which will make it more difficult for the Company to monitor CROs as well as clinical sites and investigators and perform visits of such clinical sites, and will force the Company to rely heavily on CROs to ensure the proper and timely conduct of the Company's clinical trials in accordance with the applicable protocols and compliance with applicable regulations, including GCPs. Failure to comply with applicable protocols and regulations in the conduct of the clinical trials for the Company's product candidates may require the Company to repeat clinical trials, which would delay the regulatory approval process.

Some of the Company's CROs have an ability to terminate their respective agreements with the Company if it can be reasonably demonstrated that the safety of the subjects participating in the clinical trials warrants such termination, if the Company makes a general assignment for the benefit of the Company's creditors or if the Company is liquidated.

If any of the Company's relationships with these CROs terminate, the Company may not be able to enter into arrangements with alternative CROs or to do so on commercially reasonable terms. In addition, the Company's CROs are not its employees, and except for remedies available to it under the agreements with such CROs, the Company cannot control whether or not they devote sufficient time and resources to the Company's pre-clinical and clinical programs. If CROs do not successfully carry out their contractual duties or obligations or meet expected deadlines, if they need to be replaced, or if the quality or accuracy of the clinical data they obtain is compromised due to the failure (including by clinical sites or investigators) to adhere to the Company's clinical protocols, regulatory requirements or for other reasons, the Company's clinical trials may be extended, delayed or terminated and the Company may not be able to obtain regulatory approval for or successfully commercialize its product candidates. As a result, the Company's results of operations and the commercial prospects for its product candidates would be harmed, the Company's costs could increase substantially and its ability to generate revenues could be delayed significantly.

Switching or adding additional CROs involves additional cost and requires management time and focus. In addition, there is a natural transition period when a new CRO commences work. As a result, delays may occur, which can materially impact the Company's ability to meet its desired clinical development timelines. Though the Company carefully manages its

relationships with the CROs, there can be no assurance that the Company will not encounter challenges or delays in the future or that these delays or challenges will not have a material adverse impact on the Company's business, financial condition and prospects.

**1.3.4** The Company relies completely on third parties to manufacture its pre-clinical and clinical drug supplies and the Company intends to rely on third parties to produce commercial supplies of any approved product candidate.

If, for any reason, the Company were to experience an unexpected loss of supply of its product candidates or placebo or comparator drug used in certain of the Company's clinical trials, whether as a result of manufacturing, supply or storage issues or otherwise, the Company could experience delays, disruptions, suspensions or terminations of, or be required to restart or repeat, any pending or ongoing clinical trials. The Company does not currently have, nor does it plan to acquire, the infrastructure or capability internally to manufacture its own pre-clinical and clinical drug supplies, and the Company lacks the resources and the capability to manufacture any of its product candidates on a clinical or commercial scale. The facilities used by the Company's contract manufacturers or other third-party manufacturers to manufacture its product candidates are subject to the FDA's, EMA's and other comparable regulatory authorities' pre-approval inspections that will be conducted after the Company submits its NDA to the FDA or the required approval documents to any other relevant regulatory authority. The Company does not control the implementation of the manufacturing process of, and are completely dependent on the Company's contract manufacturers or other third-party manufacturers for compliance with the regulatory requirements, known as cGMPs, for manufacture of both active drug substances and finished drug products. If the Company's contract manufacturers or other third-party manufacturers cannot successfully manufacture material that conform to applicable specifications and the strict regulatory requirements of the FDA, EMA or others, the Company will not be able to secure and/or maintain regulatory approvals for its products manufactured at these facilities. In addition, the Company has no control over the ability of its contract manufacturers or other third-party manufacturers to maintain adequate quality control, quality assurance and qualified personnel. If the FDA, EMA or other comparable regulatory authority finds deficiencies at these facilities for the manufacture of the Company's product candidates or if it withdraws any approval because of deficiencies at these facilities in the future, the Company may need to find alternative manufacturing facilities, which would significantly impact the Company's ability to develop, obtain regulatory approval for or market the Companies product candidates, if approved.

The Company relies on its manufacturers to purchase from third-party suppliers the materials necessary to produce the Company's product candidates for the clinical trials. There are a limited number of suppliers for raw materials that the Company uses to manufacture its drugs and there may be a need to assess alternate suppliers to prevent a possible disruption of the manufacture of the materials necessary to produce the Company's product candidates for its clinical trials, and if approved, for commercial sale. The Company does not have any control over the process or timing of the acquisition of these raw materials by its manufacturers. Moreover, the Company currently does not have any agreements for the commercial production of these raw materials. Although the Company generally does not begin a clinical trial unless it believes to have access to a sufficient supply of a product candidate to complete the clinical trial, any significant delay in the supply of a product candidate, or the raw material components thereof, for an ongoing clinical trial due to the need to replace a contract manufacturer or other third-party manufacturer could considerably delay completion of the

Company's clinical trials, product testing and potential regulatory approval of its product candidates. If the Company's manufacturers or the Company are unable to purchase these raw materials after regulatory approval has been obtained for the Company's product candidates, the commercial launch of the Company's product candidates would be delayed or there would be a shortage in supply, which may impair the Company's ability to generate revenues from the sale of its product candidates. Additionally, if the Company receives regulatory approval for its product candidates, the Company may experience unforeseen difficulties or challenges in the manufacture of its product candidates on a commercial scale compared to the manufacture for clinical purposes.

The Company expects to continue to depend on contract manufacturers or other third-party manufacturers for the foreseeable future. The Company currently obtains its supplies of finished drug product through individual purchase orders. The Company has not entered into long-term agreements with its current contract manufacturers or with any alternate fill/ finish suppliers. Although the Company intends to do so prior to any commercial launch in order to ensure that it maintains adequate supplies of finished drug product, the Company may be unable to enter into such an agreement or do so on commercially reasonable terms, which could have a material adverse impact upon the Company's business.

**1.3.5** The Company relies on clinical data and results obtained by third parties that could ultimately prove to be inaccurate or unreliable.

As part of the Company's strategy to mitigate development risk, it seeks to develop product candidates with validated mechanisms of action and the Company utilizes biomarkers to assess potential clinical efficacy early in the development process. This strategy necessarily relies upon clinical data and other results obtained by third parties that may ultimately prove to be inaccurate or unreliable. Further, such clinical data and results may, at times, be based on products or product candidates that are significantly different from the Company's product candidates. If the third-party data and results the Company relies upon prove to be inaccurate, unreliable or not applicable to its product candidates, the Company could make inaccurate assumptions and conclusions about its product candidates and its research and development efforts could be materially adversely affected.

## 1.4 Risks Related to the Company's intellectual property

**1.4.1** The Company's ability to compete may decline if it does not adequately protect its proprietary rights.

The Company's commercial success depends on obtaining and maintaining proprietary rights to its product candidates for the treatment of RA, CD, UC, CF and other diseases, as well as successfully defending these rights against third party challenges. The Company will only be able to protect its 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. The Company's ability to obtain patent protection for its product candidates is uncertain due to a number of factors, including:

- the Company may not have been the first to make the inventions covered by pending patent applications or issued patents;

- the Company may not have been the first to file patent applications for its product candidates or the compositions the Company developed or for their uses;
- others may independently develop identical, similar or alternative products or compositions and uses thereof;
- the Company's disclosures in patent applications may not be sufficient to meet the statutory requirements for patentability;
- any or all of the Company's pending patent applications may not result in issued patents;
- the Company may not seek or obtain patent protection in countries that may eventually provide the Company a significant business opportunity;
- any patents issued to the Company may not provide a basis for commercially viable products, may not provide any competitive advantages, or may be successfully challenged by third parties;
- the Company's compositions and methods may not be patentable;
- others may design around the Company's patent claims to produce competitive products which fall outside of the scope of the Company's patents; or
- others may identify prior art or other bases which could invalidate the Company's patents.

Even if the Company has or obtains patents covering its product candidates or compositions, the Company may still be barred from making, using and selling its product candidates or technologies because of the patent rights of others. Others may have filed, and in the future may file, patent applications covering compositions or products that are similar or identical to the Company's. If a patent owned by a third party covers one of the Company's product candidates or its use, this could materially affect the Company's ability to develop the product candidate or sell the resulting product if approved. Because patent applications are not published until 18 months from their priority date, there may be currently pending applications unknown to the Company that may later result in issued patents that the Company's product candidates or compositions may infringe. Additionally, because the scope of claims in pending patent applications can change, there may be pending applications whose claims do not currently cover any of the Company's product candidates but may be altered such that one or more of the Company's product candidates are covered when the resulting patent issues. These patent applications may have priority over patent applications filed by the Company.

Moreover, even if the Company were able to obtain patent protection, such patent protection may be of insufficient scope to achieve the Company's business objectives. For example, others may be able to develop a product that is similar to, or better than, that of the Company in a way that is not covered by the claims of the Company's patents.

Obtaining and maintaining a patent portfolio entails significant expense and resources. Part of the expense includes periodic maintenance fees, renewal fees, annuity fees, various other governmental fees on patents and/or applications due in several stages over the lifetime of

patents and/or applications, as well as the cost associated with complying with numerous procedural provisions during the patent application process. The Company may or may not choose to pursue or maintain protection for particular inventions. In addition, there are situations in which failure to make certain payments or noncompliance with certain requirements in the patent process can result in abandonment or lapse of a patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. If the Company chooses to forgo patent protection or allows a patent application or patent to lapse purposefully or inadvertently, the Company's competitive position could suffer. Moreover, in some circumstances, the Company does not have the right to control the preparation, filing or prosecution of patent applications, or to maintain the patents, covering technology subject to the Company's collaboration or license agreements with third parties. For example, under the Company's collaboration agreement with AbbVie for CF, AbbVie has the right to control prosecution and maintenance of any patent rights covering inventions that are jointly discovered or developed by the Company and AbbVie and patent rights that the Company controls which relate to the compounds or products subject to the collaboration. In addition, in some circumstances, the Company's counterparty has the right to enforce the patent rights subject to the applicable agreement without the Company's involvement or consent or to otherwise control the enforcement of such patent rights. For example, under the Company's collaboration agreement with AbbVie for CF, AbbVie controls the enforcement of the patent rights subject to the agreement, although the Company may elect to participate in such enforcement proceedings. Therefore, these patents and patent applications may not be prosecuted or enforced in a manner consistent with the best interests of the Company's business.

Legal actions to enforce the Company's patent rights can be expensive and may involve the diversion of significant management time. In addition, these legal actions could be unsuccessful and could also result in the invalidation of the Company's patents or a finding that they are unenforceable. The Company may or may not choose to pursue litigation or other actions against those that have infringed on its patents, or used them without authorization, due to the associated expense and time commitment of monitoring these activities. If the Company fails to protect or to enforce its intellectual property rights successfully, the Company's competitive position could suffer, which could harm the Company's results of operations.

**1.4.2** Pharmaceutical patents and patent applications involve highly complex legal and factual questions, which, if determined adversely to the Company, could negatively impact its patent position.

The patent positions of biotechnology and pharmaceutical companies can be highly uncertain and involve complex legal and factual questions. The interpretation and breadth of claims allowed in some patents covering pharmaceutical compositions may be uncertain and difficult to determine, and are often affected materially by the facts and circumstances that pertain to the patented compositions and the related patent claims. The standards of the United States Patent and Trademark Office, or USPTO, the European Patent Office, and other foreign counterparts are sometimes uncertain and could change in the future. Consequently, the issuance and scope of patents cannot be predicted with certainty. Patents, if issued, may be challenged, invalidated or circumvented. Certain U.S. patents and patent applications may also be subject to interference proceedings, and U.S. patents may be subject to reexamination proceedings, post-grant review and/or inter partes review in the USPTO. European patents

and other foreign patents may be subject also to opposition or comparable proceedings in the corresponding foreign patent office, which could result in either loss of the patent or denial of the patent application or loss or reduction in the scope of one or more of the claims of the patent or patent application. In addition, such interference, reexamination, post-grant review, inter partes review and opposition proceedings may be costly. Accordingly, rights under any issued patents may not provide the Company with sufficient protection against competitive products or processes.

In addition, changes in or different interpretations of patent laws in the United States, Europe, and other jurisdictions may permit others to use the Company's discoveries or to develop and commercialize the Company's technology and products without providing any compensation to the Company, or may limit the number of patents or claims the Company can obtain. The laws of some countries do not protect intellectual property rights to the same extent as U.S. and European laws, and those countries may lack adequate rules and procedures for defending the Company's intellectual property rights.

If the Company fails to obtain and maintain patent protection and trade secret protection of its product candidates, the Company could lose its competitive advantage and competition it faces could increase, reducing any potential revenues and adversely affecting the Company's ability to attain or maintain profitability.

**1.4.3** Developments in patent law could have a negative impact on the Company's business.

From time to time, courts and other governmental authorities in the United States, Europe and other jurisdictions may change the standards of patentability and any such changes could have a negative impact on the Company's business.

For example, the Leahy-Smith America Invents Act, or the America Invents Act, which was signed into law in 2011, includes a number of significant changes to U.S. patent law. These changes include a transition from a "first-to-invent" system to a "first-to-file" system, changes to the way issued patents are challenged, and changes to the way patent applications are disputed during the examination process. These changes may favor larger and more established companies that have greater resources to devote to patent application filing and prosecution. Substantive changes to US patent law associated with the America Invents Act may affect the Company's ability to obtain patents, and if obtained, to enforce or defend them. Accordingly, it is not clear what impact, if any, the America Invents Act will have on the cost of prosecuting the Company's patent applications, the Company's ability to obtain patents based on its discoveries and the Company's ability to enforce or defend any patents that may issue from its patent applications, all of which could have a material adverse effect on the Company's business.

**1.4.4** If the Company is unable to protect the confidentiality of its trade secrets and its business, the Company's competitive position would be harmed.

In addition to patent protection, because the Company operates in the highly technical field of development of therapies, it relies in part on trade secret protection in order to protect the Company's proprietary technology and processes. However, trade secrets are difficult to protect. It is the Company's policy to enter into confidentiality and intellectual property assignment agreements with its employees, consultants, outside scientific collaborators, sponsored researchers, and other advisors. These agreements generally require that the other party keep confidential and not disclose to third parties all confidential information developed

by the party or made known to the party by the Company during the course of the party's relationship with the Company. These agreements also generally provide that inventions conceived by the party in the course of rendering services to the Company will be the Company's exclusive property. However, these agreements may not be honored and may not effectively assign intellectual property rights to the Company. Adequate remedies may not exist in the event of unauthorized use or disclosure of the Company's confidential information. The disclosure of the Company's trade secrets would impair its competitive position and may materially harm the Company's business, financial condition and results of operations.

In addition to contractual measures, the Company tries to protect the confidential nature of its proprietary information using physical and technological security measures. Such measures may not, for example, in the case of misappropriation of a trade secret by an employee or third party with authorized access, provide adequate protection for the Company's proprietary information. The Company's security measures may not prevent an employee or consultant from misappropriating trade secrets and providing them to a competitor, and recourse the Company takes against such misconduct may not provide an adequate remedy to protect its interests fully. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret can be difficult, expensive, and time-consuming, and the outcome is unpredictable. In addition, courts outside the United States may be less willing to protect trade secrets, with protection varying across Europe and in other countries. Trade secrets may be independently developed by others in a manner that could prevent legal recourse by the Company. If any of the Company's confidential or proprietary information, such as trade secrets, were to be disclosed or misappropriated, or if any such information was independently developed by a competitor, the Company's competitive position could be harmed.

**1.4.5** The Company will not seek to protect its intellectual property rights in all jurisdictions throughout the world and the Company may not be able to adequately enforce its intellectual property rights even in the jurisdictions where it seeks protection.

Filing, prosecuting and defending patents on the Company's product candidates in all countries and jurisdictions throughout the world would be prohibitively expensive, and the Company's intellectual property rights in some countries could be less extensive than those in the United States and Europe, assuming that rights are obtained in the United States and Europe. Furthermore, even if patents are granted based on the Company's European patent applications, it may not choose to perfect or maintain its rights in all available European countries. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as laws in the United States and Europe. Consequently, the Company may not be able to prevent third parties from practicing its inventions in all countries, or from selling or importing products made using the Company's inventions. The statutory deadlines for pursuing patent protection in individual foreign jurisdictions are based on the priority dates of each of the Company's patent applications.

Competitors may use the Company's technologies in jurisdictions where the Company does not pursue and obtain patent protection to develop their own products and further, may export otherwise infringing products to territories where the Company has patent protection, but enforcement is not as strong as that in the United States and Europe. These products may compete with the Company's products and the Company's patents or other intellectual property rights may not be effective or sufficient to prevent them from competing. Even if the

Company pursues and obtains issued patents in particular jurisdictions, its patent claims or other intellectual property rights may not be effective or sufficient to prevent third parties from so competing.

The laws of some foreign countries do not protect intellectual property rights to the same extent as the laws of the United States and Europe. Many companies have encountered significant problems in protecting and defending intellectual property rights in certain foreign jurisdictions. The legal systems of some countries, particularly developing countries, do not favor the enforcement of patents and other intellectual property protection, especially those relating to pharmaceuticals or biotechnologies. This could make it difficult for the Company to stop the infringement of its patents, if obtained, or the misappropriation of the Company's other intellectual property rights. For example, many foreign countries have compulsory licensing laws under which a patent owner must grant licenses to third parties. In addition, many countries limit the enforceability of patents against third parties, including government agencies or government contractors. In these countries, patents may provide limited or no benefit. Patent protection must ultimately be sought on a country-by-country basis, which is an expensive and time-consuming process with uncertain outcomes. Accordingly, the Company may choose not to seek patent protection in certain countries, and the Company will not have the benefit of patent protection in such countries.

Proceedings to enforce the Company's patent rights in foreign jurisdictions could result in substantial costs and divert the Company's efforts and attention from other aspects of its business, could put the Company's patents at risk of being invalidated or interpreted narrowly, could put its patent applications at risk of not issuing and could provoke third parties to assert claims against the Company. The Company may not prevail in any lawsuits that it initiated and the damages or other remedies awarded, if any, may not be commercially meaningful. In addition, changes in the law and legal decisions by courts in the United States, Europe and other jurisdictions may affect the Company's ability to obtain adequate protection for its technology and the enforcement of intellectual property. Accordingly, the Company's efforts to enforce its intellectual property rights around the world may be inadequate to obtain a significant commercial advantage from the intellectual property that the Company develops or licenses.

**1.4.6** The Company may be subject to claims by third parties asserting ownership or commercial rights to inventions the Company develops or obligations to make compensatory payments to employees.

Third parties may in the future make claims challenging the inventor-ship or ownership of the Company's intellectual property. The Company has written agreements with collaboration partners that provide for the ownership of intellectual property arising from the Company's collaborations. These agreements provide that the Company must negotiate certain commercial rights with collaboration partners with respect to joint inventions or inventions made by its collaboration partners that arise from the results of the collaboration. In some instances, there may not be adequate written provisions to address clearly the resolution of intellectual property rights that may arise from a collaboration. If the Company cannot successfully negotiate sufficient ownership and commercial rights to the inventions that result from the use of a third-party collaborator's materials where required, or if disputes otherwise arise with respect to the intellectual property developed with the use of collaborator's samples, the Company may be limited in its ability to capitalize on the market potential of

these inventions. In addition, the Company may face claims by third parties that the Company's agreements with employees, contractors, or consultants obligating them to assign intellectual property to the Company are ineffective, or in conflict with prior or competing contractual obligations of assignment, which could result in ownership disputes regarding intellectual property the Company has developed or will develop and interfere with its ability to capture the commercial value of such inventions. Litigation may be necessary to resolve an ownership dispute, and if the Company is not successful, it may be precluded from using certain intellectual property, or may lose its exclusive rights in that intellectual property. Either outcome could have an adverse impact on the Company's business.

While it is the Company's policy to require its employees and contractors who may be involved in the development of intellectual property to execute agreements assigning such intellectual property to the Company, the latter may be unsuccessful in executing or obtaining such an agreement with each party who, in fact, develops intellectual property that the Company regards as its own. In addition, such agreements may be breached or may not be self-executing, and the Company may be forced to bring claims against third parties, or defend claims they may bring against the Company, to determine the ownership of what the Company regards as its own intellectual property. If the Company fails in prosecuting or defending any such claims, in addition to paying monetary damages, the Company may lose valuable intellectual property rights or personnel.

**1.4.7** Third parties may assert that the Company's employees or consultants have wrongfully used or disclosed confidential information or misappropriated trade secrets.

The Company employs individuals who were previously employed at universities, pharmaceutical companies or biopharmaceutical companies, including the Company's competitors or potential competitors. Although the Company tries to ensure that its employees and consultants do not use the proprietary information or know-how of others in their work for the Company, the Company may be subject to claims that itself or its employees, consultants or independent contractors have inadvertently or otherwise used or disclosed intellectual property, including trade secrets or other proprietary information, of a former employer or other third parties. Litigation may be necessary to defend against these claims. If the Company fails in defending any such claims, in addition to paying monetary damages, the Company may lose valuable intellectual property rights or personnel. Even if the Company is successful in defending against such claims, litigation could result in substantial costs and be a distraction to management and other employees.

**1.4.8** A dispute concerning the infringement or misappropriation of the Company's proprietary rights or the proprietary rights of others could be time consuming and costly, and an unfavorable outcome could harm the Company's business.

The Company's success will depend in part on its ability to operate without infringing the intellectual property and proprietary rights of third parties. The Company cannot assure that its business, products and methods do not or will not infringe the patents or other intellectual property rights of third parties.

There is significant litigation in the pharmaceutical industry regarding patent and other intellectual property rights. While the Company is not currently subject to any pending intellectual property litigation, and is not aware of any such threatened litigation, the Company may be exposed to future litigation by third parties based on claims that the

Company's product candidates, technologies or activities infringe the intellectual property rights of others. If the Company's development activities are found to infringe any such patents, the Company may have to pay significant damages or seek licenses to such patents. A patentee could prevent the Company from using the patented drugs or compositions. The Company may need to resort to litigation to enforce a patent issued to the Company, to protect the Company's trade secrets, or to determine the scope and validity of third-party proprietary rights. From time to time, the Company may hire scientific personnel or consultants formerly employed by other companies involved in one or more areas similar to the activities conducted by the Company. Either the Company or these individuals may be subject to allegations of trade secret misappropriation or other similar claims as a result of prior affiliations. Even if the Company is successful in these proceedings, the Company may incur substantial costs and divert management time and attention in pursuing these proceedings, which could have a material adverse effect on the Company. If the Company is unable to avoid infringing the patent rights of others, it may be required to seek a license, defend an infringement action or challenge the validity of the patents in court, or redesign its products. Patent litigation is costly and time consuming. The Company may not have sufficient resources to bring these actions to a successful conclusion. Any adverse ruling or perception of an adverse ruling in defending itself against these claims could have a material adverse impact on the Company's cash position and the price of the Company's shares or ADSs. Any legal action against the Company or its collaboration partners could lead to:

- payment of substantial damages for past use of the asserted intellectual property and potentially treble damages, if the Company is found to have willfully infringed a party's patent rights;
- injunctive or other equitable relief that may effectively block the Company's ability to further develop, commercialize, and sell its product candidates; or
- the Company or its collaboration partners having to enter into license arrangements that may not be available on commercially acceptable terms, if at all, all of which could have a material adverse impact on the Company's cash position and business and financial condition. As a result, the Company could be prevented from commercializing current or future product candidates.

Any of these risks coming to fruition could have a material adverse effect on the Company's business, results of operations, financial condition and prospects.

**1.4.9** Issued patents covering the Company's product candidates could be found to be invalid or unenforceable if challenged in court.

If the Company or one of its licensing partners initiated legal proceedings against a third party to enforce a patent covering the Company's product candidate, the defendant could counterclaim that the patent covering the Company's product candidate is invalid and/or unenforceable. In patent litigation, defendant counterclaims alleging invalidity and/or unenforceability are commonplace. Grounds for a validity challenge include alleged failures to meet any of several statutory requirements in most jurisdictions, including lack of novelty, obviousness or non-enablement. In the United States, grounds for unenforceability assertions include allegations that someone connected with prosecution of the patent withheld relevant information from the USPTO, or made a misleading statement, during prosecution. Third parties may also raise similar claims before administrative bodies in the United States or

abroad, even outside the context of litigation. Such mechanisms include re-examination, post grant review and equivalent proceedings in foreign jurisdictions, e.g., opposition proceedings. Such proceedings could result in revocation or amendment of the Company's patents in such a way that they no longer cover the Company's product candidates or competitive products. The outcome following legal assertions of invalidity and unenforceability is unpredictable. With respect to validity, for example, the Company cannot be certain that there is no invalidating prior art, of which the Company and the patent examiner were unaware during prosecution. If a defendant were to prevail on a legal assertion of invalidity and/or unenforceability, the Company would lose at least part, and perhaps all, of the patent protection on its product candidates. Such a loss of patent protection would have a material adverse impact on the Company's business.

**1.4.10** If the Company's trademarks and trade names are not adequately protected, then the Company may not be able to build name recognition in its markets of interest and the Company's business may be adversely affected.

The Company's registered or unregistered trademarks or trade names may be challenged, infringed, circumvented or declared generic or determined to be infringing on other marks. The Company may not be able to protect its rights to these trademarks and trade names, which the Company needs to build name recognition by potential partners or customers in its markets of interest. Over the long term, if the Company is unable to establish name recognition based on its trademarks and trade names, then the Company may not be able to compete effectively and its business may be adversely affected.

## 1.5 Risks related to the Company's organization, structure and operation

**1.5.1** The Company's future success depends on its ability to retain the members of its Executive Committee and to attract, retain and motivate qualified personnel. If the Company is not successful in attracting and retaining highly qualified personnel, it may not be able to successfully implement the Company's business strategy.

The Company's industry has experienced a high rate of turnover of management personnel in recent years. The Company's ability to compete in the highly competitive biotechnology and pharmaceutical industries depends upon its ability to attract and retain highly qualified managerial, scientific and medical personnel. The Company is highly dependent on its management, scientific and medical personnel, especially its Executive Committee comprised of: Onno van de Stolpe, the chief executive officer, Bart Filius, the chief financial officer, Piet Wigerinck, the chief scientific officer, and Andre Hoekema, the senior vice president of corporate development, whose services are critical to the successful implementation of the Company's product candidate acquisition, development and regulatory strategies. The Company is not aware of any present intention of any of these individuals to leave the Company. In order to induce valuable employees to continue their employment with the Company, the Company has provided warrants that vest over time. The value to employees of warrants that vest over time is significantly affected by movements in the Company's share price that is beyond the Company's control, and may at any time be insufficient to counteract more lucrative offers from other companies.

Despite the Company's efforts to retain valuable employees, members of the management, scientific and development teams may terminate their employment with the Company at any time, with or without notice. The loss of the services of any of the members of the Executive

Committee or other key employees and the Company's inability to find suitable replacements could harm the Company's business, financial condition and prospects. The Company's success also depends on its ability to continue to attract, retain and motivate highly skilled junior, mid-level, and senior managers as well as junior, mid-level, and senior scientific and medical personnel.

The Company may not be able to attract or retain qualified management and scientific personnel in the future due to the intense competition for a limited number of qualified personnel among biopharmaceutical, biotechnology, pharmaceutical and other businesses. Many of the other pharmaceutical companies that the Company competes against for qualified personnel have greater financial and other resources, different risk profiles and a longer history in the industry than the Company does. They also may provide more diverse opportunities and better chances for career advancement. Some of these characteristics may be more appealing to high quality candidates than what the Company has to offer. If the Company is unable to continue to attract and retain high quality personnel, the rate and success at which the Company can develop and commercialize product candidates will be limited.

**1.5.2** If the Company fails to manage its growth effectively, the Company's ability to develop and commercialize products could suffer.

The Company expects that if its drug discovery efforts continue to generate drug candidates, its clinical drug candidates continue to progress in development, and the Company continues to build its development, medical and commercial organizations, it will require significant additional investment in personnel, management and resources. The Company's ability to achieve its research, development and commercialization objectives depends on its ability to respond effectively to these demands and expand the Company's internal organization, systems, controls and facilities to accommodate additional anticipated growth. If the Company is unable to manage its growth effectively, the Company's business could be harmed and the Company's ability to execute its business strategy could suffer.

**1.5.3** If product liability lawsuits are brought against the Company, it may incur substantial liabilities and may be required to limit commercialization of any of its product candidates, if approved.

The Company faces an inherent risk of product liability as a result of the clinical testing of its product candidates and will face an even greater risk if the Company commercializes any products. For example, the Company may be sued if any product it develops allegedly causes injury or is found to be otherwise unsuitable during product testing, manufacturing, marketing or sale. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability and a breach of warranties. Physicians and patients may not comply with any warnings that identify known potential adverse effects and patients who should not use the Company's products. Claims could also be asserted under state consumer protection acts. If the Company cannot successfully defend itself against product liability claims, the Company may incur substantial liabilities or be required to stop development or, if approved, limit commercialization of its product candidates. Even successful defense would require significant financial and management resources. Regardless of the merits or eventual outcome, liability claims may result in:

- delay or termination of clinical trials;

- injury to the Company's reputation;
- withdrawal of clinical trial participants;
- initiation of investigations by regulators;
- costs to defend the related litigation;
- a diversion of management's time and the Company's resources;
- substantial monetary awards to trial participants or patients;
- decreased demand for the Company's product candidates;
- product recalls, withdrawals or labeling, marketing or promotional restrictions;
- loss of revenues from product sales; and
- the inability to commercialize any of the Company's product candidates, if approved.

The Company's inability to obtain and retain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the development or commercialization of its product candidates. The Company currently carries clinical trial liability insurance at levels which it believes are appropriate for its clinical trials. Although the Company maintains such insurance, any claim that may be brought against it could result in a court judgment or settlement in an amount that is not covered, in whole or in part, by the Company's insurance or that is in excess of the limits of the Company's insurance coverage. The Company's insurance policies also have various exclusions, and the Company may be subject to a product liability claim for which it has no coverage. The Company will have to pay any amounts awarded by a court or negotiated in a settlement that exceed its coverage limitations or that are not covered by its insurance, and the Company may not have, or be able to obtain, sufficient capital to pay such amounts.

**1.5.4** Risks from the improper conduct of employees, agents, contractors, or collaboration partners could adversely affect the Company's reputation and the Company's business, prospects, operating results, and financial condition.

The Company cannot ensure that its compliance controls, policies, and procedures will in every instance protect it from acts committed by its employees, agents, contractors, or collaboration partners that would violate the laws or regulations of the jurisdictions in which it operates, including, without limitation, healthcare, employment, foreign corrupt practices, environmental, competition, and patient privacy and other privacy laws and regulations. Such improper actions could subject the Company to civil or criminal investigations, and monetary and injunctive penalties, and could adversely impact the Company's ability to conduct business, operating results, and reputation.

In particular, the Company's business activities may be subject to the US Foreign Corrupt Practices Act, or FCPA, and similar anti-bribery or anti-corruption laws, regulations or rules of other countries in which the Company operates, including the U.K. Bribery Act. The FCPA generally prohibits offering, promising, giving, or authorizing others to give anything of value, either directly or indirectly, to a non-U.S. government official in order to influence official action, or otherwise obtain or retain business. The FCPA also requires public companies to make and keep books and records that accurately and fairly reflect the transactions of the

corporation and to devise and maintain an adequate system of internal accounting controls. The Company's business is heavily regulated and therefore involves significant interaction with public officials, including officials of non-U.S. governments. Additionally, in many other countries, the health care providers who prescribe pharmaceuticals are employed by their government, and the purchasers of pharmaceuticals are government entities; therefore, the Company's dealings with these prescribers and purchasers are subject to regulation under the FCPA. Recently the Securities and Exchange Commission, or SEC, and Department of Justice have increased their FCPA enforcement activities with respect to pharmaceutical companies. There is no certainty that all of the Company's employees, agents, contractors, or collaboration partners, or those of its affiliates, will comply with all applicable laws and regulations, particularly given the high level of complexity of these laws. Violations of these laws and regulations could result in fines, criminal sanctions against the Company, its officers, or its employees, the closing down of its facilities, requirements to obtain export licenses, cessation of business activities in sanctioned countries, implementation of compliance programs, and prohibitions on the conduct of the Company's business. Any such violations could include prohibitions on the Company's ability to offer products in one or more countries and could materially damage the Company's reputation, brand, international expansion efforts, ability to attract and retain employees, and business, prospects, operating results, and financial condition.

**1.5.5** The Company could be subject to liabilities under environmental, health and safety laws or regulations, or fines, penalties or other sanctions. If the Company fails to comply with such laws or regulations or otherwise incur costs that could have a material adverse effect on the success of the Company's business.

The Company is subject to numerous environmental, health and safety laws, regulations, and permitting requirements, including those governing laboratory procedures, decontamination activities and the handling, transportation, use, remediation, storage, treatment and disposal of hazardous materials and wastes. The Company's operations involve the use of hazardous and flammable materials, including chemicals, radioactive isotopes and biological materials and produce hazardous waste products. The Company generally contracts with third parties for the disposal of these materials and wastes. The Company cannot eliminate the risk of contamination or injury from these materials or wastes either at its sites or at third party disposal sites. In the event of such contamination or injury, the Company could be held liable for any resulting damages, and any liability could exceed its resources. The Company also could incur significant costs associated with civil or criminal fines and penalties. Although the Company maintains workers' compensation insurance to cover for costs and expenses the Company may incur due to injuries to its employees resulting from the use of hazardous materials or other work-related injuries, this insurance may not provide adequate coverage against potential liabilities.

In addition, the Company may incur substantial costs in order to comply with current or future environmental, health and safety laws, regulations or permitting requirements. These current or future laws, regulations and permitting requirements may impair the Company's research, development or production efforts. Failure to comply with these laws, regulations and permitting requirements also may result in substantial fines, penalties or other sanctions.

**1.5.6** Any future relationships with customers and third-party payors may be subject, directly or indirectly, to applicable anti-kickback laws, fraud and abuse laws, false claims laws, health

information privacy and security laws and other healthcare laws and regulations, which could expose the Company to criminal sanctions, civil penalties, contractual damages, reputational harm, administrative burdens and diminished profits and future earnings.

If the Company obtains FDA, EMA or any other comparable regulatory authority approval for any of its product candidates and begins commercializing those products in the United States, European Union or other jurisdiction, the Company's future arrangements with third-party payors and customers may expose it to broadly applicable fraud and abuse and other healthcare laws and regulations that may constrain the business or financial arrangements and relationships through which the Company markets, sells and distributes any products for which it obtains marketing approval. In addition, the Company may be subject to health information privacy and security regulation of the European Union, the United States and other jurisdictions in which it conducts business. For example, the laws that may affect the Company's ability to operate include:

- the U.S. federal Anti-Kickback Statute, which prohibits, among other things, persons from knowingly and willfully soliciting, receiving, offering or paying remuneration, directly or indirectly, to induce, or in return for, either the referral of an individual, or the purchase or recommendation of an item or service for which payment may be made under a federal healthcare program, such as the Medicare and Medicaid programs;
- U.S. federal civil and criminal false claims laws and civil monetary penalty laws, including the federal False Claims Act, which impose criminal and civil penalties against individuals or entities for knowingly presenting, or causing to be presented, to the federal government, including the Medicare and Medicaid programs, claims for payment that are false or fraudulent or making a false statement to avoid, decrease or conceal an obligation to pay money to the federal government;
- the U.S. federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which created new federal criminal statutes that prohibit executing a scheme to defraud any healthcare benefit program and making false statements relating to healthcare matters;
- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, or HITECH, and their respective implementing regulations, which imposes certain obligations, including mandatory contractual terms, on covered healthcare providers, health plans, and healthcare clearinghouses, as well as their business associates, with respect to safeguarding the privacy, security and transmission of individually identifiable health information; and
- analogous state and laws and regulations in other jurisdictions, such as state anti-kickback and false claims laws, which may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by non-governmental third-party payors, including private insurers, and state and laws in other jurisdiction governing the privacy and security of health information in certain circumstances, many of which differ from each other in

significant ways and often are not preempted by HIPAA, thus complicating compliance efforts.

Efforts to ensure that the Company's business arrangements with third parties will comply with applicable healthcare laws and regulations may involve substantial costs. It is possible that governmental authorities will conclude that the Company's business practices may not comply with current or future statutes, regulations or case law involving applicable fraud and abuse or other healthcare laws and regulations. If the Company's operations are found to be in violation of any of these laws or any other governmental regulations that may apply to the Company, the Company may be subject to significant civil, criminal and administrative penalties, including, without limitation, damages, fines, imprisonment, exclusion from participation in government funded healthcare programs, such as Medicare and Medicaid, and the curtailment or restructuring of its operations or other sanctions. If any of the physicians or other healthcare providers or entities with whom the Company expects to do business is found to be not in compliance with applicable laws and regulations, it may be subject to criminal, civil or administrative sanctions, including exclusions from participation in government funded healthcare programs.

**1.5.7** The Company must maintain effective internal control over financial reporting, and if the Company is unable to do so, the accuracy and timeliness of its financial reporting may be adversely affected, which could have a material adverse effect on the Company's business, investor confidence and market price.

The Company must maintain effective internal control over financial reporting in order to accurately and timely report its results of operations and financial condition. The Company often uses estimates and assumptions concerning the future, especially when performing impairment tests on goodwill and (in)tangible assets. The Company performs these tests on a realistic and regular basis. Since the Company became a U.S. public company following its NASDAQ IPO in May 2015, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, requires, among other things, that the Company assess the effectiveness of its disclosure controls and procedures annually and the effectiveness of its internal control over financial reporting at the end of each fiscal year. The Company anticipates being first required to issue management's annual report on internal control over financial reporting, pursuant to Section 404 of the Sarbanes-Oxley Act, in connection with issuing its consolidated financial statements as of and for the year ending 31 December 2016.

The rules governing the standards that must be met for the Company's management to assess its internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act are complex and require significant documentation, testing and possible remediation. These stringent standards require that the Company's Audit Committee be advised and regularly updated on management's review of internal control over financial reporting. The Company is in the process of designing, implementing, and testing the internal control over financial reporting required to comply with this obligation. This process is time-consuming, costly, and complicated. In addition, the Company's independent registered public accounting firm will be required to attest to the effectiveness of the Company's internal controls over financial reporting beginning with the Company's annual report following the date on which the Company is no longer an "emerging growth company," which may be up to five fiscal years following the date of the completion of its May 2015 global offering. The Company's management may not be able in a timely and effective manner to implement controls and

procedures that adequately respond to the increased regulatory compliance and reporting requirements that are applicable to the Company as a U.S. public company. If the Company fails to staff its accounting and finance function adequately or maintain internal control over financial reporting adequate to meet the demands placed upon it as a U.S. public company, including the requirements of the Sarbanes-Oxley Act, its business and reputation may be harmed and the price of the ordinary shares or ADSs may decline. Furthermore, investor perceptions of the Company may be adversely affected, which could cause a decline in the market price of the ordinary shares or ADSs.

**1.5.8** The Company's information technology systems could face serious disruptions that could adversely affect the Company's business.

The Company's information technology and other internal infrastructure systems, including corporate firewalls, servers, leased lines and connection to the Internet, face the risk of systemic failure that could disrupt the Company's operations. A significant disruption in the availability of the Company's information technology and other internal infrastructure systems could cause interruptions in the collaborations with the Company's partners and delays in research and development work. The loss of product development or clinical trial data could result in delays in the Company's regulatory approval efforts and significantly increase costs to recover or reproduce the data. To the extent that any disruption or security breach were to result in a loss of, or damage to, the Company's data or applications, or inappropriate disclosure of confidential or proprietary information, the Company could incur liability and its development programs and the development of its product candidates could be delayed.

**1.5.9** Business interruptions could delay the Company in the process of developing product candidates.

Loss of the Company's laboratory facilities through fire or other causes could have an adverse effect on the Company's ability to continue to conduct its business. The Company currently has insurance coverage to compensate for such business interruptions; however, such coverage may prove insufficient to fully compensate the Company for the damage to its business resulting from any significant property or casualty loss to the Company's facilities.

**1.5.10** The Company may undertake strategic acquisitions in the future and any difficulties from integrating such acquisitions could adversely affect the Company's share price, operating results and results of operations.

The Company may acquire companies, businesses and products that complement or augment its existing business. The Company 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 the Company predicts. The diversion of the Company's management's attention and any delay or difficulties encountered in connection with any future acquisitions the Company may consummate could result in the disruption of on-going business or inconsistencies in standards and controls that could negatively affect the Company's ability to maintain third-party relationships. Moreover, the Company may need to raise additional funds through public or private debt or equity financing, or issue additional shares, to acquire any businesses or products, which may result in dilution for shareholders or the incurrence of indebtedness.

As part of the Company's efforts to acquire companies, business or product candidates or to enter into other significant transactions, the Company conducts business, legal and financial due diligence with the goal of identifying and evaluating material risks involved in the transaction. Despite the Company's efforts, it 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 the Company fails to realize the expected benefits from acquisitions it may consummate in the future or have consummated in the past, whether as a result of unidentified risks or liabilities, integration difficulties, regulatory setbacks, litigation with current or former employees and other events, the Company's business, results of operations and financial condition could be adversely affected. If the Company acquires product candidates, it will also need to make certain assumptions about, among other things, development costs, the likelihood of receiving regulatory approval and the market for such product candidates. The Company's assumptions may prove to be incorrect, which could cause the Company to fail to realize the anticipated benefits of these transactions.

In addition, the Company may experience significant charges to earnings in connection with its efforts, if any, to consummate acquisitions. For transactions that are ultimately not consummated, these charges may include fees and expenses for investment bankers, attorneys, accountants and other advisors in connection with the Company's efforts. Even if the Company's efforts are successful, the Company may incur, as part of a transaction, substantial charges for closure costs associated with elimination of duplicate operations and facilities and acquired in-process research and development charges. In either case, the incurrence of these charges could adversely affect the Company's results of operations for particular periods.

**1.5.11** The Company's collaboration arrangements with strategic partners may make it an attractive target for potential acquisitions under certain circumstances.

Under certain circumstances, due to the structure of the collaboration arrangements with strategic partners, such strategic partners may prefer to acquire the Company rather than paying the milestone payments or royalties under the collaboration arrangements, which may bring additional uncertainties to the Company's business development and prospects.

**1.5.12** The Company's international operations subject it to various risks, and the Company's failure to manage these risks could adversely affect its results of operations.

The Company faces significant operational risks as a result of doing business internationally, such as:

- fluctuations in foreign currency exchange rates;
- potentially adverse and/or unexpected tax consequences, including penalties due to the failure of tax planning or due to the challenge by tax authorities on the basis of transfer pricing and liabilities imposed from inconsistent enforcement;
- potential changes to the accounting standards, which may influence the Company's financial situation and results;
- becoming subject to the different, complex and changing laws, regulations and court systems of multiple jurisdictions and compliance with a wide variety of foreign laws, treaties and regulations;

- reduced protection of, or significant difficulties in enforcing, intellectual property rights in certain countries;
- difficulties in attracting and retaining qualified personnel;
- restrictions imposed by local labor practices and laws on the Company's business and operations, including unilateral cancellation or modification of contracts;
- rapid changes in global government, economic and political policies and conditions, political or civil unrest or instability, terrorism or epidemics and other similar outbreaks or events, and potential failure in confidence of the Company's suppliers or customers due to such changes or events; and
- tariffs, trade protection measures, import or export licensing requirements, trade embargoes and other trade barriers.

**1.5.13** If the Company is unable to use tax loss carryforwards to reduce future taxable income or benefit from favorable tax legislation, the Company's business, results of operations and financial condition may be adversely affected.

At 31 December 2015, the Company had cumulative carry forward tax losses of EUR 184 million in Belgium, EUR 63.1 million in France (when taking into account pending tax litigation effect), and EUR 17.6 million related to the other entities of the Galapagos group. These are available to carry forward and offset against future taxable income for an indefinite period in Belgium and France, but EUR 16.7 million of these tax loss carryforwards in Switzerland, Croatia, the United States and The Netherlands will expire between 2018 and 2030. If the Company is unable to use tax loss carryforwards to reduce future taxable income, its business, results of operations and financial condition may be adversely affected.

As a company active in research and development in Belgium and France, the Company has benefited from certain research and development incentives including, for example, the Belgian research and development tax credit and the French research tax credit (*credit d'impôt recherche*). These tax credits can be offset against Belgian and French corporate income tax due, respectively. The excess portion may be refunded at the end of a five-year fiscal period for the Belgian research and development incentive, and at the end of a three-year fiscal period for the French research and development incentive. The research and development incentives are calculated based on the amount of eligible research and development expenditure.

The Belgian tax credit represented EUR 3.9 million for the year ended 31 December 2012, EUR 4.5 million for the year ended 31 December 2013, EUR 4.3 million for the year ended 31 December 2014, and EUR 5.4 million for the year ended 31 December 2015. The French tax credit amounted to EUR 7.8 million for the year ended 31 December 2012, EUR 8.2 million for the year ended 31 December 2013, EUR 7.8 million for the year ended 31 December 2014, and EUR 8.7 million for the year ended 31 December 2015.

The Belgian and/or French tax authorities may audit each research and development program for which a tax credit has been claimed and assess whether it qualifies for the tax credit regime. The tax authorities may challenge the Company's eligibility for, or its calculation of, certain tax reductions and/or deductions in respect of the Company's research and development activities and, should the Belgian and/or French tax authorities be successful,

the Company may be liable for additional corporate income tax, and penalties and interest related thereto, which could have a significant impact on the Company's results of operations and future cash flows. Furthermore, 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, the Company's results of operations could be adversely affected.

As a company active in research and development in Belgium, the Company also expects to benefit in the future from the "patent income deduction" initiative in Belgium. This initiative effectively allows, in the case of taxable income, net profits attributable to revenue from patented products to be taxed at a lower rate than other revenues, i.e., 6.8%. When taken in combination with tax losses carried forward and research and development incentives mentioned above, the Company expects that this will result in a long-term low rate of corporation tax for the Company. If, however, there are unexpected adverse changes to the Belgian "patent income deduction" initiative, or the Company is unable to qualify for such advantageous tax legislation, the Company's business, results of operations and financial condition may be adversely affected.

**1.5.14** The Company may be forced to repay the technological innovation grants if it fails to comply with its contractual obligations under the applicable grant agreements.

The Company has received several technological innovation grants to date, totaling EUR 24.4 million as of 31 December 2015, to support various research programs from an agency of the Flemish government to support technological innovation in Flanders. These grants carry clauses which require the Company to maintain a presence in the Flemish region for a number of years and invest according to pre-agreed budgets. If the Company fails to comply with its contractual obligations under the applicable technological innovation grant agreements, the Company could be forced to repay all or part of the grants received. Such repayment could adversely affect the Company's ability to finance its research and development projects. In addition, the Company cannot ensure that it will then have the additional financial resources needed, the time or the ability to replace these financial resources with others.

**1.5.15** The Company may be exposed to significant foreign exchange risk

The Company incurs portions of its expenses, and may in the future derive revenues, in currencies other than the euro, in particular, the U.S. dollar. As a result, the Company is exposed to foreign currency exchange risk as the results of operations and cash flows are subject to fluctuations in foreign currency exchange rates. The Company currently does not engage in hedging transactions to protect against uncertainty in future exchange rates between particular foreign currencies and the euro. Therefore, for example, an increase in the value of the euro against the U.S. dollar could be expected to have a negative impact on the Company's revenue and earnings growth as U.S. dollar revenue and earnings, if any, would be translated into euros at a reduced value. The Company cannot predict the impact of foreign currency fluctuations, and foreign currency fluctuations in the future may adversely affect the Company's financial condition, results of operations and cash flows.

**1.5.16** If a claim is made by Charles River with regard to the Company's former service division, the Company's results of operations and financial condition may be adversely affected.

On 13 March 2014, the Company announced the signing of a definitive agreement to sell the service division to Charles River Laboratories International, Inc., or Charles River. Charles River

agreed to pay the Company immediate cash consideration of EUR 129 million. The potential earn out of EUR 5 million due upon achievement of a target 12 months after transaction closing was not achieved. Approximately EUR 6.9 million is being held in an escrow account. The escrow account would have been released on 30 June 2015 if no claim had been made by Charles River.

Following common practice, the Company has given customary representations and warranties with customary caps and limitations. If Charles River makes a claim with respect to the sale of the service division, the Company could incur significant costs and expenses associated with the claim. To date, four claims have been made by Charles River, of which three claims have been settled for a total amount of EUR 1.0 million. One claim, which was made by Charles River in March 2015, is still being investigated. An amount of EUR 0.3 million was accrued in March 2015 based on a preliminary estimate of the exposure. The release of the escrow account will be possible after final settlement of the issue at stake.

**1.5.17** Risk related to the accounting treatment of the Gilead Transaction

After careful analysis of the Subscription Agreement and the applicable IFRS literature, the Company has judged that it was appropriate to account for the commitment of Gilead to subscribe for new ordinary shares of Galapagos in an amount equivalent to USD 425 million at a fixed price of EUR 58 per share as a derivative financial asset with variances in fair value through the income statement between entering into the Subscription Agreement (16 December 2015) and the date of the Capital Increase (19 January 2016). The Company's statutory auditor has audited this significant transaction and has agreed with the position taken by the Company. In the framework of the regulatory review process of this Prospectus, the FSMA has reviewed the accounting for the Subscription Agreement under IFRS. Taking into account the complexity of the questions and the lack of specific authoritative literature, the FSMA has decided, in accordance with the ESMA Guidelines on enforcement of financial information, to submit this accounting treatment as an emerging issue for discussion to the European Enforcers Coordination Sessions (EECS) forum, a forum in which all EU National Enforcers of financial information meet to ensure that a consistent enforcement approach of IFRS is taken across the jurisdictions.

On the Date of this Prospectus, the emerging issue has not been discussed by EECS yet.

It is currently uncertain whether the discussion at EECS will lead to the FSMA requiring a change in the way the Subscription Agreement was accounted for in the Company's audited financial statements for the year ended 31 December 2015 and its unaudited interim financial statements for the three-month period ended 31 March 2016. This decision would not affect the Company's cash position or cash flows.

## 2 Risk factors related to the New Shares

**2.1** The Company cannot guarantee that an active trading market will develop for the Company's shares.

The Company cannot guarantee the extent to which a liquid market for the Company's shares will develop or be sustained. In the absence of such liquid market for the Company's shares, the price of the Company's shares could be influenced.

**2.2** The value of the New Shares may decrease.

Following the listing, it is likely that the price of the New Shares will be subject to market fluctuations and the price of the shares may not always accurately reflect the underlying value of the Company's business. The value of the New Shares may decrease and decline below the Issue Price, and the price that investors may realize for their holdings of New Shares, when they are able to do so, may be influenced by a large number of factors, including:

- anticipated or actual fluctuations in the Company's financial situation;
- changes in the estimates of securities analysts with respect to the Company's financial situation;
- market perception of the impact of competitor moves on the Company;
- potential or actual sales of blocks of shares in the market or short selling of shares;
- investors' perceptions of the sector;
- the announcement of test results on the products developed by the Company;
- volatility in the stock markets as a whole or in investors' perception of the market; or
- the risk factors mentioned under Section 1 above.

In addition, stock markets have in the recent past experienced extreme price and volume fluctuations, which have not always been related to the performance of the specific companies whose shares are traded, and which, as well as general economic and political conditions, could have an adverse effect on the market price of the New Shares.

**2.3** Fluctuations in the exchange rate between foreign currencies and the euro may increase the risk of holding the Company's shares.

Shareholders in countries with currencies other than the Euro face additional investment risk from currency exchange rate fluctuations in connection with their holding of the Company's shares.

**2.4** The Company has broad discretion in the use of the net proceeds from the Capital Increase and may not use them effectively.

The Company's management will have broad discretion in the application of the net proceeds that it received from the Capital Increase, including applications for working capital, possible acquisitions and other general corporate purposes, and the Company may spend or invest these proceeds in a way with which its shareholders disagree. The failure by the Company's management to apply these funds effectively could harm its business and financial condition. Pending their use, the Company may invest the net proceeds from the Capital Increase in a manner that does not produce income or that loses value. These investments may not yield a favorable return to the Company's investors.

**2.5** Investment and trading in general is subject to risks.

All securities investments involve the risk of loss of capital. There can be no assurance that the Company's investment objectives will be met. The Company's results have fluctuated in the past and probably will fluctuate in the future. For this reason, the Company's results may not meet the expectations analysts have predicted.

**2.6** If securities or industry analysts do not publish research or publish inaccurate research or unfavorable research about the Company's business, the price of the Company's shares and trading volume could decline.

The trading market for the Company's shares depends in part on the research and reports that securities or industry analysts publish about the Company or its business. If no or few securities or industry analysts cover the Company, the trading price for its shares would be negatively impacted. If one or more of the analysts who covers the Company downgrades the shares or publishes incorrect or unfavorable research about its business, the price of the Company's shares would likely decline. If one or more of these analysts ceases coverage of the Company or fails to publish reports on the Company regularly, or downgrades the Company's shares, demand for the Company's shares could decrease, which could cause the price of the Company's shares or trading volume to decline.

**2.7** The Company has no present intention to pay dividends on its shares.

The Company has no present intention to pay dividends in the foreseeable future. In addition, in accordance with Belgian law and the Company's Articles of Association, the Company must allocate each year an amount of at least 5% of its annual net profit under its non-consolidated statutory accounts to a legal reserve until the reserve equals 10% of its share capital. Therefore, the Company is unlikely to pay dividends or other distributions in the foreseeable future.

**2.8** Takeover provisions in Belgian law may make a takeover difficult.

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 the Company 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).

**2.9** The Company may not be able to complete equity offerings without cancellation or limitation of the preferential subscription rights of its existing shareholders, which may as a practical matter preclude the Company from timely completion of offerings.

Absent renewal by the Company's shareholders of the authorization of the Board to increase the capital (possibly with cancellation or limitation of the preferential subscription rights) or absent cancellation or limitation by the Company's shareholders of the preferential subscription rights of the existing shareholders, the requirement to offer the Company's existing shareholders the preferential right to subscribe, pro rata, for new shares being offered may as a practical matter preclude the Company from timely raising of capital on commercially acceptable terms, or at all.

**2.10** Shareholders may not be able to participate in equity offerings the Company may conduct from time to time.

Certain shareholders, including those in the United States, may, even in the case where preferential subscription rights have not been cancelled or limited, not be entitled to exercise such rights, unless the offering is registered or the shares are qualified for sale under the relevant regulatory framework. As a result, there is the risk that investors may suffer dilution of their shareholdings should they not be permitted to participate in preference right equity or other offerings that the Company may conduct in the future.

**2.11** Future sales of shares by existing shareholders could depress the market price of the Company's shares.

Sales of a significant number of shares could lead to a drop in the market price of the shares issued by the Company. Except for Gilead which has agreed to a lock-up arrangement, existing shareholders are not obliged to remain shareholder or to keep a minimum number of shares. These sales might also make it more difficult for the Company to issue or sell equity or equity-related securities in the future at a time and a price that the Company deems appropriate.

**2.12** Securities from companies active in the biotech sector are highly volatile.

The biotech sector is characterized by share price volatility due to the dependence on research hopes and final outcomes. A number of factors may significantly affect the market price of the shares including changes in the operating results of the Company and its competitors, divergence in financial results from stock market expectations, changes in earnings estimates by analysts, changes in estimates in relation to the duration or the success of the Company's clinical trials, changes in the general conditions in the pharmaceutical industry and general economic, financial market and business conditions in the countries in which the Company operates. In addition, stock market have from time to time experienced extreme price and volume volatility which, in addition to general economic, financial and political conditions, could affect the market price for the shares regardless of the operating results or financial condition of the Company.

**2.13** Future issuances of shares or warrants may affect the market price of the shares and could dilute the interests of existing shareholders.

The Company may decide to raise capital in the future through public or private offerings of equity securities, convertible debt or rights to acquire these securities. The Company may decide to exclude or limit the preferential subscription rights attached to the then outstanding securities in accordance with applicable law. If the Company raises significant amounts by these or other means, it could cause dilution for the holders of its securities and could have a negative impact on the share price, earnings per share and net asset value per share. In addition, the dilution from issue and exercise of warrants could adversely affect the price of shares.

**2.14** Shareholders of the Company residing in countries other than Belgium may be subject to double withholding taxation with respect to dividends or other distributions made by the Company.

Any dividends or other distributions the Company makes to shareholders will, in principle, be subject to withholding tax in Belgium at a rate of 27%, except for shareholders which qualify for an exemption of withholding tax such as, among others, qualifying pension funds or a company qualifying as a parent company in the sense of the Council Directive (90/435/EEC) of 23 July 1990, or the Parent-Subsidiary Directive, or that qualify for a lower withholding tax rate or an exemption by virtue of a tax treaty. Various conditions may apply and shareholders residing in countries other than Belgium are advised to consult their advisers regarding the tax consequences of dividends or other distributions made by the Company. The Company's shareholders residing in countries other than Belgium may not be able to credit the amount of such withholding tax to any tax due on such dividends or other distributions in any other country than Belgium. As a result, such shareholders may be subject to double taxation in respect of such dividends or other distributions.

Belgium and the United States have concluded a double tax treaty concerning the avoidance of double taxation, or the U.S.-Belgium Tax Treaty. The U.S.-Belgium Tax Treaty reduces the applicability of Belgian withholding tax to 15%, 5% or 0% for U.S. taxpayers, provided that the U.S. taxpayer meets the

limitation of benefits conditions imposed by the U.S.-Belgium Tax Treaty. The Belgian withholding tax is generally reduced to 15% under the U.S.-Belgium Tax Treaty. The 5% withholding tax applies in case where the U.S. shareholder is a company which holds at least 10% of the shares in the company. A 0% Belgian withholding tax applies when the shareholder is a company which has held at least 10% of the shares in the company for at least 12 months, or is, subject to certain conditions, a U.S. pension fund. The U.S. shareholders are encouraged to consult their own tax advisers to determine whether they can invoke the benefits and meet the limitation of benefits conditions as imposed by the U.S.-Belgium Tax Treaty.

**2.15** Any future sale, purchase or exchange of shares may become subject to the Financial Transaction Tax.

On 14 February 2013, the EU Commission adopted a proposal for a Council Directive (the "Draft Directive") on a common financial transaction tax (the "FTT"). The intention is for the FTT to be implemented through an enhanced cooperation procedure in 11 member states (Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Spain, Slovakia and Slovenia, together the "Participating Member States").

Pursuant to the Draft Directive, the FTT will be payable on financial transactions, provided (a) at least one party to the financial transaction is established or deemed established in a Participating Member State, and (b) there is a financial institution established or deemed established in a Participating Member State which is a party to the financial transactions, or is acting in the name of a party to the transaction. The FTT will however not apply to (inter alia) primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006, including the activity of underwriting and subsequent allocation of financial instruments in the framework of their issue.

The rates of the FTT will be fixed by each Participating Member State, but will amount to at least 0.1% of the taxable amount for transactions involving financial instruments other than derivatives. The taxable amount for such transactions will in general be determined by reference to the consideration paid or owed in return for the transfer. The FTT will be payable by each financial institution established or deemed established in a Participating Member State which is either a party to the financial transaction, or acting in the name of a party to the transaction or where the transaction has been carried out on its account. When the FTT due was not paid within the applicable time limits, each party to a financial transaction, including persons other than financial institutions, will become jointly and severally liable for the payment of the FTT due.

A statement made by the Participating Member States (other than Slovenia) indicated that a progressive implementation of the FTT is being considered and that the FTT may initially only apply to transactions involving shares and certain derivatives, with implementation occurring by 1 January 2016. Full details are however not available.

The Draft Directive remains subject to negotiations between the Participating Member States and may therefore be changed at any time. Moreover, once the Draft Directive has been adopted (the "FTT Directive"), it will need to be implemented into the respective domestic laws of the Participating Member States, whereby the domestic provisions implementing the FTT Directive could deviate from the FTT Directive itself.

Prospective shareholders should consult their own professional advisors in relation to the FTT.

## Part III: Definitions of most important terms in this Prospectus

| | |
|---|---|
| **Annual Report 2015** | The Company's annual report over the year 2015 as published per 25 March 2016 |
| **Articles of Association** | The articles of association of the Company, as amended from time to time |
| **Audit Committee** | The audit committee of the Company |
| **BCC** or **Belgian Companies Code** | The Belgian Law of 7 May 1999 containing the companies code ('*Wetboek van vennootschappen / Code des sociétés*') |
| **Board** or **Board of Directors** | The board of directors of the Company |
| **Capital Increase** | The capital increase on 19 January 2016 by an amount of EUR 392,120,658 pursuant to a decision of the Board of Directors within the framework of the Company's authorized capital with the cancellation of the preferential subscription rights of the existing shareholders for the benefit of Gilead, following which the Company has issued the 6,760,701 New Shares at an Issue Price of EUR 58.00. |
| **Collaboration Agreement** | The license and collaboration agreement entered into on 16 December 2015 between the Company with Gilead Biopharmaceutics Ireland Unlimited Company, granting Gilead a license under the intellectual property right with respect to filgotinib with a view to co-developing and co-promoting products comprising filgotinib |
| **Company** | Galapagos NV, a public limited liability company organized and existing under the laws of Belgium, with registered office at Generaal De Wittelaan L11 A3, 2800 Mechelen Belgium, registered with the register of legal entities (Antwerp, division Mechelen) under number 0466.460.429 |
| **Corporate Governance Charter** | The corporate governance charter of the Company |
| **Custodian** | The custodian of the ordinary shares on deposit underlying the ADSs, i.e. Citibank International Limited, located at EGSP 186, 1 North Wall Quay, Dublin 1 Ireland |
| **Date of this Prospectus** | 10 May 2016 |
| **Depositary** | The depositary of the ADSs of the Company, i.e. Citibank N.A., whose depositary offices are located at 388 Greenwich Street, New York, New York 10013, United States |
| **EUR** or **€** | euro |
| **Executive Committee** | The executive committee of the Company |
| **FSMA** | The Belgian Financial Services and Market Authority (*Autoriteit voor Financiële Diensten en Markten / Authorité des Services et Marchés Financiers*) |
| **Galapagos** | The Company together with its subsidiaries |

| | |
|---|---|
| **Gilead** | Gilead Biopharmaceutics Ireland Unlimited Company, a Private Unlimited Company incorporated and validly existing under Irish law, with registered seat at 25/28 North Wall Quay, Dublin 1, D01H104 (Ireland) and company number 316876 |
| **IFRS** | International Financial Reporting Standards, including International Accounting Standards (IAS) and Interpretations, as adopted by the European Union |
| **Issue Price** | The issue price for the New Shares which amounted to EUR 58.00 |
| **Member State** | A member state of the European Union |
| **New Shares** | The 6,760,701 ordinary shares of the Company issued pursuant to the Capital Increase |
| **Nomination and Remuneration Committee** | The nomination and remuneration committee of Galapagos NV |
| **Prospectus** | The present document, including any information incorporated in it by reference |
| **Prospectus Directive** | Directive 2003/71/EC of the European Parliament and of the Council of the European Union (as amended, including Directive 2010/73EU) |
| **Prospectus Law** | The Belgian Law of 16 June 2006 regarding the public offering of investment instruments and the authorization of investment instruments to trade on a regulated market |
| **Statutory Auditor** | Deloitte Bedrijfsrevisoren BV o.v.v.e. CVBA, a civil company having the form of a co-operative company with limited liability organized and existing under the laws of Belgium, with registered office at Berkenlaan 8B, 1831 Diegem, Belgium, represented by Mr. Gert Vanhees |
| **Subscription Agreement** | The subscription agreement entered into on 16 December 2015 between the Company and Gilead confirming the equity investment by the latter in the Company through the Capital Increase |
| **Transaction** | The entering into the Collaboration Agreement and Subscription Agreement between the Company and Gilead |
| **USD** or **$** | US dollar |

# Part IV: General information regarding the Prospectus

## 1 Responsible person

In accordance with article 61, §1 and 62 of the Belgian Law of 16 June 2006 on the public offering of securities and the admission of securities to trading on a regulated market, as amended (the "Prospectus Law"), the Company, acting through its Board of Directors, assumes responsibility for the content of this Prospectus. The Company declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Any information from third parties identified in this Prospectus as such, has been accurately reproduced and, as far as the Company is aware and is able to ascertain from the information published by a third party, does not omit any facts which would render the reproduced information inaccurate or misleading.

The information in this Prospectus is as of the date printed on the cover, unless expressly stated otherwise. The delivery of the Prospectus at any time does not imply that there has been no change in the Company's business or affairs since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof. The information contained herein is up to date as of the date hereof, and may be subject to subsequent change, completion and amendment without notice. The publication of this Prospectus shall not, under any circumstances, imply that there will be no changes in the information set forth herein or in the affairs of the Company subsequent to the Date of this Prospectus. In accordance with article 34 of the Prospectus Law, a supplement to the Prospectus will be published in the event of any significant new factor, material mistake or inaccuracy relating to the information included in this Prospectus which is capable of affecting the assessment of the shares and which arises or is noted between the time when this Prospectus is approved and the trading of the New Shares on Euronext Brussels and Euronext Amsterdam begins.

The contents of this Prospectus should not be construed as providing legal, business, accounting or tax advice. Each prospective investor should consult his/her own legal, business, accounting and tax advisers prior to making a decision to invest in the shares.

## 2 Statutory Auditor

The Company's current auditor is Deloitte Bedrijfsrevisoren BV o.v.v.e. CVBA, a civil company having the form of a co-operative company with limited liability organized and existing under the laws of Belgium, with registered office at Berkenlaan 8B, 1831 Diegem, Belgium. Deloitte Bedrijfsrevisoren BV o.v.v.e. CVBA is appointed Statutory Auditor of the Company, for a term of three years ending following the annual general shareholders' meeting of the Company resolving upon the financial statements for the financial year ending on 31 December 2018. Deloitte Bedrijfsrevisoren BV o.v.v.e. CVBA was represented by Mr. Gino Desmet for the financial years ending on 31 December 2012 and 2013 and by Mr. Gert Vanhees as from the financial year starting on 1 January 2014. Both are members of the *Instituut van de Bedrijfsrevisoren / Institut des Réviseurs d'Entreprises*. This Prospectus includes the audited consolidated financial statements of the Company for the financial years ended on 31 December 2013, 2014 and 2015 prepared in accordance with IFRS, as issued by the International Accounting Standards Board, and as adopted by the European Union. The aforementioned consolidated financial statements (as prepared under IFRS) were audited by the Statutory Auditor of the Company. The Statutory Auditor has rendered an unqualified auditor's report on the aforementioned consolidated financial statements and has given, and not withdrawn, its written

consent to the inclusion of its auditor's reports in relation thereto and the references to themselves herein in the form and context in which they are included.

## 3 Approval by the Financial Services and Markets Authority

This Prospectus has been prepared in the form of a single document. The Prospectus has been prepared in English and approved on 10 May 2016 by the Belgian Financial Services and Markets Authority in its capacity as competent authority under the Prospectus Law under article 23 of the Prospectus Law.

The approval of the Prospectus by the FSMA does not constitute an appreciation of the soundness of the Collaboration Agreement and / or the Capital Increase and the FSMA assumes no responsibility as to the economic and financial soundness of the Collaboration Agreement and / or the Capital Increase and the quality or solvency of the Company.

## 4 Restrictions

IMPORTANT: You must read the following disclaimer before reading this Prospectus. The following disclaimer applies to this Prospectus and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the Prospectus. In accessing this Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from the Company.

### 4.1 No public offering

This Prospectus has been approved for the purposes of the admission to trading of the New Shares on the regulated market of Euronext Brussels and Euronext Amsterdam and does not constitute an offer to sell or the solicitation of an offer to buy any New Shares. This Prospectus can be distributed in Belgium and the Netherlands, where it has been approved by the FSMA and passported into the Netherlands by a letter to the AFM ('*Autoriteit Financiële Markten*') in accordance with the Prospectus Law.

The distribution of this Prospectus in any country other than Belgium or the Netherlands may be restricted by law. The Company does not represent that this Prospectus may be lawfully distributed in compliance with any applicable registration or other requirements in any jurisdiction other than Belgium, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Company which is intended to permit a public offering of any shares or distribution of this Prospectus. Persons in whose possession this Prospectus or any shares may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus. Any person that, for any reason whatsoever, circulates or allows circulation of this Prospectus, must draw the addressee's attention to the provisions of this section.

### 4.2 Members of the European Economic Area

No actions have been or will be made, in any Member State that has implemented the Prospectus Directive (each a "Relevant Member State"), to make an offer to the public of the New Shares that requires the publication of a prospectus in such Relevant Member State.

For the purposes of this provision, the expression "make an offer to the public" of New Shares in a Relevant Member State shall mean an announcement, regardless of its form or means of

communication, of sufficient information about the New Shares to enable an investor to make a decision about the purchase of or subscription to such securities, amended, as the case may be, in such Relevant Member State by a measure implementing the Prospectus Directive in such Relevant Member State.

### 4.3 United States of America

The New Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"). Subject to certain exceptions, the New Shares may not be offered, held or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S under the Securities Act). The New Shares are being offered and sold only outside of the United States to persons other than US persons or non-US purchasers in reliance upon Regulation S. Each purchaser of the New Shares, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with the Company that such purchaser is not a US person and is acquiring such New Shares for its own account or for the account of a non-US person in an offshore transaction (as defined in Regulation S) pursuant to an exemption from registration provided by Regulation S.

### 4.4 Canada, Australia, United Kingdom and Japan

This Prospectus may not be circulated or otherwise be made available in Canada, Australia, the United Kingdom or Japan and the New Shares may not be offered or sold, directly or indirectly, by any person in Canada, Australia, the United Kingdom or Japan unless such circulation, offering, sale or exercise is allowed under applicable legislation of the relevant jurisdiction.

## 5 Warning

Investors must form their own opinions about the Company, the New Shares, shares in the Company and the associated benefits and risks. The summaries and descriptions of legal provisions, taxation, accounting principles or comparisons of such principles, legal company forms or contractual relationships reported in this Prospectus may in no circumstances be interpreted as investment, legal or tax advice for potential investors. Investors are urged to consult their own advisor, bookkeeper, accountant, or other advisors concerning the legal, tax, economic, financial and other aspects associated with the New Shares. In case of doubt about the contents and/or the meaning of the information in this Prospectus, investors should seek the advice of an authorized person or a person specialized in advice relating to the acquisition of financial securities. The New Shares have not been recommended by any federal or local authority in Belgium, the Netherlands or abroad. Investors are solely responsible for analyzing and assessing the benefits and risks associated with an investment in the New Shares.

## 6 Availability of the Prospectus

The Prospectus is available in English. The Prospectus is available, upon request, to shareholders and investors at no cost at the registered office of the Company, 2800 Mechelen (Belgium), Generaal De Wittelaan L11 A3. This Prospectus is also available, subject to certain conditions, on the Company's website at www.glpg.com. Posting the Prospectus and its summary on the internet does not constitute an offer to subscribe or a solicitation of an offer to subscribe to the shares. The electronic version may not be copied, made available or printed for distribution, except with the Company's prior consent. Other information on the Company's website or any other website does not form part of this Prospectus.

## 7 Rounding

Certain amounts, percentages or financial information in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be arithmetic aggregations of the figures that precede them.

## 8 Forward-looking statements

This Prospectus may contain forward-looking statements, all of which involve certain risks and uncertainties. These statements are often, but not always, made through the use of words or phrases such as "anticipates," "believes," "continues," "could," "estimates," "expects," "intends," "may," "plans," "seeks," "stands to," "we believe," "will," "we intend," as well as similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which might cause the actual results, financial condition and liquidity, performance or achievements of Galapagos, or industry results, to be materially different from any historic or future results, financial conditions and liquidity, performance or achievements expressed or implied by such forward-looking statements. In addition, even if Galapagos' results, performance, financial condition and liquidity, and the development of the industry in which it operates 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 the inherent uncertainties associated with competitive developments, clinical trial and product development activities and regulatory approval requirements (including that data from Galapagos' ongoing clinical research programs may not support registration or further development of its product candidates due to safety, efficacy or other reasons), Galapagos' reliance on collaborations with third parties, and estimating the commercial potential of Galapagos' product candidates. A further list and description of these risks, uncertainties and other risks can be found in Part II "Risk Factors" of this Prospectus. 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 this Prospectus. Galapagos expressly disclaims any obligation to update any such forward-looking statements in this document to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based 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.

## 9 Further information

The Company has filed its deed of incorporation and must file its restated articles of association and all other deeds that are to be published in the Annexes to the Belgian State Gazette (*Belgisch Staatsblad / Moniteur belge*) with the clerk's office of the commercial court of Antwerp (division Mechelen), where they are available to the public. The Company is registered with the register of legal entities (Antwerp, division Mechelen) under enterprise number 0466.460.429. A copy of the Company's articles of association and Corporate Governance Charter are available on its website (www.glpg.com).

In accordance with Belgian law, the Company must also prepare audited annual statutory and consolidated financial statements. The annual statutory financial statements, together with the reports of the Board of Directors and the Statutory Auditor of the Company as well as the consolidated financial statements, are filed with the National Bank of Belgium, where they are available to the public. Furthermore, as a listed company, the Company must publish an annual financial report (composed of the financial information to be filed with the National Bank of Belgium and a responsibility statement) and a semi-annual financial report (composed of condensed consolidated

financial statements, the report of the Statutory Auditor, if audited or reviewed, and a responsibility statement). These reports are made publicly available on the Company's website (www.glpg.com).

As a listed company, the Company must also disclose price sensitive information, information about the shareholder structure and certain other information to the public. In accordance with the Belgian Royal Decree of 14 November 2007 relating to the obligations of issuers of financial instruments admitted to trading on a Belgian regulated market (*Koninklijk besluit betreffende de verplichtingen van emittenten van financiële instrumenten die zijn toegelaten tot de verhandeling op een gereglementeerde markt / Arrêté royal relatif aux obligations des émetteurs d'instruments financiers admis aux négociations sur marché réglementé)*, such information and documentation is made available through press releases, the financial press in Belgium, the Company's website, the communication channels of Euronext Brussels and Euronext Amsterdam or a combination of these media.

For more information about the Company, please contact:

Galapagos NV
Investor Relations
Generaal De Wittelaan L11 A3
2800 Mechelen
Tel.: +32 (0)15 342 900
ir@glpg.com
www.glpg.com

## Part V: Documents incorporated by reference

This Prospectus should be read and construed in conjunction with:

(a) the annual report and audited annual financial statements of the Company for the financial years ended 31 December 2013, 31 December 2014 and 31 December 2015, together in each case with the audit reports thereon which have been previously published or are published simultaneously with this Prospectus; and

(b) the press releases that have been published by the Company since 17 December 2015 until the Date of this Prospectus, more specifically:

- 'Galapagos and Gilead announce global partnership to develop filgotinib for the treatment of rheumatoid arthritis and other inflammatory diseases' dated 17 December 2015;
- 'Galapagos creates new warrant plans' dated 22 December 2015;
- 'Galapagos receives transparency notification from Wellington Management Group LLP' dated 22 December 2015;
- 'Galapagos and Gilead cleared by US FTC to close their global partnership on filgotinib' dated 13 January 2016;
- 'Galapagos and Gilead complete closing of their global collaboration for filgotinib' dated 19 January 2016;
- 'Transparency notification – Gilead Sciences, Inc. holds 14.75% of Galapagos shares' dated 25 January 2016;
- 'Galapagos receives transparency notification from Wellington Management Group LLP' dated 2 February 2016;
- 'Galapagos starts SAPHIRA Phase 2 study with GLPG1837 in cystic fibrosis patients' dated 16 February 2016
- 'Galapagos receives transparency notification from Johnson & Johnson' dated 1 March 2016;
- 'Galapagos reports largest cash balance ever' dated 3 March 2016;
- 'Galapagos selected for BEL 20 Index' dated 7 March 2016;
- 'Galapagos doses first CF patient with G551D mutation in SAPHIRA 1 study' dated 16 March 2016;
- 'Galapagos increases share capital through warrant exercises' dated 1 April 2016;
- 'Galapagos initiates a Phase 2a study with GLPG1690 in idiopathic pulmonary fibrosis patients' dated 6 April 2016;
- 'Galapagos and MorphoSys initiate Phase 1 study in joint antibody program MOR106' dated 7 April 2016;
- 'Galapagos reports additional data with filgotinib from the Phase 2 FITZROY study' dated 21 April 2016;
- 'Galapagos kick-starts 2016 with Q1 cash position of €988 M' dated 28 April 2016 (attached as Appendix A);

- 'Galapagos and AbbVie expand their cystic fibrosis collaboration' dated 29 April 2016 (attached as Appendix B); and
- 'Galapagos starts Phase 1 study with potentiator GLPG2451 for CF ' dated 9 May 2016 (attached as Appendix C).

These documents, which have been filed with the FSMA, shall be incorporated in, and form part of, this Prospectus, save that any statement contained in the document which is incorporated by reference shall be modified or superseded for the purpose of the Prospectus to the extent that the statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute part of this Prospectus.

Copies of documents incorporated by reference in the Prospectus may be obtained (without charge) from the website of the Company (www.glpg.com) or from the registered office of the Company.

**Audited consolidated Annual Accounts 2015 (IFRS) (Annual Report 2015 – published on the website)**

| | |
|---|---|
| Consolidated income statement and statement of comprehensive income | Pages 79 – 80 |
| Consolidated statements of financial position | Pages 81 – 82 |
| Consolidated cash flow statements | Pages 83 – 84 |
| Consolidated statements of changes in equity | Page - 85 |
| Notes | Pages 86 – 134 |
| Report of the Statutory Auditor | Pages 138 - 139 |

**Audited non-consolidated financial statements 2015 (Annual Report 2015 – published on the website)**

| | |
|---|---|
| Statement of profit and loss | Page 135 |
| Balance sheet | Page 136 - 137 |

**Audited consolidated Annual Accounts 2014 (IFRS) (Annual Report 2014 – published on the website)**

| | |
|---|---|
| Consolidated income statement and statement of comprehensive income | Pages 50 – 51 |
| Consolidated statements of financial position | Pages 52 – 53 |
| Consolidated cash flow statements | Pages 54 – 55 |
| Consolidated statements of changes in equity | Page - 56 |
| Notes | Pages 60 – 111 |
| Report of the Statutory Auditor | Pages 112 - 113 |

**Audited non-consolidated financial statements 2014 (Annual Report 2014 – published on the website)**



**Audited consolidated Annual Accounts 2013 (IFRS) (Annual Report 2013 – published on the website)**



**Audited non-consolidated financial statements 2013 (Annual Report 2013 – published on the website)**

**Statutory Annual Accounts 2014 (Belgian GAAP) (as published on the website of the National Bank of Belgium)**

| | |
|---|---|
| Statutory balance sheet ("*Balans na winstverdeling*") | Pages 4 – 5 |
| Statutory income statement ("*Resultatenrekening*") | Pages 6 – 7 |
| Notes to the statutory financial statements ("*Toelichting bij de jaarrekening*") | Pages 9 – 38 |
| Annual report of the Board of Directors ("*Verslag van de raad van bestuur*") | Pages 40 – 94 |
| Statutory Auditor's report on the statutory annual accounts ("*Verslag van de commissaris over de jaarrekening*") | Pages 95 - 96 |

**Statutory Annual Accounts 2013 (Belgian GAAP) (as published on the website of the National Bank of Belgium)**

| | |
|---|---|
| Statutory balance sheet ("*Balans na winstverdeling*") | Pages 4 – 5 |
| Statutory income statement ("*Resultatenrekening*") | Pages 6 – 7 |
| Notes to the statutory financial statements ("*Toelichting bij de jaarrekening*") | Pages 9 – 38 |
| Annual report of the Board of Directors ("*Verslag van de raad van bestuur*") | Pages 39 – 55 |
| Statutory Auditor's report on the statutory annual accounts ("*Verslag van de commissaris over de jaarrekening*") | Pages 56 – 58 |

# Part VI: Selected Financial Information

You should read the following selected financial and operating data in conjunction with the consolidated financial statements and related notes beginning on page F-1 and the sections of this Prospectus titled Part VII: Operating and financial review. Galapagos derived the consolidated statements of operations data for the years ended 31 December 2014 and 2013 and statements of financial position data as of 31 December 2013 and 2014 from its audited consolidated financial statements included elsewhere in this Prospectus. Galapagos derived the consolidated statements of operations data for the years ended 31 December 2015 and statements of financial position data as of 31 December 2015 from its audited consolidated financial statements included elsewhere in this Prospectus. Galapagos' consolidated financial statements have been prepared in accordance with IFRS, as issued by the IASB. Galapagos' historical results are not necessarily indicative of the results to be expected in the future.

| **Consolidated statement of operations** | **Year Ended 31 December** | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| | **(Euro, in thousands)** | | |
| Revenues | € 39,563 | € 69,368 | € 76,625 |
| Other income | 21,017 | 20,653 | 19,947 |
| **Total revenues and other income** | **60,579** | **90,021** | **96,572** |
| Service cost of sales | | | |
| Research and development expenditure | (129,714) | (111,110) | (99,380) |
| General and administrative expenses | (19,127) | (13,875) | (12,353) |
| Sales and marketing expenses | (1,182) | (992) | (1,464) |
| Restructuring and integration costs | - | (669) | (290) |
| **Operating loss** | **(89,444)** | **(36,624)** | **(16,915)** |
| Fair value remeasurement of share subscription agreement | (30,632) | | |
| Other financial income | 1,987 | 2,291 | 2,182 |
| Other financial expenses | (1,539) | (867) | (1,402) |
| **Loss before tax** | **(119,627)** | **(35,201)** | **(16,135)** |
| Income taxes | 1,218 | (2,103) | (676) |
| **Net loss from continuing operations** | **(118,410)** | **(37,303)** | **(16,811)** |
| **Net income from discontinued operations** | **-** | **70,514** | **8,732** |
| **Net income / loss (-)** | **€ (118,410)** | **€ 33,211** | **€ (8,079)** |
| **Net income / loss (-) attributable to:** | | | |
| Owners of the parent | (118,410) | 33,211 | (8,079) |
| **Basic and diluted income / loss (-) per share** | **€ (3.32)** | **€ 1.10** | **€ (0.28)** |
| **Basic and diluted loss per share from continuing operations** | **€ (3.32)** | **€ (1.24)** | **€ (0.58)** |
| Weighted average number of shares (in '000 shares) | 35,700 | 30,108 | 28,787 |

**Condensed consolidated statement of financial position:**

| | 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| Cash and cash equivalents | € 340,314 | € 187,712 | € 138,175 |
| **Total Assets** | **442,514** | **270,467** | **287,374** |
| **Total Equity** | **364,999** | **206,135** | **167,137** |
| Total non-current liabilities | 5,103 | 3,976 | 7,678 |
| Total current liabilities | 72,412 | 60,356 | 112,559 |
| **Total Liabilities** | **77,515** | **64,332** | **120,237** |
| **Total Liabilities and Equity** | **€ 442,514** | **€ 270,467** | **€ 287,374** |

**Condensed Consolidated Statement of Cash Flows:**

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| **Cash and cash equivalents at beginning of the period** | **€ 187,712** | **€ 138,175** | **€ 94,369** |
| Net cash flows generated / used (-) in operating activities | (114,590) | (75,555) | 1,846 |
| Net cash flows generated / used (-) in investing activities | (4,297) | 120,606 | (11,988) |
| Net cash flows generated in financing activities | 271,370 | 4,214 | 54,495 |
| Effect of exchange rate differences on cash and cash equivalents | 118 | 271 | (548) |
| **Cash and cash equivalents at end of the period** | **€ 340,314** | **€ 187,712** | **€ 138,175** |

# Galapagos NV

## Statutory auditor's report to the shareholders' meeting on the consolidated financial statements for the year ended 31 December 2015

To the shareholders

As required by law, we report to you in the context of our appointment as the company's statutory auditor. This report includes our report on the consolidated financial statements together with our report on other legal and regulatory requirements. These consolidated financial statements comprise the consolidated statements of financial position as at 31 December 2015, the consolidated income statement and statement of comprehensive income, the consolidated cash flow statements and the consolidated statements of changes in equity for the year then ended, as well as the summary of significant accounting policies and other explanatory notes.

## Report on the consolidated financial statements – Unqualified opinion

We have audited the consolidated financial statements of Galapagos NV ("the company") and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium. The consolidated statement of financial position shows total assets of 442,514 (000) EUR and the consolidated income statement shows a consolidated loss for the year then ended of 118,410 (000) EUR.

*Board of directors' responsibility for the preparation of the consolidated financial statements*

The board of directors is responsible for the preparation and fair presentation of consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Statutory auditor's responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the group's preparation and fair presentation of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements. We have obtained from the group's officials and the board of directors the explanations and information necessary for performing our audit.

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

*Unqualified opinion*

In our opinion, the consolidated financial statements of Galapagos NV give a true and fair view of the group's net equity and financial position as of 31 December 2015, and of its results and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

## Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements.

As part of our mandate and in accordance with the Belgian standard complementary to the International Standards on Auditing applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we make the following additional statement, which does not modify the scope of our opinion on the consolidated financial statements:

- The directors' report on the consolidated financial statements includes the information required by law, is consistent with the consolidated financial statements and is free from material inconsistencies with the information that we became aware of during the performance of our mandate.

Diegem, 23 March 2016

**The statutory auditor**

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

# Part VII: Operating and financial review

*The following is a review of Galapagos' financial condition and results of operations as of and for the three years ended 31 December 2015, 2014 and 2013. This section should be read in conjunction with the Sections of this Prospectus titles Part VI "Selected financial information" and the Galapagos audited and audited financial statements and notes to those financial statements, included elsewhere in this Prospectus. The figures used in this section refer to financial statements which have been prepared in accordance with IFRS. Certain statements in this section are forward-looking and should be read in conjunction with Section 8 of Part IV on "Forward-looking statements".*

## 1 Overview

Galapagos is a clinical-stage biotechnology company specialized in the discovery and development of small molecule medicines with novel modes of action, addressing disease areas of high unmet medical need. Its lead programs include filgotinib, for which Galapagos' partner Gilead plans to start Phase 3 trials in RA and CD this year; GLPG1837, for which Galapagos started a Phase 2 program in February 2016 in certain mutations of cystic fibrosis; GLPG1690, for which a Phase 2a trial has been initiated for IPF; GLPG2222, for which it initiated a Phase 1 study in January 2016, GLPG1972, for which it initiated a Phase 1 first-in-human study in November 2015, ; MOR106, for which it initiated a Phase 1 study in April 2016 and a series of novel potentiators and correctors for cystic fibrosis in pre-clinical stages. In February 2012, the Company signed a collaboration agreement for filgotinib with Abbott (now AbbVie). In September 2015, AbbVie notified us of the termination of such collaboration agreement, following which, the Company regained all unencumbered rights to filgotinib. In December 2015, the Company entered into a global collaboration with Gilead for the development and commercialization of filgotinib for inflammatory indications. Galapagos' CF program is a joint research and development alliance with AbbVie. Its GLPG1972 osteoarthritis program is a joint research and development alliance with Servier. MOR106 is a joint research and development alliance with MorphoSys.

Galapagos devotes substantially all of its resources to its drug discovery efforts from target discovery through to clinical development. To date, it does not have any products approved for sale and has not generated any revenue from product sales. Galapagos sold its service division to Charles River Laboratories International, Inc., or Charles River, on 1 April 2014. As a result, the service division has been reported under discontinued operations, although certain entities of the service division were not sold and are therefore still reported under continuing operations.

To date, Galapagos funded its operations through public and private placements of equity securities, upfront and milestone payments received from pharmaceutical partners under its collaboration and alliance agreements, payments under its fee-for-service contracts, funding from governmental bodies, interest income as well as the net proceeds from the sale of its service division. From 1 January 2013 until 31 December 2015, the Company raised net proceeds of EUR 312.2 million from a private placement of ordinary shares in April 2013, as well as from a global offering of ordinary shares in May 2015, and it also received EUR 117.4 million in payments through its collaboration and alliance agreements. These are non-recurring items which have a significant impact upon the profitability or cash flow of Galapagos' business in each year in which they are received and earned. Fee-for-service payments and payments from governmental bodies contributed EUR 12.2 million and EUR 33.5 million, respectively. Over the same period, Galapagos also received EUR 3.4 million in interest payments. In April 2014, the sale of Galapagos' service division generated net proceeds of EUR 130.8 million. As of 31 December 2015, Galapagos had cash and cash equivalents of EUR 340.3 million.

For the year ended 31 December 2013, Galapagos incurred net losses of EUR 8.1 million. Due to the sale of the service division, Galapagos realized a net income of EUR 33.2 million for the year ended 31 December 2014. For the year ended 31 December 2015 Galapagos incurred a net loss of EUR 118.4 million. Excluding the impact of possible upfront and in-licensing payments it may receive from its collaborations, the Company forecasts to continue incurring losses as it continues to invest in its clinical and pre- clinical development programs and its discovery platform.

## 2 Collaboration and Alliance Agreements

The Company's main collaborations and alliance agreements are summarized below. All U.S. dollar payment amounts which have been received in cash regarding AbbVie collaboration in the Operating and financial review are converted into euros as per historical exchange rates (i.e., the spot rate at the moment of the transaction).

### 2.1 AbbVie Collaboration Agreement for CF

In September 2013, the Company entered into a global collaboration agreement with AbbVie focused on the discovery and worldwide development and commercialization of potentiator and corrector molecules for the treatment of CF. A detailed summary of this collaboration agreement is set forth in Section 14 of Part VIII "Material Contracts". The amounts mentioned below reflect the financial terms of the original collaboration agreement and do not take into account any amendments resulting from the discussions regarding this contract that were ongoing between the Company and AbbVie in April 2016.

Upon execution of the collaboration agreement, the Company received a one-time non-refundable, non-creditable upfront payment of USD 45.0 million (EUR 34.0 million), which has been fully recognized as of June 2015. In December 2014, it initiated a Phase 1 trial for GLPG1837 for which it received a milestone payment of USD 10.0 million (EUR 8.0 million). In November 2015, the Company initiated a Phase 1 trial for GLPG2222, for which it received a USD 10.0 million (EUR 8.0 million) advance milestone payment from AbbVie in January 2016. All payments by AbbVie to the Company are made in U.S. dollars.

Under the agreement, the Company is eligible to receive up to USD 340 million in total additional developmental, regulatory, and sales-based milestones. In addition, it will be eligible to receive tiered royalty percentages ranging from the mid-teens to twenty percent on net sales of licensed products payable on a product-by-product basis. In the event it exercises its co-promotion option with respect to a licensed product, it would assume a portion of the co-promotion effort in The Netherlands, Belgium, and Luxembourg and share in the net profit and net losses in these territories instead of receiving royalties in those territories during the period of co-promotion.

### 2.2 Gilead Collaboration Agreement for Filgotinib

In December 2015, the Company entered into the global Collaboration Agreement with Gilead to develop and commercialize filgotinib for the treatment of inflammatory indications. A detailed summary of the Collaboration Agreement is set forth in Section 14 of Part VIII "Material Contracts".

In connection with the entry into the Collaboration Agreement, the Company received in January 2016 an upfront payment of USD 725 million consisting of a one-time, non-refundable, non-creditable license fee in the amount of USD 300 million and a USD 425 million equity investment. This equity investment was effected on 19 January 2016 through the Capital Increase. All payments by Gilead to the Company under the Collaboration Agreement are made in U.S. dollars.

In addition, the Company will be eligible to receive to receive development and regulatory milestone-based payments of up to USD 755 million and sales-based milestone payments of up to USD 600 million. The Company will be eligible to receive tiered royalty percentages starting at 20% on global net sales of licensed products. The royalties payable to the Company under the Collaboration Agreement may be reduced under certain circumstances. The right to receive royalties under the Collaboration Agreement continues, on a country-by-country basis, until the later to occur of certain specified events. In the event the Company exercises its co-promotion option with respect to licensed products in one or more of the territories eligible for co-promotion, the Company would assume a portion of the co-promotion effort in The United Kingdom, Germany, France, Italy, Spain, The Netherlands, Belgium, and/or Luxembourg and share equally in the net profit and net losses in these territories instead of receiving royalties in those territories during the period of co-promotion.

Under the terms of the collaboration, Gilead is primarily responsible for development and for seeking regulatory approval of the licensed product. The parties agreed to share the costs related to the development of licensed products, with Gilead being responsible for 80% and the Company being responsible for 20% of such development costs. The Company is also required to use commercially reasonable efforts as requested by Gilead to assist Gilead with certain development activities.

The global partnership with Gilead foresees continuous involvement from the Company since the Company will perform certain development activities of the filgotinib program and therefore Management assesses that the upfront payment of $300 million or €276 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 connection with the agreement with Gilead, the Company 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. Reference is made to 4.1.7 for further detail. The deferred income will be recognized in function of the costs incurred for this program, applying the percentage of completion method, along with the upfront payment.

# 3 Financial Operations Overview

## 3.1 Revenue

Galapagos' revenues in its continuing operations to date have consisted principally of milestones, costs reimbursements, license fees, and upfront payments received in connection with its collaboration and alliance agreements. Additionally, Galapagos have generated revenue from its fee-for-service activities and various research and development, or R&D, incentives and grants.

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

Galapagos' recognition policies are as follows:

### 3.1.1 Upfront Payments

Non-refundable, upfront payments received in connection with research and development collaboration agreements are deferred and recognized over the relevant period of Galapagos' involvement. The payments and Galapagos' involvement relate to a contractually defined phase in the project. At inception, management estimates the period of Galapagos'

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, Galapagos reassesses the estimated time and cost to complete the project phase and adjust the time period over which the revenue is deferred accordingly.

**3.1.2** Milestone Payments

Research milestone payments are recognized as revenues when milestones are 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.

**3.1.3** Costs reimbursements

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

**3.1.4** License Fees

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.

**3.1.5** Royalties

Royalty revenues are recognized when Galapagos can reliably estimate such amounts and collectability is reasonably assured. As such, Galapagos generally recognizes royalty revenues in the period in which its licensees are reporting the royalties to Galapagos through royalty reports, that is, royalty revenues are generally recognized in arrears, i.e., after the period in which sales by Galapagos' licensees occurred. Under this accounting policy, the royalty revenues Galapagos reports are not based upon estimates and such royalty revenues are typically reported in the same period in which Galapagos receives payment from its licensees.

**3.1.6** Grants and R&D Incentives

Galapagos benefits 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 Galapagos' R&D 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 grant or R&D incentive is receivable. The main grants and R&D incentives are as follows:

- Companies in Belgium are eligible to receive R&D incentives linked to R&D investments (cash rebates equaling 33.99% of 13.5% of the investment value in 2015, 33.99% of 13.5% of the investment value in 2014, or 33.99% of 14.5% of the investment value in 2013). This R&D tax credit results in a cash inflow to us from the tax authorities five years after the investment was made and capitalized in the Company's standalone financial statements under Belgian GAAP for the portion that has not been used to offset the payment of corporate tax or is paid to the Company

for the portion that remains unused. The Company also received several grants from an agency of the Flemish government to support various research programs focused on technological innovation in Flanders. These grants carry clauses which require us to maintain a presence in the Flemish region for a number of years and invest according to pre-agreed budgets. Finally, the Company also benefits from certain rebates on payroll withholding taxes for scientific personnel.

- In France, Galapagos benefits from R&D incentives from the French Government for R&D activities whereby 30% of qualifying research and development expenses can be recuperated. This research tax credit (*credit d'impôt recherche*), results in a cash inflow to it from the tax authorities after three years, i.e., it is used to offset the payment of corporate tax or is paid to Galapagos for the portion that remains unused. Qualifying expenditures largely comprise employment costs for research staff, consumables, and certain overhead costs as well as capped outsourcing costs incurred as part of research and development projects.

## 3.2 R&D Expenditure

Expenses on R&D activities are recognized as an expense in the period in which the expense is incurred.

An internally-generated intangible asset arising from Galapagos' R&D activities would be recognized only when an asset is created that can be identified, it is probable that the asset created will generate future economic benefits, and the development cost of the asset can be measured reliably.

### 3.2.1 Galapagos' Funded R&D Expenditure

Galapagos' funded R&D expenditure consists of costs associated with its R&D activities such as:

- personnel costs associated with employing its team of R&D staff, including salaries, social security costs, and share-based compensation expenses;
- disposables and lab consumables used in the conduct of its in-house research programs;
- payments for research work conducted by sub-contractors and sponsorship of work by its network of academic collaborative research scientists;
- subcontracting costs paid to contracted research organizations, or CROs, for its pre-clinical studies or clinical trials, as well as costs associated with safety studies;
- premises costs associated with its laboratory and office space to accommodate its teams;
- depreciation of fixed assets used to develop its product candidates; and
- other operating expenses, namely software and licenses, maintenance costs for equipment, travel costs, and office expenses.

Galapagos expects to increase its investment in its funded R&D in the future as it seeks to advance its most promising pipeline product candidates through further clinical development.

### 3.2.2 Alliance R&D Expenditure

R&D expenditure under alliance represent costs incurred by Galapagos in conducting R&D plans under its collaborations and alliance agreements. Its expenses primarily relate to the following key programs:

- Development costs for the development of filgotinib in RA and CD (currently in collaboration with Gilead, previously with AbbVie): these costs relate to the Phase 2b trials and mainly consist of costs paid to CROs in conjunction with clinical trials, costs for production of the compound for clinical testing, and, to a smaller extent, personnel costs and consultancy costs.
- Costs for the CF collaboration with AbbVie: these costs are primarily composed of (1) personnel costs, (2) internal laboratory costs, and (3) costs incurred in carrying out Galapagos' pre-clinical toxicology, pharmacology, and both *in vitro* and *in vivo* pre-clinical models in the fields of CF.
- Other R&D programs: these expenses primarily consist of personnel costs, costs for production of the pre-clinical compounds, and costs paid to CROs in conjunction with pre-clinical studies and clinical trials.

Galapagos' R&D expenses under alliance are expected to increase as it advances its CF program and any other alliance product candidate into clinical trials.

Since 2013, Galapagos cumulatively have spent approximately €340.2 million on research and development activities which can be split as follows between the key programs:

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| RA program on filgotinib | € (30,998) | € (30,437) | € (25,919) |
| IBD program on filgotinib | (4,406) | (3,406) | (2,668) |
| IBD program on GLPG1205 | (5,769) | (6,020) | (4,318) |
| CF program with AbbVie | (25,634) | (14,894) | (2,468) |
| Pulmonary program on GLPG1690 | (4,612) | (4,592) | (2,425) |
| Other | (58,295) | (51,762) | (61,582) |
| **Total R&D expenditure** | **€ (129,714)** | **€ (111,110)** | **€ (99,380)** |

As illustrated above the research and development expenditures have shown a growth trend over the three years from €99.4 million for the year ended 31 December 2013 to €129.7 million for the year ended 31 December 2015. The increase is driven by the maturing pipeline of Galapagos' research and development projects. As progressively drug candidate compounds have been entering the clinic, costs for development of these molecules increased as well, specifically with regard to third-party CRO costs for conducting these clinical trials. Galapagos' program filgotinib for RA accounts for 26% of the cumulative spend over the last three years with a total cost of €87.4 million. Costs reported under other programs relate to investments in own funded discovery and development projects, and in its discovery platform, as well as costs related to other collaborations and alliance contracts.

In September 2015, AbbVie decided not to opt-in for the filgotinib program which ended the collaboration agreement with Galapagos but, since a new alliance was signed in December 2015 with Gilead for this program, costs were considered as being part of the alliance category for 2015.

### 3.3 General and Administrative Expenses

General and administrative expenses consist primarily of salaries and benefits related to Galapagos' executive, finance, business development, legal, intellectual property, and information technology support functions. Professional fees reported under general and administrative expenses mainly include legal fees, accounting fees, audit fees, and fees for taxation advisory. Other general and administrative operating expenses primarily encompass software and license costs, equipment maintenance and leasing costs, consultancy costs, insurance costs, office expenses, and travel costs.

Galapagos expects general and administrative expenses to increase as it continues to support its growth and as it operates as a U.S.-listed company. Such costs include increases in finance and legal personnel, additional external legal and audit fees, and expenses and costs associated with compliance with the regulations governing public companies. Galapagos also expects to incur increased costs for directors' and officers' liability insurance and an enhanced investor relations function.

### 3.4 Sales and Marketing Expenses

Sales and marketing expenses include costs associated with managing commercial activities and the costs of compliance with the day-to-day requirements of being a listed public company in Belgium, The Netherlands and the U.S.

- Headquarter costs related to investor relations and corporate communications in Belgium and The Netherlands.
- Sales and marketing department in Croatia as from 2013.

### 3.5 Interest Expense and Interest Income

Interest expense consists primarily of interest expense incurred on finance leases.

Interest income consists primarily of interest earned by investing the cash reserves in short-term, interest-bearing deposit accounts.

### 3.6 Taxation

Galapagos has a history of losses. Excluding the impact of possible upfront or milestone payments Galapagos may receive from its collaborations, Galapagos forecasts to continue incurring losses as it continues to invest in clinical and pre-clinical development programs and discovery platform. Consequently, Galapagos does not have any deferred tax asset on the balance sheet as at 31 December 2015, except for two subsidiaries operating on a cost plus basis for the group a deferred tax asset was set up for an amount of €1.7 million as of 31 December 2015.

As a company that carries out extensive R&D activities, Galapagos, as a Belgian company, benefits from the patent income deduction, or PID, tax incentive. The PID allows a deduction of 80% of qualifying gross patent income from the taxable basis, resulting in an effective tax rate of a maximum 6.8% on this income. This income will come from eligible patents, which are self-developed in Belgian or foreign research and development centers. Galapagos expects that the payments under the agreement with Gilead as well as other future license payments with regard to eligible patents such as milestone payments, upfront fees, turnover of patented products and royalties will benefit from this PID and hence will be taxed at this favorable rate.

The current Belgian PID regime however will be altered pursuant to the Organization for Economic Co-operation and Development Base Erosion and Profit Shifting project. This new Belgian PID regime is estimated to be implemented, at the latest, as of 30 June 2016.

The currently existing PID regime applies, as per the current draft of the new PID regime, until and including the financial year 2020. All payments recognized until such financial year will therefore benefit from the current regime while the payments recognized thereafter should fall under the new regime.

## 3.7 Operating Segments

Following the sale of the service division on 1 April 2014, the continuing operations related primarily to research and development activities. Consequently, in 2014, Galapagos only had one reportable segment.

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

Financial information related to the Galapagos' two operating segments and geographical information is contained in the note "4. Segment information" of the attached annual report.

(i) Geographical information

Following table summarizes Galapagos' revenues by major customers:

| | Year Ended 31 December, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2013 | |
| | (Euro, in thousands) | % | (Euro, in thousands) | % | (Euro, in thousands) | % |
| Abbvie | 29,870 | 75.5% | 54,092 | 78.0% | 51,751 | 67.5% |
| Europe | 13,640 | 34.5% | 24,054 | 34.7% | 6,800 | 8.9% |
| United States | 16,229 | 41.0% | 30,038 | 43.3% | 44,951 | 58.7% |
| Janssen Pharmaceutica | 566 | 1.4% | 8,662 | 12.5% | 9,082 | 11.9% |
| Europe | 112 | 0.3% | 8,662 | 12.5% | 9,082 | 11.9% |
| United States | 454 | 1.1% | | | | |
| Les Laboratoires Servier | 3,835 | 9.7% | 2,095 | 3.0% | 10,593 | 13.8% |
| Europe | 3,835 | 9.7% | 2,095 | 3.0% | 10,593 | 13.8% |
| **Total revenues** | **34,271** | **86.6%** | **64,849** | **93.5%** | **71,426** | **93.2%** |

## 3.8 Critical Accounting Policies and Estimates

In the application of Galapagos' accounting policies, Galapagos is 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.

Galapagos' 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 Galapagos' critical judgments and estimates that it has made in the process of applying its accounting policies and that have the most significant effect on the amounts recognized in Galapagos' consolidated financial statements presented elsewhere in this Prospectus.

**Critical judgments in applying accounting policies**

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

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

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

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

**Revenue Recognition**

Evaluating the criteria for revenue recognition with respect to the Group's 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 the Group's revenue-generating transactions have been subject to such evaluation by management.

**Critical Accounting Estimates**

**Fair value re-measurement of the Gilead share subscription agreement (derivative financial asset instrument) (in thousands of €):**

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

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

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

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

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

This computation is based on the following unobservable assumptions:

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

Relationship of unobservable inputs to the fair value measurement:

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

**Recognition of Clinical Trial Expenses**

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

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

**Share-based Payments Plans**

Galapagos determines the costs of the share-based payments plans (i.e., Galapagos' warrant plans) on the basis of the fair value of the equity instrument at grant date. Determining the fair value assumes choosing the most suitable valuation model for these equity instruments, by which the characteristics of the grant have a decisive influence. This assumes also the input into the valuation model of some relevant judgments, like the estimated useful life of the warrant and the volatility.

**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.

**Corporate Income Taxes**

Significant judgment is required in determining the use of tax loss carry forwards. Galapagos recognizes deferred tax assets arising from unused tax losses or tax credits only to the extent that Galapagos has 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 by Galapagos. Management's judgment is that such convincing evidence is currently not sufficiently available and a deferred tax asset is therefore not yet recognized, except for two subsidiaries operating on a cost plus basis for the group a deferred tax asset was set up for an amount of €1.7 million as of 31 December 2015.

As of 31 December 2015, Galapagos had a total of approximately €265 million of tax losses carried forward which may be partially offset by future taxable profits for an indefinite period, except for an amount of approximately €17 million in Switzerland, Croatia, the United States and The Netherlands with expiry dates between 2018 and 2030. As of 31 December 2015, the available tax losses carried forward in Belgium amounted to €184 million.

**Long-term Management Bonus Liability**

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 Company's share price change relative to the Next Biotech Index (which tracks Galapagos' peers). The Company's share price and the Next Biotech Index at the start and end of the three-year period is calculated by the average price over the preceding and last month of the three-year period, respectively.

- If the Company's 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 Company's 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 Company's share price change is more than 10% worse than the change in the Next Biotech Index, the deferred bonus will be forfeited.

Since the bonus is calculated by reference to the Company's share price, it is accounted for as a cash-settled share-based payment under IFRS 2. The liability incurred is measured at the fair value of the liability. Until the liability is settled, the fair value of the liability is re-measured at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period. Management judgment is required in determining the fair value.

# 4 Operating Results

## 4.1 Comparison of Years Ended 31 December 2015 and 2014

The following table summarizes the results of Galapagos' operations for the years ended 31 December 2015 and 2014, together with the changes to those items.

| | Year Ended 31 December, | | |
|---|---|---|---|
| | **2015** | **2014** | **% Change** |
| | **(Euro, in thousands, except share and per share data)** | | |
| Revenues | € 39,563 | € 69,368 | (43%) |
| Other income | 21,017 | 20,653 | 2% |
| **Total revenues and other income** | **60,579** | **90,021** | **(33%)** |
| Research and development expenditure | (129,714) | (111,110) | 17% |
| General and administrative expenses | (19,127) | (13,875) | 38% |
| Sales and marketing expenses | (1,182) | (992) | 19% |
| Restructuring and integration costs | - | (669) | (100%) |
| **Operating loss** | **(89,444)** | **(36,624)** | **144%** |
| Fair value remeasurement of share subscription agreement | (30,632) | | |
| Other financial income | 1,987 | 2,291 | (13%) |
| Other financial expenses | (1,539) | (867) | 78% |
| **Loss before tax** | **(119,627)** | **(35,201)** | **240%** |
| Income taxes | 1,218 | (2,103) | (158%) |
| **Net loss from continuing operations** | **(118,410)** | **(37,303)** | **217%** |
| **Net income from discontinued operations** | **-** | **70,514** | |
| **Net income / loss (-)** | **€ (118,410)** | **€ 33,211** | |
| **Net income / loss (-) attributable to:** | | | |
| Owners of the parent | (118,410) | 33,211 | |
| **Basic income / loss (-) per share** | **€ (3.32)** | **€ 1.10** | |
| **Diluted income / loss (-) per share** | **€ (3.32)** | **€ 1.10** | |
| **Basic and diluted loss per share from continuing operations** | **€ (3.32)** | **€ (1.24)** | |
| Weighted average number of shares (in '000 shares) | 35,700 | 30,108 | |

### 4.1.1 Revenues

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | % Change |
| | (Euro, in thousands) | | |
| Recognition of non-refundable upfront payments | € 26,419 | € 45,838 | (42%) |
| Milestone payments | 7,643 | 19,768 | (61%) |
| Other revenues | 5,501 | 3,762 | 46% |
| **Total revenues** | **€ 39,563** | **€ 69,368** | **(43%)** |

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

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

At inception and as of 31 December 2012, the period of involvement was estimated at 30 months starting in March 2012. As from April 2013 and as of 31 December 2013, Galapagos changed the estimate of its period of involvement to 34 months due to delays that occurred in clinical trials and changed its recognition of the remaining unrecognized upfront payments accordingly. As of 30 June 2014 and 31 December 2014, it changed the estimate of its period of involvement from 34 months to 39 months and 40 months, respectively, due to additional delays and changed its recognition of the remaining unrecognized upfront payments accordingly. As of 30 June 2015, Galapagos changed its estimate of its period of involvement from 40 months to 42 months, due to additional delays and changed its recognition of remaining unrecognized upfront payments accordingly. In September 2015 AbbVie decided not to opt-in, which ended the collaboration and subsequently the period of Galapagos' involvement. This change in estimate, i.e. reassessment of amortization period of up-front, will not affect future periods as the upfront has been fully recognized in revenues at the end of August 2015. After the termination of the collaboration with AbbVie, some invoices from Galapagos to AbbVie were waived for an immaterial amount as part of the transition process. There are no outstanding commitments related to this collaboration.

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

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

**4.1.2** Other Income

The following table summarizes Galapagos' other income for the years ended 31 December 2015 and 2014, together with the changes to those items.

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | % Change |
| | (Euro, in thousands) | | |
| Grant income | € 3,095 | € 5,646 | (45%) |
| Other income | 17,922 | 15,008 | 19% |
| **Total Other income** | **€ 21,017** | **€ 20,653** | **2%** |

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

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

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

Other income was primarily composed of:

- Income from an innovation incentive system of the French government, which represented €8.7 million of other income for the year ended 31 December 2015 compared to €7.8 million for the year ended 31 December 2014
- Income from Belgian R&D incentives with regard to incurred R&D expenses, which represented €5.3 million of other income for the year ended 31 December 2015 compared to €4.3 million for the year ended 31 December 2014. The Belgian R&D incentives are based on costs already incurred. Reference is made to the Financial Operations Overview, paragraph 3.1.6 "Grants and R&D Incentives". Those costs are capitalized under Belgian GAAP with a fiscal depreciation of five years and the related R&D incentive will be received in cash only five fiscal years after the costs were incurred in the statutory income statement. For instance, costs made in 2015 will be capitalized in the statutory books and depreciated from mid-2015 to mid-2020. An R&D incentive is then calculated based on a certain percentage of those costs, and will be received in cash for 1/6 of the amount in 2021, 2/6 of the amount in 2022 etc. until 2025.
- Tax rebates on payroll withholding taxes of R&D personnel in Belgium and The Netherlands, representing €3.0 million of other income for the year ended 31 December 2015 compared to €2.4 million for the year ended 31 December 2014

**4.1.3** Research and Development Expenditure

The following table summarizes Galapagos' research and development expenditure for the years ended 31 December 2015 and 2014, together with the changes to those items.

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | % Change |
| | (Euro, in thousands) | | |
| Personnel costs | € (35,875) | € (31,038) | 16% |
| Subcontracting | (65,883) | (54,293) | 21% |
| Disposables and lab fees and premises costs | (18,696) | (16,830) | 11% |
| Other operating expenses | (9,260) | (8,949) | 3% |
| **Total research and development expenditure** | **€ (129,714)** | **€ (111,110)** | **17%** |

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

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

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | % Change |
| | (Euro, in thousands) | | |
| R&D under alliance | € (80,832) | € (76,297) | 6% |
| Galapagos funded R&D | (48,882) | (34,813) | 40% |
| **Total R&D expenditure** | **€ (129,714)** | **€ (111,110)** | **17%** |

Galapagos tracks all research and development expenditures against detailed budgets and allocated them by individual project. The table below summarizes Galapagos' research and development expenditure for the years ended 31 December 2015 and 2014, broken down by program.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | % Change |
| | (Euro, in thousands) | | |
| RA program on filgotinib | € (30,998) | € (30,437) | 2% |
| IBD program on filgotinib | (4,406) | (3,406) | 29% |
| IBD program on GLPG1205 | (5,769) | (6,020) | (4%) |
| CF program with AbbVie | (25,634) | (14,894) | 72% |
| Pulmonary program on GLPG1690 | (4,612) | (4,592) | 0% |
| Other | (58,295) | (51,762) | 13% |
| **Total R&D expenditure** | **€ (129,714)** | **€ (111,110)** | **17%** |

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

In September 2015, AbbVie decided not to opt-in for the filgotinib program which ended the collaboration agreement with Galapagos but, since a new alliance was signed in December 2015 with Gilead for this program, costs were considered as being part of the alliance category for 2015.

**4.1.4** General and Administrative Expenses

The following table summarizes Galapagos' general and administrative expenses for the years ended 31 December 2015 and 2014, together with the changes to those items.

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | % Change |
| | (Euro, in thousands) | | |
| Personnel costs and directors fees | € (12,739) | € (8,087) | 58% |
| Other operating expenses | (6,388) | (5,788) | 10% |
| **Total general and administrative expenses** | **€ (19,127)** | **€ (13,875)** | **38%** |

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

**4.1.5** Sales and Marketing Expenses

The following table summarizes Galapagos' sales and marketing expenses for the years ended 31 December 2015 and 2014, together with the changes to those items.

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | % Change |
| | (Euro, in thousands) | | |
| Personnel costs | € (785) | € (579) | 36% |
| Other operating expenses | (397) | (412) | (4%) |
| **Total sales and marketing expenses** | **€ (1,182)** | **€ (992)** | **19%** |

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

**4.1.6** Restructuring and Integration Costs

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

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

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

**4.1.8** Other financial income and expense

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

| | Year Ended 31 December | | |
|---|---|---|---|
| | 2015 | 2014 | % Change |
| | (Euro, in thousands) | | |
| **Other financial income:** | | | |
| Interest on bank deposit | € 1,246 | € 1,155 | 8% |
| Effect of discounting long term R&D incentives receivables | 99 | 920 | (89%) |
| Currency exchange gain | 636 | 198 | 221% |
| Other finance income | 7 | 17 | (59%) |
| **Total other financial income** | **1,987** | **2,291** | **(13%)** |
| **Other financial expenses:** | | | |
| Interest expenses | (46) | (110) | (58%) |
| Currency exchange loss | (1,310) | (652) | 101% |
| Other finance charges | (182) | (105) | 73% |
| **Total other financial expense** | **(1,539)** | **(867)** | **77%** |
| **Total other net financial income** | **€ 448** | **€ 1,424** | **(69%)** |

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

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

**4.1.9** Tax

The following table summarizes Galapagos' tax result for the years ended 31 December 2015 and 2014.

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

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

Current tax recorded in 2014 for an amount of €2.4 million related to a tax provision for subsidiaries operating under cost plus transfer pricing arrangements, triggered by a tax audit. A dispute is currently ongoing with the French Tax Administration on the transfer pricing principles applied between the French entity and the mother company, and to a smaller extent on part of the calculation of the French R&D tax incentive. The French entity was subject to a tax audit on fiscal years 2008 to 2011. The French tax authorities requested a tax adjustment amounting to €1.9 million in cash and a decrease of the tax losses carried forward of the French entity for €19.5 million. A liability has been booked in 2014 considering this claim and the potential risk, partly under current tax liability and partly as a decrease of the R&D incentives receivables in the balance sheet for €0.6 million.

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

**4.1.10** Result from Discontinued Operations

The following table summarizes the results from discontinued operations for the years ended 31 December 2015 and 2014.

| | Year Ended 31 December, | |
|---|---|---|
| | 2015 | 2014 |
| | (thousands of €, except share and per share data) | |
| Service revenues | | 17,502 |
| Other income | | 669 |
| **Total revenues and other income** | | **18,171** |
| Services cost of sales | | (11,283) |
| General and administrative expenses | | (3,772) |
| Sales and marketing expenses | | (255) |
| Restructuring and integration costs | | (38) |
| Gain on sale of service division | | 67,508 |
| **Operating income** | | **70,331** |
| Finance result | | 417 |
| **Income before tax** | | **70,748** |
| Income Taxes | | (234) |
| **Net income from discontinued operations** | | **70,514** |
| **Basic and diluted income per share from discontinued operations** | | **2.34** |
| Weighted average number of shares (in thousands of shares) | | 30,108 |

The service division was sold on 1 April 2014. The above table illustrates the results of the discontinued operations included in the consolidated results of operations for the years ended 31 December 2015 and 2014.

For the year ended 31 December 2014, results only relate to the period from 1 January 2014 through the disposal on 1 April 2014. Net income amounting to €70.5 million in 2014 was mainly driven by the €67.5 million gain on disposal of the service division.

## 4.2 Comparison of Years Ended 31 December 2014 and 2013

The following table summarizes the results of Galapagos' operations for the years ended 31 December 2014 and 2013, together with the changes to those items.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | % Change |
| | (Euro, in thousands, except share and per share data) | | |
| Revenues | € 69,368 | € 76,625 | (9%) |
| Other income | 20,653 | 19,947 | 4% |
| **Total revenues and other income** | **90,021** | **96,572** | **(7%)** |
| Research and development expenditure | (111,110) | (99,380) | 12% |
| General and administrative expenses | (13,875) | (12,353) | 12% |
| Sales and marketing expenses | (992) | (1,464) | (32%) |
| Restructuring and integration costs | (669) | (290) | 131% |
| **Operating loss** | **(36,624)** | **(16,915)** | **117%** |
| Fair value remeasurement of share subscription agreement | | | |
| Other financial income | 2,291 | 2,182 | 5% |
| Other financial expenses | (867) | (1,402) | (38%) |
| **Loss before tax** | **(35,201)** | **(16,135)** | **118%** |
| Income taxes | (2,103) | (676) | 211% |
| **Net loss from continuing operations** | **(37,303)** | **(16,811)** | **122%** |
| **Net income from discontinued operations** | **70,514** | **8,732** | |
| **Net income / loss (-)** | **€ 33,211** | **€ (8,079)** | |
| **Net income / loss (-) attributable to:** | | | |
| Owners of the parent | 33,211 | (8,079) | |
| **Basic income / loss (-) per share** | **€ 1.10** | **€ (0.28)** | |
| **Diluted income / loss (-) per share** | **€ 1.10** | **€ (0.28)** | |
| **Basic and diluted loss per share from continuing operations** | **€ (1.24)** | **€ (0.58)** | |
| Weighted average number of shares (in '000 shares) | 30,108 | 28,787 | |

### 4.2.1 Revenues

The following table summarizes Galapagos' revenues for the years ended 31 December 2014 and 2013, together with the changes to those items.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | % Change |
| | (Euro, in thousands) | | |
| Recognition of non-refundable upfront payments | € 45,838 | € 51,751 | (11%) |
| Milestone payments | 19,768 | 20,488 | (4%) |
| Other revenues | 3,762 | 4,387 | (14%) |
| **Total Revenues** | **€ 69,368** | **€ 76,625** | **(9%)** |

Total revenue decreased by €7.3 million, or 9%, to €69.4 million for the year ended 31 December 2014, from €76.6 million for the year ended 31 December 2013. This decrease was mainly driven by lower recognition of non-refundable upfront payments, as explained below.

Upfront payments predominantly relate to the Company's collaboration agreements with AbbVie for RA, CD and CF.

Under the AbbVie RA and CD collaboration agreement, Galapagos received one-time, non-refundable, non-creditable upfront payments in the amount of $150 million (€111.6 million) in March 2012 and $20 million (€15.6 million) in connection with the first amendment to the collaboration agreement in May 2013. At inception and as of 31 December 2012, the period of involvement was estimated at 30 months starting in March 2012. As from April 2013 and as of 31 December 2013, Galapagos changed the estimate of its period of involvement to 34 months due to delays that occurred in clinical trials and changed its recognition of the remaining unrecognized upfront payments accordingly. As of 30 June 2014 and 31 December 2014, Galapagos changed the estimate of its period of involvement from 34 months to 39 months and 40 months, respectively, due to additional delays and changed its recognition of the remaining unrecognized upfront payments accordingly.

Under the AbbVie CF collaboration program, Galapagos received a one-time non-refundable, non-creditable upfront payment of $45.0 million (€34.0 million) in October 2013. Upfront revenue is recognized over the period of Galapagos' involvement, which is estimated to last until the end of 2015.

As such, amounts of €51.8 million and €45.8 million were recognized as upfront revenue for the years ended 31 December 2013 and 2014, respectively.

Milestone revenues decreased by €0.7 million, or 4%, to €19.8 million for the year ended 31 December 2014 compared to €20.5 million for the year ended 31 December 2013. This decrease was primarily related to fewer milestones achieved in 2014 compared to 2013 as a result of the maturing pipeline of Galapagos' projects under alliance. For the year ended 31 December 2014, $10 million of milestones (€8.3 million) were recognized in relation with the CF collaboration agreement with AbbVie. Further milestone payments of €11.5 million in 2014 primarily related to partnered programs with Janssen Pharmaceutica; Les Laboratoires Servier, or Servier; and GlaxoSmithKline, or GSK. For the year ended 31 December 2013, €20.5 million of milestones primarily related to partnered programs with Janssen Pharmaceutica, Servier and GSK.

Other revenues decreased by €0.6 million, or 14%, to €3.8 million for the year ended 31 December 2014 compared to €4.4 million for the year ended 31 December 2013, principally due to lower revenues from fee-for-service activities.

**4.2.2** Other Income

The following table summarizes Galapagos' other income for the years ended 31 December 2014 and 2013, together with the changes to those items.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | % Change |
| | (Euro, in thousands) | | |
| Grant income | € 5,646 | € 5,054 | 12% |
| Other income | 15,008 | 14,893 | 1% |
| **Total Other income** | **€ 20,653** | **€ 19,947** | **4%** |

Total other income was composed of grant income and other income and increased by €0.7 million, or 4%, from €19.9 million for the year ended 31 December 2013 to €20.7 million for the year ended 31 December 2014.

The increase in total other income was primarily attributed to increased grant income, which increased by €0.6 million, or 12%, from €5.1 million for the year ended 31 December 2013 to €5.6 million for the year ended 31 December 2014. The majority of this grant income was related to grants from a Flemish agency, representing approximately 90% of all reported grant income in both years.

Other income increased slightly by €0.1 million, or 1%, from €14.9 million for the year ended 31 December 2013 to €15.0 million for the year ended 31 December 2014. Other income was primarily composed of:

- Income from an innovation incentive system of the French government, which represented €7.8 million of other income for the year ended 31 December 2014 compared to €8.1 million for the year ended 31 December 2013.
- Income from Belgian R&D incentives with regard to incurred R&D expenses, which represented €4.3 million of other income for the year ended 31 December 2014 compared to €4.1 million for the year ended 31 December 2013.
- Tax rebates on payroll withholding taxes of R&D personnel in Belgium and The Netherlands, representing €2.4 million of other income for the year ended 31 December 2014 compared to €2.2 million for the year ended 31 December 2013.

**4.2.3** Research and Development Expenditure

The following table summarizes Galapagos' R&D expenditure for the years ended 31 December 2014 and 2013, together with the changes to those items.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | % Change |
| | (Euro, in thousands) | | |
| Personnel costs | € (31,038) | € (29,385) | 6% |
| Subcontracting | (54,293) | (44,760) | 21% |
| Disposables and lab fees and premises costs | (16,830) | (15,840) | 6% |
| Other operating expenses | (8,949) | (9,395) | (5%) |
| **Total research and development expenditure** | **€ (111,110)** | **€ (99,380)** | **12%** |

R&D expenditure increased by €11.7 million, or 12%, to €111.1 million for the year ended 31 December 2014, from €99.4 million for the year ended 31 December 2013. This increase was principally due to:

- Increased R&D personnel costs of €1.7 million, or 6%, from €29.4 million for the year ended 31 December 2013 to €31.0 million for the year ended 31 December 2014, which was explained by an enlarged workforce, principally on the Belgian site (Mechelen). This was driven to a large extent by the new CF alliance with AbbVie (signed in September 2013), and to a smaller extent by the development project portfolio, predominantly the filgotinib project for RA and CD.
- Increased subcontracting costs of €9.5 million, or 21%, from €44.8 million for the year ended 31 December 2013 to €54.3 million for the year ended 31 December 2014. This cost increase was mainly driven by increased subcontracting costs of €5.7 million for the RA and CD collaboration with

AbbVie, reflecting the progress of the filgotinib program. To a lesser extent subcontracting costs increased by €2.9 million for the CF collaboration with AbbVie.

- Intensified use of lab consumables was the main driver of the increase in disposables, lab fees and premises costs of €1.0 million, or 6%, from €15.8 million for the year ended 31 December 2013 to €16.8 million for the year ended 31 December 2014.
- Other operating expenses slightly decreased by €0.4 million, or 5%, from €9.4 million for the year ended 31 December 2013 to €8.9 million for the year ended 31 December 2014.

The table below summarizes Galapagos' research and development expenditure for the years ended 31 December 2014 and 2013, broken down by research and development expenses under alliance and own funded research and development expenses, together with the changes to those items.

| | Year Ended December 31, | | % Change |
|---|---|---|---|
| | 2014 | 2013 | |
| | (Euro, in thousands) | | |
| R&D under alliance | € (76,297) | € (72,783) | 5% |
| Galapagos funded R&D | (34,813) | (26,597) | 31% |
| **Total R&D expenditure** | **€ (111,110)** | **€ (99,380)** | **12%** |

Galapagos tracks all R&D expenditures against detailed budgets and allocated them by individual project. The table below summarizes Galapagos' R&D expenditure for the years ended 31 December 2014 and 2013, broken down by program, together with the changes to those items.

| | Year Ended December 31, | | % Change |
|---|---|---|---|
| | 2014 | 2013 | |
| | (Euro, in thousands) | | |
| RA program on filgotinib | € (30,437) | € (25,919) | 17% |
| IBD program on filgotinib | (3,406) | (2,668) | 28% |
| IBD program on GLPG1205 | (6,020) | (4,318) | 39% |
| CF program with AbbVie | (14,894) | (2,468) | 504% |
| Pulmonary program on GLPG1690 | (4,592) | (2,425) | 89% |
| Other | (51,762) | (61,582) | (16%) |
| **Total R&D expenditure** | **€ (111,110)** | **€ (99,380)** | **12%** |

R&D expenditure under alliance increased by €3.5 million, or 5%, from €72.8 million for the year ended 31 December 2013 to €76.3 million for the year ended 31 December 2014, primarily due to increased spending on the new CF program with AbbVie, which represented €14.9 million for the year ended 31 December 2014 compared to €2.5 million for the year ended 31 December 2013. To a lesser extent, R&D expenditure increased with regard to the RA and CD collaboration with AbbVie for filgotinib by €5.3 million, from €28.6 million for the year ended 31 December 2013 to €33.8 million for the year ended 31 December 2014. The movements above were partially offset by a decrease in other alliance costs, which explains the increase of the R&D costs under alliance by only 5%, or €3.5 million. Galapagos also increased its investments in its own funded portfolio by €8.2 million, or 31%, from €26.6

million for the year ended 31 December 2013 to €34.8 million for the year ended 31 December 2014.

**4.2.4** General and Administrative Expenses

The following table summarizes Galapagos' general and administrative expenses for the years ended 31 December 2014 and 2013, together with the changes to those items.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | % Change |
| | (Euro, in thousands) | | |
| Personnel costs and directors fees | € (8,087) | € (7,156) | 13% |
| Other operating expenses | (5,788) | (5,197) | 11% |
| **Total general and administrative expenses** | **€ (13,875)** | **€ (12,353)** | **12%** |

General and administrative expenses amounted to €12.4 million for the year ended 31 December 2013 and increased by €1.5 million, or 12%, to €13.9 million for the year ended 31 December 2014. This increase was principally due to personnel costs, which increased by €0.9 million, or 13%, from €7.2 million for the year ended 31 December 2013 to €8.1 million for the year ended 31 December 2014, resulting from various effects, such as increased costs of share-based payments plans (warrant plans) and change in classification between R&D and general and administrative expenditure for some management functions. In addition, other operating expenses increased by €0.6 million, or 11%, from €5.2 million for the year ended 31 December 2013 to €5.8 million for the year ended 31 December 2014, mainly due to higher professional fees.

**4.2.5** Sales and Marketing Expenses

The following table summarizes Galapagos' sales and marketing expenses for the years ended 31 December 2014 and 2013, together with the changes to those items.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | % Change |
| | (Euro, in thousands) | | |
| Personnel costs | € (579) | € (994) | (42%) |
| Other operating expenses | € (412) | (470) | (12%) |
| **Total sales and marketing expenses** | **€ (992)** | **€ (1,464)** | **(32%)** |

Sales and marketing expenses decreased by €0.5 million, or 32%, from €1.5 million for the year ended 31 December 2013 to €1.0 million for the year ended 31 December 2014.

**4.2.6** Restructuring and Integration Costs

The restructuring and integration costs amounted to €0.7 million for the year ended 31 December 2014 and to €0.3 million for the year ended 31 December 2013 and were entirely related to workforce reductions within certain of the R&D operations.

**4.2.7** Other financial Income and Expense

The following table summarizes Galapagos' other financial income and expense for the years ended 31 December 2014 and 2013, together with the changes to those items.

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2014 | 2013 | % Change |
| | (Euro, in thousands) | | |
| **Other financial income:** | | | |
| Interest on bank deposit | € 1,155 | € 1,179 | (2%) |
| Effect of discounting long term R&D incentives receivables | 920 | 409 | 125% |
| Currency exchange gain | 198 | 590 | (66%) |
| Other finance income | 17 | 4 | 325% |
| **Total other financial income** | **2,291** | **2,182** | **5%** |
| **Other financial expenses:** | | | |
| Interest expenses | (110) | (156) | (30%) |
| Currency exchange loss | (652) | (1,130) | (42%) |
| Other finance charges | (105) | (116) | (9%) |
| **Total other financial expense** | **(867)** | **(1,402)** | **(38%)** |
| **Total other net financial income** | **€ 1,424** | **€ 780** | **83%** |

Other financial income increased slightly by €0.1 million, or 5%, from €2.2 million for the year ended 31 December 2013 to €2.3 million for the year ended 31 December 2014.

Other financial expenses decreased by €0.5 million, or 38% from €1.4 million for the year ended 31 December 2013 to €0.9 million for the year ended 31 December 2014, primarily reflecting lower exchange rate losses arising from U.S. dollars. Interest expenses related to interests paid on financial lease.

**4.2.8** Tax

The following table summarizes Galapagos' tax result for the years ended 31 December 2014 and 2013.

| | Year Ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (Euro, in thousands) | |
| Current tax | € (2,396) | € - |
| Deferred tax | 293 | (676) |
| **Total taxes** | **€ (2,103)** | **€ (676)** |

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

A dispute is currently ongoing with the French Tax Administration on the transfer pricing principles applied between the French entity and the mother company, and to a smaller extent on part of the calculation of the French R&D tax incentive. The French entity was subject to a tax audit on fiscal years 2008 to 2011. The French tax authorities requested a tax adjustment amounting to €1.9 million in cash and a decrease of the tax losses carried forward of the French entity for €19.5 million. A provision has been booked in 2014 considering this claim and the potential risk, partly under current tax liability and partly as a decrease of the R&D incentives receivables in the balance sheet for €0.6 million.

Deferred tax recorded in 2014 for an amount of €0.3 million relates to one subsidiary operating on a cost plus basis for the group.

Deferred tax charges representing €0.7 million for the year ended 31 December 2013 related to the reversal of a deferred tax asset on tax losses carried forward in Croatia. Due to a revised business strategy of the subsidiary in 2013 (transition towards service company), the company

would no longer be in a taxable position or even be profitable in the foreseeable future, which explained the reversal of the deferred tax asset.

#### 4.2.9 Results from Discontinued Operations

The following table summarizes Galapagos' results from discontinued operations for the years ended 31 December 2014 and 2013.

| | Year Ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (Euro, in thousands, except share and per share data) | |
| Service revenues | € 17,502 | € 61,074 |
| Other income | 669 | 1,902 |
| **Total revenues and other income** | **18,171** | **62,976** |
| Services cost of sales | (11,283) | (41,297) |
| General and administrative expenses | (3,772) | (14,077) |
| Sales and marketing expenses | (255) | (948) |
| Restructuring and integration costs | (38) | (760) |
| Loss on divestment | - | - |
| Gain on sale of service division | 67,508 | - |
| **Operating income** | **70,331** | **5,895** |
| Finance income / expense (-) | 417 | (954) |
| **Income before tax** | **70,748** | **4,941** |
| Income taxes | (234) | 3,791 |
| **Net income from discontinued operations** | **€ 70,514** | **€ 8,732** |
| **Basic and diluted income per share from discontinued operations** | **€ 2.34** | **€ 0.30** |
| Weighted average number of shares (in '000 shares) | 30,108 | 28,787 |

The service division was sold on 1 April 2014. The above table illustrates the results of the discontinued operations included in Galapagos' consolidated results of operations for the years ended 31 December 2014 and 2013. For the year ended 31 December 2014, results only relate to the period from 1 January 2014 through the disposal on 1 April 2014.

Service revenues amounted to €17.5 million in the first quarter of 2014 which showed a strong increase compared to the revenue trend in 2013. Other income reported in 2014 represented income from R&D incentives related to one quarter of activity. Services cost of sales, general and administrative expenses and sales and marketing expenses showed a slight increase compared to the trend of the operating costs in 2013, following the growth of the service division.

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

## 4.3 Off-Balance Sheet Arrangements

#### 4.3.1 Contingent liabilities and assets

On 13 March 2014, Galapagos announced the signing of a definitive agreement to sell the service division operations to Charles River Laboratories International, Inc. (the "Buyer") for a total consideration of up to €134 million. Charles River agreed to pay us an immediate cash consideration of €129 million. The potential earn-out of €5 million due upon achievement of a revenue target 12 months after transaction closing has not been obtained. Approximately

5% of the total consideration, including price adjustments, is being held on an escrow account. To date, four claims have been made by the Buyer, of which three claims have been settled for a total amount of €1.0 million. One claim is still being investigated. An amount of €0.3 million has been accrued in March 2015 based on a preliminary estimate of the exposure. The release of the escrow account will be possible after final agreement between the parties on the amounts at stake. Following the divestment, Galapagos remains guarantor for a limited transitional period in respect of the lease obligations for certain U.K. premises amounting to £4 million future rent payments. The Buyer will fully indemnify us against all liabilities arising in connection with the lease obligation. Galapagos evaluates the risk to be remote. Finally, following common practice, Galapagos has given customary representations and warranties which are capped and limited in time (since 1 April 2016, the Buyer 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 the subsidiaries sued for wrongful termination and seeks damages of €1.1 million. Galapagos believes that the amount of damages claimed is unrealistically high. In 2014, the court requested an external advisor to evaluate the exact amount of damages. Considering the defense elements provided and the recent judgment in the court in favor of Galapagos, the Board and management evaluated the risk to be remote to possible, but not likely. Accordingly, it was decided not to record any provision in 2015 as the exposure is considered to be limited.

**4.3.2** Contractual Obligations

Galapagos entered into lease agreements for office and laboratories which qualify as operating leases. Galapagos also has certain purchase commitments with CRO subcontractors principally. Future events could cause actual payments to differ from these estimates. On 31 December 2015, Galapagos had outstanding obligations for future minimum rent payments and purchase commitments, which become due as follows:

| | Total | Less than 1 year | 1 - 3 years | 3 - 5 years | More than 5 years |
|---|---|---|---|---|---|
| | | | (thousands of €) | | |
| Operating lease obligations | € 31,210 | € 4,002 | € 7,253 | € 5,683 | € 14,273 |
| Purchase commitments | 20,079 | 17,898 | 2,180 | 0 | 0 |
| **Total contractual obligations & commitments** | **€ 51,289** | **€ 21,900** | **€ 9,433** | **€ 5,683** | **€ 14,273** |

# Part VIII: Information about the Company

## 1 General

The Company was incorporated in Belgium on 30 June 1999 for an unlimited duration. Its financial year ends 31 December.

The Company's legal and commercial name is Galapagos NV. The Company is a limited liability company incorporated in the form of a *naamloze vennootschap / société anonyme* under Belgian law. The Company is registered with the Register of Legal Entities (Antwerp, division Mechelen) under the enterprise number 0466.460.429. The Company's principal executive and registered offices are located at Generaal De Wittelaan L11 A3, 2800 Mechelen, Belgium.

## 2 Share capital of the Company

The Company's share capital is represented by ordinary shares without par value. The Company's share capital is fully paid-up. The Company's shares are not separated into classes. As of the Date of this Prospectus the Company's issued and paid-up share capital amounted to EUR 248,632,657.08 represented by 45,968,738 ordinary shares without par value, each representing an identical fraction of the Company's share capital. As of the Date of this Prospectus, and including the New Shares subscribed to by Gilead, the Company had eight shareholders who held shares in registered form, representing 15.9% of the Company's ordinary shares. The remainder of the Company's ordinary shares are in dematerialized form. As of the Date of this Prospectus, neither the Company nor any of the Company's subsidiaries held any of the Company's own shares.

### 2.1 Other Outstanding Instruments

#### 2.1.1 Warrants

In addition to the shares already outstanding, the Company has granted warrants, which upon exercise will lead to an increase in the number of the Company's outstanding shares. A total of 3,139,497 warrants (where each warrant entitles the holder to subscribe for one new share) were outstanding and granted as of the Date of this Prospectus. The changes between the number of warrants outstanding as of 31 December 2015 (i.e. 2,805,692 warrants) and the number of warrants outstanding as of the Date of this Prospectus can be explained as follows:

- On 2 March 2016, an aggregate number of 496,500 new warrants were issued under Warrant Plan 2015 (B) and Warrant Plan 2015 RMV;
- On 1 April 2016, an aggregate number of 131,695 warrants were exercised; and
- Between 1 January 2016 and the Date of this Prospectus, an aggregate number of 31,000 were voided because the relevant warrant holders left Galapagos' employ before the vesting period of the warrants had expired.

For additional information on the warrants issued and outstanding at the end of 2015 under all warrant plans created by the Company, see Note 30 to the consolidated financial statements for the year ended 31 December 2015 included in the F-Pages attached to this Prospectus.

#### 2.1.2 ADS

Following an IPO on the NASDAQ Global Select Market in May 2015, part of the ordinary shares of the Company are traded on the NASDAQ Global Select Market as American Depositary Shares ("ADSs"). ADSs represent ownership interests in ordinary shares that are on deposit with the Depositary which appointed a Custodian to safe-keep the underlying ordinary shares. ADSs may be represented by certificates that are commonly known as American Depositary Receipts ("ADRs"). Holders of ADSs are not treated as shareholders of the Company, unless they withdraw the ordinary shares underlying the ADSs. Each ADS represents the right to receive, and to exercise the beneficial ownership interest in, one ordinary share of the Company on deposit with the Custodian. An ADS also represents the right to receive, and to exercise the beneficial interests in, any other property received by the depositary or the Custodian on behalf of the owner of the ADS but that has not been distributed to the owners of ADSs because of legal restrictions or practical considerations. An ADS holder will not be treated as a shareholder of the Company and will not have direct shareholders' rights. The Depositary will hold the shareholders' rights attached to the ordinary shares underlying the ADS. An ADS holder will be able to exercise the shareholders' rights for the ordinary shares represented by its ADS through the Depositary only to the extent contemplated in the deposit agreement. To exercise any shareholders' rights not contemplated in the deposit agreement, an ADS holder needs to arrange for the cancellation of its ADS and become a direct shareholder of the Company.

As per 15 April 2016, 8,510,271 of the Company's total outstanding 45,968,738 shares are on deposit with the Custodian and traded on the NASDAQ Global Select Market as ADSs.

## 2.2 Share capital history

### 2.2.1 Share capital increases and issue of shares by the Company in 2015

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

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

On 21 December 2015, the Board of Directors issued 496,500 warrants (after acceptances) within the framework of the authorized capital, for the benefit of the Directors and an independent consultant and employees of Galapagos under new warrant plans ("Warrant Plan 2015 (B)" and "Warrant Plan 2015 RMV"). The offer of warrants to the Directors and to the

members of the Executive Committee under Warrant Plan 2015 (B) was approved by the Special Shareholders' Meeting of 22 December 2015. The warrants issued under Warrant Plan 2015 (B) and Warrant Plan 2015 RMV have a term of eight years and an exercise price of EUR 49.00.

**2.2.2** Historical share capital information

The table below shows the changes to the Company's share capital since its initial public offering in 2005 until the Date of this Prospectus in reverse chronological order:

| Date | Share Capital Increase New Shares (in EUR) | Share Capital Increase Warrant Exercises (in EUR) | Aggregate Number of Shares after transaction | Aggregate Share Capital after transaction (in EUR) |
|---|---|---|---|---|
| 01-Apr-16 | | 668,407 | 45,968,738 | 248,632,657 |
| 19-Jan-16 | 36,575,392 | | 45,837,043 | 247,964,250 |
| 04-Dec-15 | | 343,535 | 39,076,342 | 211,388,857 |
| 25-Sep-15 | | 639,786 | 39,012,842 | 211,045,322 |
| 19-Jun-15 | | 2,658,506 | 38,894,582 | 210,405,536 |
| 19-May-15 | 40,750,820 | | 38,403,176 | 207,747,029 |
| 26-Mar-15 | | 3,092,075 | 30,870,677 | 166,996,210 |
| 9-Dec-14 | | 35,300 | 30,299,129 | 163,904,135 |
| 25-Sep-14 | | 66,326 | 30,292,604 | 163,868,834 |
| 4-Jul-14 | | 981,953 | 30,280,344 | 163,802,508 |
| 10-Apr-14 | | 1,648,919 | 30,098,837 | 162,820,555 |
| 6-Dec-13 | | 16,365 | 29,794,046 | 161,171,635 |
| 21-Oct-13 | | 193,239 | 29,791,021 | 161,155,271 |
| 1-Jul-13 | | 487,673 | 29,755,302 | 160,962,030 |
| 29-Apr-13 | 14,589,856 | | 29,665,159 | 160,474,357 |
| 5-Apr-13 | | 1,068,913 | 26,968,328 | 145,884,501 |
| 17-Dec-12 | | 928,485 | 26,770,747 | 144,815,588 |
| 14-Sep-12 | | 116,688 | 26,599,123 | 143,887,103 |
| 29-Jun-12 | | 101,162 | 26,577,554 | 143,770,415 |
| 5-Apr-12 | | 740,590 | 26,558,855 | 143,669,253 |
| 19-Dec-11 | | 8,521 | 26,421,441 | 142,928,663 |
| 30-Jun-11 | | 45,368 | 26,419,866 | 142,920,142 |
| 30-Mar-11 | | 469,264 | 26,411,480 | 142,874,774 |
| 7-Dec-10 | | 412,009 | 26,358,984 | 142,590,770 |

| Date | Share Capital Increase New Shares (in EUR) | Share Capital Increase Warrant Exercises (in EUR) | Aggregate Number of Shares after transaction | Aggregate Share Capital after transaction (in EUR) |
|---|---|---|---|---|
| 19-Oct-10 | 12,926,367 | | 26,282,827 | 142,178,761 |
| 7-Sep-10 | | 18,621 | 23,893,480 | 129,252,394 |
| 28-Jun-10 | | 217,266 | 23,890,038 | 129,233,773 |
| 7-Apr-10 | | 1,293,304 | 23,849,878 | 129,016,507 |
| 4-Dec-09 | | 902,564 | 23,610,820 | 127,723,203 |
| 21-Oct-09 | 11,543,773 | | 23,385,179 | 126,820,639 |
| 3-Sep-09 | | 99,700 | 21,259,254 | 115,276,866 |
| 8-Jun-09 | | 108,500 | 21,234,329 | 115,177,166 |
| 1-Apr-09 | | 73,500 | 21,207,204 | 115,068,666 |
| 10-Dec-07 | | 131,615 | 21,188,829 | 114,995,166 |
| 1-Jul-07 | 2,787,116 | | 21,156,797 | 114,863,551 |
| 1-Jun-07 | | 203,000 | 20,643,516 | 112,076,435 |
| 7-May-07 | 616,776 | | 20,592,766 | 111,873,435 |
| 6-Apr-07 | 3,336,189 | | 20,479,388 | 111,256,659 |
| 4-Apr-07 | | 64,295 | 19,866,118 | 107,920,470 |
| 22-Dec-06 | 27,346,574 | | 19,851,330 | 107,856,176 |
| 21-Dec-06 | 854,852 | 51,500 | 14,990,999 | 81,415,954 |
| 8-Dec-06 | 2,537,434 | | 14,822,257 | 80,509,601 |
| 19-Sep-06 | 7,087,857 | | 14,355,817 | 77,972,167 |
| 23-Mar-06 | | 407,850 | 13,050,743 | 70,884,311 |
| 9-Jan-06 | 1,496,892 | | 12,948,781 | 70,476,461 |
| 30-Nov-05 | 410,200 | 136,200 | 12,674,122 | 68,979,569 |
| 27-Oct-05 | 1,765,860 | | 12,569,056 | 68,433,169 |
| 24-Oct-05 | 160,404 | | 12,245,045 | 66,667,309 |
| 20-Oct-05 | 1,205,235 | | 12,215,613 | 66,506,905 |
| 17-Oct-05 | 15,392,457 | | 11,994,469 | 65,301,670 |
| 8-Jun-05 | | 1,577,354 | 9,170,165 | 49,909,213 |
| 10-May-05 | 15,573,143 | 390,010 | 8,880,370 | 48,331,859 |

## 2.3 Authorized capital

### 2.3.1 Historic Use

On 23 May 2011, the Company's extraordinary shareholders' meeting has resolved to renew the authorization to the Board of Directors with respect to the use of the authorized capital. By this renewed authorization, the Board of Directors was authorized to increase the share capital in one or more times with an amount of EUR 142,590,770.44. This authorization is split in two tranches. The authorization with respect to the first tranche of 25% (EUR 35,647,692.61) of the authorized capital can be used by the Board of Directors by normal resolution. The authorization with respect to the second tranche of 75% (EUR 106,943,077.83) of the authorized capital can only be used upon unanimous resolution of the Board of Directors in which all directors are present or represented. Furthermore, this second tranche can only be used in the context of the following purposes:

(i) the entire or partial financing of a transaction through the issue of new shares of the Company, whereby "transaction" is defined as a merger or acquisition (in shares or cash), a corporate partnership, and an in-licensing deal;

(ii) the issue of warrants in the framework of the remuneration policy for employees, directors and independent consultants of the Company and its subsidiaries;

(iii) the defense of the Company against a hostile take-over bid; and

(iv) strengthening of the cash position of the Company.

The renewed authorization to use the authorized capital is valid for a period of five years as from 23 May 2011. The Board of Directors may, in the context of the authorized capital, issue shares with or without voting rights. The Board of Directors may also issue convertible bonds or warrants. The Board of Directors may issue shares as consideration for contributions in cash or in kind, with or without a share premium. If the Board of Directors asks a share premium, such premium shall be booked on a non-available reserve account. Such account can only be reduced or transferred after a decision of an extraordinary shareholders' meeting of the Company adopted in the manner required for amending the articles of association.

The Board of Directors may, within the authorized capital, limit or cancel the preferential subscription rights of the existing shareholders but only in the interest of the Company. Furthermore, the board has the authority to cancel the preferential subscription rights of the existing shareholders for the benefit of certain persons, other than employees of the Company or its subsidiaries.

The Board of Directors is also authorized to amend the Articles of Association of the Company in accordance with the capital increase that has been effectuated in the framework of the authorized capital.

On 3 September 2012 the Board of Directors partially used its renewed authorization for the use of the authorized capital a first time, with cancellation of the preferential subscription rights, for the issuance of the Warrant Plan 2012, which, after final establishment of the acceptances, relates to maximum 481,140 new shares to be issued. The new shares to be issued under the Warrant Plan 2012 will only be booked as capital to the amount of the fractional value, whereby fractional value means the fractional value of the existing shares on the date of the issuance of the warrants. The difference between the fractional value and the issuance price was booked as share premium. By the issuance of the Warrant Plan 2012 the

board used EUR 2,602,967.40 of the authorized capital, as indeed said warrants can result in the issuance of maximum 481,140 new shares, to be multiplied with the then current fractional value of (rounded up) EUR 5.41 per share.

On 29 April 2013 the Board of Directors partially used its renewed authorization for the use of the authorized capital a second time, with cancellation of the preferential subscription rights, for a private placement of 2,696,831 new shares at EUR 20.00 per share, resulting in an increase of the share capital with EUR 14,589,855.71 (plus share premium of EUR 39,346,764.29).

On 16 May 2013 the Board of Directors partially used its renewed authorization for the use of the authorized capital a third time, with cancellation of the preferential subscription rights, for the issuance of the Warrant Plan 2013, which, after final establishment of the acceptances, relates to maximum 602,790 new shares to be issued. The new shares to be issued under the Warrant Plan 2013 will only be booked as capital to the amount of the fractional value, whereby fractional value means the fractional value of the existing shares on the date of the issuance of the warrants. The difference between the fractional value and the issuance price will be booked as share premium. By the issuance of the Warrant Plan 2013 the Board of Directors used EUR 3,261,093.90 of the authorized capital, as indeed said warrants can result in the issuance of maximum 602,790 new shares, to be multiplied with the then current fractional value of (rounded up) EUR 5.41 per share.

On 18 September 2013 the Board of Directors partially used its renewed authorization for the use of the authorized capital a fourth time, with cancellation of the preferential subscription rights, for the issuance of the Warrant Plan 2013 (B), which, after final establishment of the acceptances, relates to maximum 75,000 new shares to be issued. The new shares to be issued under the Warrant Plan 2013 (B) will only be booked as capital to the amount of the fractional value, whereby fractional value means the fractional value of the existing shares on the date of the issuance of the warrants. The difference between the fractional value and the issuance price will be booked as share premium. By the issuance of the Warrant Plan 2013 (B) the Board of Directors used EUR 405,750 of the authorized capital, as indeed said warrants can result in the issuance of maximum 75,000 new shares, to be multiplied with the then current fractional value of (rounded up) EUR 5.41 per share.

On 25 July 2014 the Board of Directors partially used its renewed authorization for the use of the authorized capital a fifth time, with cancellation of the preferential subscription rights, for the issuance of the Warrant Plan 2014, which, after final establishment of the acceptances, relates to maximum 571,660 new shares to be issued. The new shares to be issued under the Warrant Plan 2014 will only be booked as capital to the amount of the fractional value, whereby fractional value means the fractional value of the existing shares on the date of the issuance of the warrants. The difference between the fractional value and the issuance price will be booked as share premium. By the issuance of the Warrant Plan 2014 the Board of Directors used EUR 3,092,680.60 of the authorized capital, as indeed said warrants can result in the issuance of maximum 571,660 new shares, to be multiplied with the then current fractional value of (rounded up) EUR 5.41 per share.

On 15 October 2014 the Board of Directors partially used its renewed authorization for the use of the authorized capital a sixth time, with cancellation of the preferential subscription rights, for the issuance of the Warrant Plan 2014 (B), which, after final establishment of the acceptances, relates to maximum 150,000 new shares to be issued. The new shares to be

issued under the Warrant Plan 2014 (B) will only be booked as capital to the amount of the fractional value, whereby fractional value means the fractional value of the existing shares on the date of the issuance of the warrants. The difference between the fractional value and the issuance price will be booked as share premium. By the issuance of the Warrant Plan 2014 (B) the Board of Directors used EUR 811,500 of the authorized capital, as indeed said warrants can result in the issuance of maximum 150,000 new shares, to be multiplied with the then current fractional value of (rounded up) EUR 5.41 per share.

On 30 April 2015 the Board of Directors partially used its renewed authorization for the use of the authorized capital a seventh time, with cancellation of the preferential subscription rights, for the issuance of the Warrant Plan 2015, which, after final establishment of the acceptances, relates to maximum 532,053 new shares to be issued. The new shares to be issued under the Warrant Plan 2015 will only be booked as capital to the amount of the fractional value, whereby fractional value means the fractional value of the existing shares on the date of the issuance of the warrants. The difference between the fractional value and the issuance price will be booked as share premium. By the issuance of the Warrant Plan 2015 the Board of Directors used EUR 2,878,406.73 of the authorized capital, as indeed said warrants can result in the issuance of maximum 532,053 new shares, to be multiplied with the then current fractional value of (rounded up) EUR 5.41 per share.

On 19 May 2015, the Board of Directors used its renewed authorization for the use of the authorized capital an eighth time, with cancellation of the preferential subscription rights, to increase the Company's share capital by EUR 40,750,819.59 (plus EUR 237,951,643.41 in share premium) by means of a public offering in the United States of 5,746,000 shares in the form of American Depositary Shares at a price of USD 42.05 per ADS, before underwriting discounts, and a private placement in Europe and countries outside of the United States and Canada of 1,786,499 shares at price of EUR 37.00 per share, before underwriting discounts.

On 21 December 2015, the Board of Directors used its renewed authorization for the use of the authorized capital a ninth time, with cancellation of the preferential subscription rights for the issuance of the Warrant Plan 2015 RMV and Warrant Plan 2015 (B), which, after final establishment of the acceptances, relates to maximum 496,500 new shares to be issued. The new shares to be issued under the Warrant Plan 2015 RMV and Warrant Plan 2015 (B) will only be booked as capital to the amount of the fractional value, whereby fractional value means the fractional value of the existing shares on the date of the issuance of the warrants. The difference between the fractional value and the issuance price will be booked as share premium. By the issuance of the Warrant Plan 2015 RMV and Warrant Plan 2015 (B) the Board of Directors used EUR 2,686,065 of the authorized capital, as indeed said warrants can result in the issuance of maximum 496,500 new shares, to be multiplied with the then current fractional value of (rounded up) EUR 5.41 per share.

On 19 January 2016, the Board of Directors used its renewed authorization for the use of the authorized capital a tenth time, with cancellation of the preferential subscription rights of the existing shareholders to the benefit of Gilead (in relation to the Capital Increase as further described in Part X of this Prospectus), to increase the Company's share capital by way of a private placement of 6,760,701 new shares at EUR 58.00 per share, resulting in an increase of the share capital with EUR 36,575,392.41 (plus share premium of EUR 355,545,265.59).

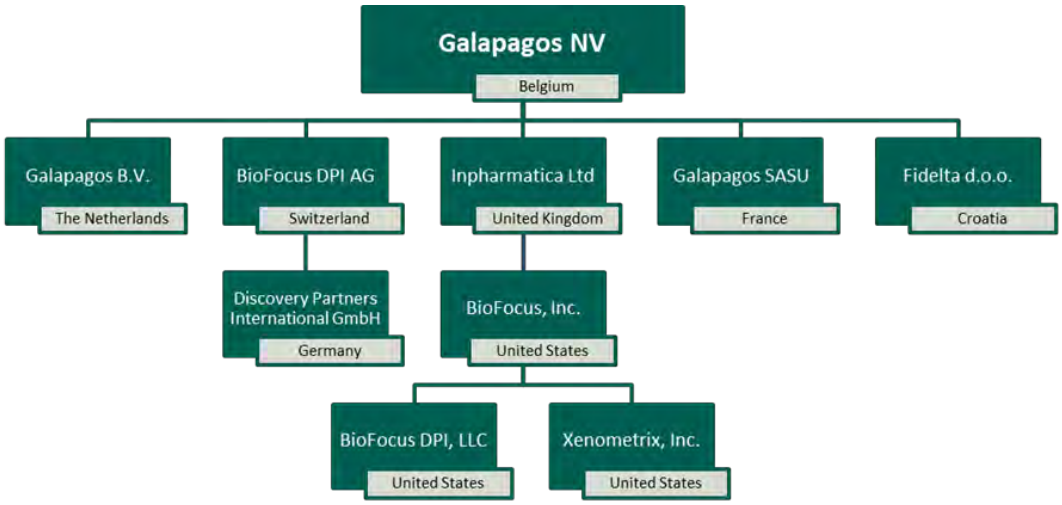
**2.3.2** Authorized Capital - Availability

On the Date of this Prospectus, an aggregate amount of EUR 107,654,531.34 of the authorized capital has been used, as a result of which EUR 34,936,239.10 of the authorized capital is still available.

# 3 Organizational structure

## 3.1 Corporate structure of the Galapagos Group

The diagram below is a simplified version of the corporate structure of the Galapagos Group of which the Company forms part at the Date of this Prospectus. All stakes are 100% stakes.




## 3.2 Major shareholders

The chart below shows the shareholder structure of the Company on the Date of this Prospectus. For the major shareholders, this is the situation stated in the most recent notifications made under the transparency rules or (if more recent) disclosures made under legislation on public takeover bids or applicable U.S. Securities laws.

| | Number of shares | Percentage |
|---|---|---|
| Gilead Sciences, Inc. | 6,760,701 (1) | 14.71% |
| Van Herk | 3,423,363 (2) | 7.45% |
| FMR LLC | 2,732,508 (1) | 5.94% |
| Federated Investors, Inc. | 2,528,773 (2) | 5.50% |

(1) At the time of the most recent transparency notification.

(2) On 31 December 2015, as set forth in the most recent statement of acquisition of beneficial ownership by individuals filed on Schedule 13G with the United States Securities and Exchange Commission.

The current number of shares in the share capital of the Company may increase as a result of the exercise of the warrants (see Section 2.1.1 of this part of the Prospectus).

In accordance with article 6 of the Belgian law of 2 May 2007 on the disclosure of major holdings in issuers whose shares are admitted to trading on a regulated market and laying down miscellaneous provisions, any natural or legal person who directly or indirectly acquires voting securities in an issuer, shall notify such issuer and the FSMA of the number and proportion of existing voting rights of the issuer he holds as a result of the acquisition, where the voting rights attached to the voting securities he holds reach 5% or more of the total existing voting rights.

A similar notification is required in the event of direct or indirect acquisition of voting securities where as a result of this acquisition, the proportion of voting rights held reaches or exceeds 10%, 15%, 20% and so on, by increments of 5%, of the total existing voting rights. A similar notification is required in the event of direct or indirect disposal of voting securities where as a result of this disposal, the proportion of voting rights held falls below one of the thresholds referred to in the previous paragraphs.

### 3.3 Voting rights of the major shareholders

All shareholders have the same voting rights. Each share carries one vote.

### 3.4 Shareholders' agreements

The Board of Directors is not aware of any agreements among major shareholders or any other shareholders that may result in restrictions on the transfer of securities or the exercise of voting rights. The major shareholders have not entered into a shareholders' agreement or a voting agreement, nor do they act in concert.

## 4 Articles of Association

### 4.1 Corporate profile

Galapagos is a clinical stage biotechnology company.

The Company's legal and commercial name is Galapagos NV, incorporated in the form of a limited liability company, of a *naamloze vennootschap / société anonyme* under Belgian law. The Company is registered with the Register of Legal Entities (Antwerp, division Mechelen) under the enterprise number 0466.460.429. The Company's principal executive and registered offices are located at Generaal De Wittelaan L11 A3, 2800 Mechelen, Belgium. The Company's agent for service of process in the United States is CT Corporation System.

Galapagos was incorporated in Belgium on 30 June 1999 for an unlimited duration. The Company's financial year ends 31 December.

### 4.2 Corporate purpose

The Company's corporate purpose as set forth in Article 3 of the Articles of Association is as follows:

"The company's purpose consists of:

(a) the development, the construction and exploitation of gene libraries for functional genomics research;

(b) the research for the development of health products for human beings and animals, pharmaceutical products and other products relating thereto;

(c) the development, testing, scaling up, and exploitation of gene therapy procedures, as well as the development, evaluation and exploitation of clinical applications of such procedures;

(d) for its own account or for the account of third parties, the performance of research in the field of or in connection with biological and industrial technology, genetics and human and animal life in general; and

(e) the acquisition, sale and licensing of patents, trademarks, industrial and intellectual property, whether or not secret, and licenses.

For such purposes the company may, in Belgium and abroad, acquire or lease any license, movable or immovable property necessary or useful for its commercial or industrial purpose, operate, sell or lease same, build factories, establish subsidiaries and branches, and establish premises. It may engage in all operations with banks, post cheque, invest capital, contract or grant loans and credit facilities, whether or not mortgaged. The company may, by means of contribution, participation, loans, credit facility, subscription of shares, acquisition of shares and other commitments, participate in other companies, associations or enterprises, both existing as to be incorporated, and whether or not having a purpose similar to the purpose of the company. The company may merge with other companies or associations.

The company may incorporate subsidiaries both under Belgian and under foreign law. The company may acquire or establish any property that is necessary or useful for its operations or its corporate purpose."

## 4.3 Form and transferability of shares

All of the Company's shares belong to the same class of securities and are in registered form or in dematerialized form. All of outstanding shares are fully paid-up and freely transferable, subject to any contractual restrictions.

The Company's share capital, which is represented by the outstanding ordinary shares, is denominated in euros.

## 4.4 Right to attend and vote at general shareholders' meetings

Pursuant to the Articles of Association, the Company's annual shareholders' meeting is held each year on the last Tuesday of the month of April, at 2 p.m. (Central European Time), at the Company's registered office or at any other place in Belgium mentioned in the convening notice of the meeting. If this date is a public holiday in Belgium or in the Netherlands, the meeting is held on the following day that is a business day both in Belgium and in the Netherlands, at the same time.

The Board of Directors or the Statutory Auditor (or the liquidators, if appropriate) may, whenever the Company's interests so require, convene a special or extraordinary shareholders' meeting. Such shareholders' meeting must also be convened when one or more shareholders holding at least one-fifth of the Company's share capital so requests.

### 4.4.1 Notices convening shareholders' meetings – right to add items to the agenda

Convening notices of the Company's shareholders' meetings contain the agenda of the meeting, indicating the items to be discussed as well as any proposed resolutions that will be submitted at the meeting. One or more shareholders holding at least 3% of the Company's share capital may request for items to be added to the agenda of any convened meeting and submit proposed resolutions in relation to existing agenda items or new items to be added to the agenda, provided that:

- they prove ownership of such shareholding as at the date of their request and record their shares representing such shareholding on the record date; and
- the additional items for the agenda and any proposed resolutions have been submitted in writing by these shareholders to the Board of Directors at the

latest on the twenty-second day preceding the day on which the relevant shareholders' meeting is held.

The shareholding must be proven by a certificate evidencing the registration of the relevant shares in the share register of the Company or by a certificate issued by the authorized account holder or the clearing organization certifying the book-entry of the relevant number of dematerialized shares in the name of the relevant shareholder(s).

The convening notice must be published in the Belgian Official Gazette *(Belgisch Staatsblad / Moniteur belge*) at least thirty days prior to the shareholders' meeting. In the event a second convening notice is necessary and the date of the second meeting is mentioned in the first convening notice, that period is seventeen days prior to the second shareholders' meeting. The notice must also be published in a national newspaper thirty days prior to the date of the shareholders' meeting, except if the meeting concerned is an annual shareholders' meeting held at the municipality, place, day and hour mentioned in the Articles of Association and its agenda is limited to the examination of the annual accounts, the annual report of the Board of Directors, the annual report of the Statutory Auditor, the vote on the discharge of the directors and the Statutory Auditor and the vote on the items referred to in Article 554, paragraphs 3 and 4 of the Belgian Companies Code (i.e., in relation to a remuneration report or severance pay). Convening notices of all the Company's shareholders' meetings and all related documents, such as specific board and auditor's reports, are also published on the Company's website.

Convening notices must also be sent thirty days prior to the shareholders' meeting to the holders of registered shares, holders of registered bonds, holders of registered warrants, holders of registered certificates issued with the Company's cooperation and to the Company's directors and Statutory Auditor. This communication is made by ordinary letter unless the addressees have individually and expressly accepted in writing to receive the notice by another form of communication, without having to give evidence of the fulfillment of such formality.

**4.4.2** Admission to meetings

A shareholder is only entitled to participate in and vote at a shareholders' meeting, irrespective of the number of shares he owns on the date of the shareholders' meeting, provided that his shares are recorded in his name at midnight (Central European Time) at the end of the fourteenth day preceding the date of the shareholders' meeting, or the record date:

- in case of registered shares, in the Company's register of registered shares; or
- in case of dematerialized shares, through book-entry in the accounts of an authorized account holder or clearing organization.

In addition, the Company (or the person designated by the Company) must, at the latest on the sixth day preceding the day of the shareholders' meeting, be notified as follows of the intention of the shareholder to participate in the shareholders' meeting:

- in case of registered shares, the shareholder must, at the latest on the above-mentioned date, notify the Company (or the person designated by the Company) in writing of his intention to participate in the shareholders' meeting and of the number of shares he intends to participate in the

shareholders' meeting with by returning a signed paper form, or, if permitted by the convening notice, by sending an electronic form (signed by means of an electronic signature in accordance with the applicable Belgian law) electronically, to the Company on the address indicated in the convening notice; or

- in case of dematerialized shares, the shareholder must, at the latest on the above-mentioned date, provide the Company (or the person designated by the Company), or arrange for the Company (or the person designated by the Company) to be provided with, a certificate issued by the authorized account holder or clearing organization certifying the number of dematerialized shares recorded in the shareholder's accounts on the record date in respect of which the shareholder has indicated his intention to participate in the shareholders' meeting.

Each shareholder has the right to attend a shareholders' meeting and to vote at such meeting in person or through a proxy holder. The proxy holder does not need to be a shareholder. A shareholder may only appoint one person as proxy holder for a particular shareholders' meeting, except in cases provided for by law. The Board of Directors may determine the form of the proxies. The appointment of a proxy holder must in any event take place in paper form or electronically, the proxy must be signed by the shareholder (as the case may be, by means of an electronic signature in accordance with the applicable Belgian law) and the Company must receive the proxy at the latest on the sixth day preceding the day on which the shareholders' meeting is held.

Pursuant to Article 7, section 5 of the Belgian Law of 2 May 2007 on the disclosure of major holdings in issuers whose shares are admitted to trading on a regulated market and laying down miscellaneous provisions, a transparency declaration has to be made if a proxy holder that is entitled to voting rights above the threshold of 5% or any multiple thereof of the total number of voting rights attached to the Company's outstanding financial instruments on the date of the relevant shareholders' meeting would have the right to exercise the voting rights at his discretion.

**4.4.3** Voting rights

Each shareholder is entitled to one vote per share.

Voting rights can be suspended in relation to shares:

- that were not fully paid up, notwithstanding the request thereto of the Company's Board of Directors;
- to which more than one person is entitled, except in the event a single representative is appointed for the exercise of the voting right;
- that entitle their holder to voting rights above the threshold of 5% or any multiple thereof of the total number of voting rights attached to the Company's outstanding financial instruments on the date of the relevant general shareholders' meeting, except to the extent where the relevant shareholder has notified the Company and the FSMA at least twenty days prior to the date of such shareholders' meeting of its shareholding reaching or exceeding the thresholds above; or

- of which the voting right was suspended by a competent court or the FSMA.

In general, the general shareholders' meeting is exclusively authorised to decide on following matters:

- the approval of the annual accounts of the Company;
- the appointment and resignation of directors and the Statutory Auditor of the Company;
- the granting of discharge of liability to the directors and the Statutory Auditor;
- the determination of the remuneration of the directors and of the Statutory Auditor for the exercise of their mandate;
- the distribution of profits;
- the filing of a claim for liability against directors;
- the decisions relating to the dissolution, merger and certain other re-organisations of the Company; and
- the approval of amendments to the articles of association.

**4.4.4** Quorum and majority requirements

Generally, there is no quorum requirement for the Company's shareholders' meeting, except as provided for by law in relation to decisions regarding certain matters. Decisions are made by a simple majority, except where the law provides for a special majority.

Matters involving special legal quorum and majority requirements include, among others, amendments to the Articles of Association, issues of new shares, convertible bonds or warrants and decisions regarding mergers and demergers, which require at least 50% of the share capital to be present or represented and the affirmative vote of the holders of at least 75% of the votes cast. If the quorum is not reached, a second meeting may be convened at which no quorum requirement applies. The special majority requirement for voting, however, remains applicable.

Any modification of the Company's corporate purpose or legal form requires a quorum of shareholders holding an aggregate of at least 50% of the share capital and approval by a majority of at least 80% of the share capital present or represented. If there is no quorum, a second meeting must be convened. At the second meeting, no quorum is required, but the relevant resolution must be approved by a majority of at least 80% of the share capital present or represented.

**4.4.5** Right to ask questions at the Company's shareholders meeting

Within the limits of Article 540 of the Belgian Companies Code, members of the Board of Directors and the Statutory Auditor will answer, during the shareholders' meeting, the questions raised by shareholders. Shareholders can ask questions either during the meeting or in writing, provided that the Company receives the written questions at the latest on the sixth day preceding the shareholders' meeting.

### 4.5 Preferential subscription rights

In the event of a capital increase in cash with issuance of new shares, or in the event of an issuance of convertible bonds or warrants, the existing shareholders have a preferential right to subscribe to the new shares, convertible bonds or warrants, pro rata of the part of the share capital represented by the shares that they already have. The shareholders' meeting and, within the framework of the authorized capital, the Company's Board of Directors can decide to limit or cancel this preferential subscription right, subject to special reporting requirements.

### 4.6 Right to share in the result

All shares participate in the same manner in the Company's profits (if any). Pursuant to the Belgian Companies Code, the shareholders can in principle decide on the distribution of profits with a simple majority vote at the occasion of the annual shareholders' meeting, based on the most recent non-consolidated statutory audited annual accounts, prepared in accordance with the generally accepted accounting principles in Belgium and based on a (non- binding) proposal of the Board of Directors. The Articles of Association also authorize the Board of Directors to declare interim dividends subject to the terms and conditions of the Belgian Companies Code.

Dividends can only be distributed if following the declaration and issuance of the dividends the amount of the Company's net assets on the date of the closing of the last financial year according to the non-consolidated statutory annual accounts (i.e., the amount of the assets as shown in the balance sheet, decreased with provisions and liabilities, all as prepared in accordance with Belgian accounting rules), decreased with the non-amortized costs of incorporation and expansion and the non-amortized costs for research and development, does not fall below the amount of the paid-up capital (or, if higher, the called capital), increased with the amount of non-distributable reserves. In addition, prior to distributing dividends, at least 5% of the Company's annual net profit under the Company's non-consolidated statutory accounts (prepared in accordance with Belgian accounting rules) must be allotted to a legal reserve, until the legal reserve amounts to 10% of the share capital.

The right to payment of dividends expires five years after the board of directors declared the dividend payable.

### 4.7 Liquidation rights

The Company can only be voluntarily dissolved by a shareholders' resolution passed with a majority of at least 75% of the votes cast at an extraordinary shareholders' meeting where at least 50% of the share capital is present or represented. In the event the required quorum is not present or represented at the first meeting, a second meeting needs to be convened through a new convening notice. The second shareholders' meeting can validly deliberate and decide regardless of the number of shares present or represented.

In the event of the dissolution and liquidation of the Company, the assets remaining after payment of all debts and liquidation expenses (on a non-consolidated basis) will be distributed to the Company's shareholders, each receiving a sum on a pro rata basis.

If, as a result of losses incurred, the ratio of the Company's net assets (on a non-consolidated basis, determined in accordance with Belgian legal and accounting rules) to share capital is less than 50%, the Board of Directors must convene a general shareholders' meeting within two months of the date upon which the Board of Directors discovered or should have discovered this undercapitalization. At this shareholders' meeting, the Board of Directors needs to propose either the Company's dissolution or the Company's continuation, in which case the Board of Directors must propose measures to

redress the Company's financial situation. The Board of Directors must justify its proposals in a special report to the shareholders. Shareholders representing at least 75% of the votes validly cast at this meeting have the right to dissolve the Company, provided that at least 50% of the Company's share capital is present or represented at the meeting. In the event the required quorum is not present or represented at the first meeting, a second meeting needs to be convened through a new notice. The second shareholders' meeting can validly deliberate and decide regardless of the number of shares present or represented.

If, as a result of losses incurred, the ratio of the Company's net assets to share capital is less than 25%, the same procedure must be followed, it being understood, however, that in the event shareholders representing 25% of the votes validly cast at the meeting can decide to dissolve the Company. If the amount of the Company's net assets has dropped below EUR 61,500 (the minimum amount of share capital of a Belgian limited liability company), any interested party is entitled to request the competent court to dissolve the Company. The court can order the Company's dissolution or grant a grace period during which time the Company must remedy the situation. Holders of ordinary shares have no sinking fund, redemption or appraisal rights.

### 4.8 Acquiring own shares

In accordance with the Company's Articles of Association and the Belgian Companies Code, the Company can purchase and sell its own shares pursuant to a resolution of the extraordinary general shareholders' meeting that is approved by at least 80% of votes cast at an extraordinary general shareholders' meeting, at which at least 50% of the Company's share capital are present or represented. If there is no quorum, a second meeting must be convened. No quorum is required at the second meeting, but the relevant resolution must be approved by a majority of at least 80% of the share capital present or represented.

The voting rights attached to shares held by the Company will be suspended.

Within such authorization, the Company may only repurchase its own shares if the amount that it would use for repurchase is available for distribution. Currently the Company has no such an authorization and it neither has any funds available for distribution, nor does the Company own any of its own shares.

## 5 Capital resources

### 5.1 Company's capital resources

At the Date of the Prospectus, the Company incurred significant operating losses. The Company has funded its operations through public and private placements of equity securities, upfront and milestone payments received from pharmaceutical partners under license, collaboration and alliance agreements, payments under fee-for-service contracts, funding from governmental bodies, interest income and the net proceeds from the sale of the service division. The Company's cash flows may fluctuate and are difficult to forecast and will depend on many factors. As of 31 December 2015, the Company's cash and cash equivalents amounted to EUR 340.3 million.

### 5.2 Working capital

The Company is of the opinion that it has sufficient capital to meet its present working capital expenditure requirements for at least the next 12 months following the Date of this Prospectus.

## 5.3 Capitalization and indebtedness

| Capitalization & Indebtedness | 31 December 2015 | 31 March 2016 |
|---|---|---|
| | Actual | Actual |
| | (Euro, in thousands) | |
| **Current Debt** | | |
| Guaranteed | - | - |
| Secured | - | - |
| Unguaranteed / Unsecured | 72,412 | 104,736 |
| **Total Current Debt** | € 72,412 | € 104,736 |
| | | |
| **Non-Current debt** | | |
| Guaranteed | - | - |
| Secured | - | - |
| Unguaranteed / Unsecured | 5,103 | 246,006 |
| **Total Non-current Debt** | € 5,103 | € 246,006 |
| | | |
| **Shareholder's equity** | | |
| Share capital | 185,399 | 221,779 |
| Share premiums | 357,402 | 647,098 |
| Other reserves | (18) | (18) |
| Translation differences | (467) | (849) |
| Accumulated losses | (177,317) | (139,465) |
| Total Equity | 364,999 | 728,545 |
| Total Capitalization and indebtedness | € 442,514 | € 1,079,287 |

The situation as at 31 March 2016 includes the effect of the share subscription from Gilead:

- Share Capital increased by €36,380 thousand reflecting the issuance of 6,760,701 new ordinary shares at a par value of €5.41 per share, decreased by the estimated costs of the Capital Increase of €195 thousand.
- Share Premiums increased by €289,696 thousand reflecting the issuance of 6,760,701 new ordinary shares for the difference between the par value of the share (€5.41) and the closing price of the share at the date of the Capital Increase, or €48.26 as at 19 January 2016.

The difference between the estimated net proceeds from the share subscription of Gilead amounting to €391,926 thousand and the total increase in share capital and share premium of the situation after the transaction at 31 March 2016, or €326,077 thousand, amounts to €65,849 thousand in which:

- €39,003 thousand was initially recognized as deferred income and offsetting derivative financial assets representing the share premium that Gilead committed to pay above the closing stock price of Galapagos on the day of entering into the subscription agreement. (16 December 2015).
- €26,846 thousand were reported as net financial gain related to the transaction reflecting the fair value re-measurement of the derivative financial asset between 16 December 2015 and its maturity on 19 January 2016, as required by IAS39, in which:
    - €30,632 thousand of fair value charge was recognized in 2015 principally explained by the increase of the stock price of Galapagos between 31 December 2015 and the date of entering into the share subscription agreement.
    - €57,479 thousand of fair value gain were reported in the first three months of 2016 explained by the decrease of the stock price of Galapagos between 31 December 2015 and the date of completion of the capital increase, 19 January 2016.

The decrease in accumulated losses in the situation as of 31 March 2016 is due to a net result amounting to €35.9 million composed of (1) €57.5 million of fair value gain from the measurement of the derivative financial asset between its maturity date and 1 January 2016, (2) €4.1 million of other financial expenses and (3) €17.4 million of operating loss for the first three months of 2016.

The increase in non-current and current debts between 31 March 2016 and 31 December 2015 amounting to €273.2 million is mainly due to the collaboration and share subscription agreement with Gilead explained by the recognition in deferred income of €275.6 million of license fee paid in January 2016, slightly decreased by €4.8 million of deferred income recognized in revenue for the first three months of 2016 (€4.2 million for the license payment and €0.6 million for the share subscription agreement).

At the end of March 2016, the liabilities include the following items related to this transaction:

- €242.2 million of long term deferred income for which €212.2 million is related to the license fee and €30.0 million is related to the share subscription agreement
- €67.5 million of current deferred income composed of €59.1 million related to the license fee and €8.4 million related to the share subscription agreement.

For more detailed information about the measurements and accounting treatment of the Subscription Agreement, please see note 3 and note 8 of the financial statements included in the F-pages of this Prospectus.

| **Net indebtedness** | **31 December 2015** | **31 March 2016** |
|---|---|---|
| | **Actual** | **Actual** |
| | **(Euro, in thousands)** | |
| Cash and cash equivalents | € 340,314 | € 978,334 |
| **Liquidity** | 340,314 | 978,334 |
| **Current financial receivables** | - | - |
| Current bank debt | - | - |
| Current portion of non-current debt - Finance lease | 52 | 52 |
| Other current financial debt | 369 | 369 |
| **Current financial debt** | 421 | 421 |
| **Net current financial indebtedness** | € (339,893) | € (977,913) |
| | | |
| Non-current bank loans | - | - |
| Bonds Issued | - | - |
| Other current financial debt - Finance Lease | 63 | 50 |
| **Non-current financial indebteness** | 63 | 50 |
| **Net financial indebteness** | € (339,830) | € (977,863) |

The increase in the Galapagos' cash and cash equivalents between 31 March 2016 and 31 December 2015 is primarily explained by €275,558 thousand ($300 million) received from Gilead for the license fee and €392,121 thousand ($425 million) received for the share subscription agreement, slightly decreased by three months of operational and investing cash burn, as well as negative effect of exchange rate difference on cash and cash equivalents.

There were no material changes to the other line items of the above net indebtedness table between 31 March 2016 and 31 December 2015. Galapagos does not have indirect and contingent indebtedness.

## 5.4 Company's cash flow

### 5.4.1 Comparison of Years Ended 31 December 2015 and 2014

The following table summarizes the results of Galapagos' consolidated statement of cash flows for the years ended 31 December 2015 and 2014.

| | Year Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| | (Euro, in thousands) | |
| **Cash and cash equivalents at beginning of the period** | **€ 187,712** | **€ 138,175** |
| Net cash flows generated / used (-) in operating activities | (114,590) | (75,555) |
| Net cash flows generated / used (-) in investing activities | (4,297) | 120,606 |
| Net cash flows generated in financing activities | 271,370 | 4,214 |
| Effect of exchange rate differences on cash and cash equivalents | 118 | 271 |
| **Cash and cash equivalents at end of the period** | **€ 340,314** | **€ 187,712** |

Cash and cash equivalents at 31 December 2015 amounted to €340.3 million.

Net cash outflow from operating activities increased by €39.0 million to a €114.6 million outflow for the year ended 31 December 2015 compared to a €75.6 million outflow for the year ended 31 December 2014. The higher cash burn from operations recorded in the year 2015 was primarily explained by increased R&D investments, €15.9 million less cash received from milestones and costs reimbursement, of which mainly €5.9 million in alliance related receivables for which revenues were recorded in 2013 and for which payment came in the first half of 2014.

The net cash inflow from investing activities decreased by €124.9 million to €4.3 million net cash outflow for the year ended 31 December 2015 compared to €120.6 million net cash inflow for the year ended 31 December 2014, which reflected €130.8 million of net cash & cash equivalents proceeds from the sale of the service operations to Charles River on 1 April 2014 (€129 million headline consideration adjusted with agreed price adjustments and costs of the sale for a total amount of €1.9 million), decreased by €7.4 million held as escrow account and presented as restricted cash in Galapagos' statement of financial position. Restricted cash amounted to €10.7 million for the year ended 31 December 2015, and decreased to €7.9 million for the year ended 31 December 2015. This decrease is related to (i) the release of the €3 million bank guarantee issued in 2013 for the rental of the new premises in France which expired on 30 June 2015 following the move to the new offices, (ii) the payment of a claim to Charles River by decrease of the escrow account, and (iii) a €0.7 million bank guarantee issued in September 2015 for the rental of new premises in the Netherlands (to replace the current premises) which will expire on 1 October 2025.

The net cash inflow from financing activities have increased by €267.2 million, from €4.2million net cash inflow for the year ended 31 December 2014, to €271.4 million net cash inflow for the year ended 31 December 2015. The substantial net cash inflow in the year 2015 can primarily be attributed to €259.4 million of net new funds from the recent global offering and concurrent listing on the NASDAQ Global Select Market on 19 May 2015. In addition, proceeds received on exercise of warrants contributed to cash generated by financing activities in 2015 for €12.0 million and to a lesser extent for €4.4 million in 2014.

The consolidated cash flow table above included both continuing and discontinued operations. The table below summarizes Galapagos' statement of cash flows from discontinued operations included in the table above for the years ended 31 December 2015 and 2014.

| | Year Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| | (Euro, in thousands) | |
| Net cash flows generated/ used (-) in operating activities | € - | € (1,722) |
| Net cash flows generated/ used (-) in investing activities | - | 122,580 |
| Net cash flows generated/ used (-) in financing activities | - | - |
| **Net cash generated** | **€ -** | **€ 120,858** |

**5.4.2** Cash and Funding Sources

The table below summarizes Galapagos' sources of financing, excluding warrant exercises, for the years ended 31 December 2012, 2013, 2014 and 2015.

| | Financing |
|---|---|
| | (Euro, in thousands) |
| 2012 | |
| 2013 | € 52,775 |
| 2014 | |
| 2015 | 259,409 |
| **Total sources of financing** | **€ 312,184** |

Galapagos' sources of financing in 2013 included a private placement providing total net proceeds of €52.8 million.

On 19 May 2015, Galapagos completed a global offering of 7,532,499 ordinary shares, consisting of a concurrent public offering in the US and private placement in Europe and countries other than the US and Canada, in which framework the Company offered 5,746,000 ordinary shares through a public offering in the US in the form of American Depositary Shares, or ADSs, at a price of $42.05 per ADS, before underwriting discounts and 1,786,499 ordinary shares through a private placement in Europe and countries other than the US and Canada at a price of €37.00 per share, before underwriting discounts. The ADSs were evidenced by American Depositary Receipts, or ADRs, and each ADS represents the right to receive one ordinary share. The ADSs are listed on the NASDAQ Global Select Market under the symbol "GLPG."

Galapagos received €278.7 million of gross proceeds from the global offering, decreased by €19.4 million of underwriter discounts and commission, and offering expenses, of which €19.3 million has been paid at 31 December 2015 and €0.1 million remains to be settled in cash. Total net cash proceeds from the global offering amount to €259.4 million.

As of 31 December 2015, Galapagos had no long term debt, or current portion of long term debt, other than finance leases and advances from Oseo, a French public organization for innovation support, for €0.4 million.

Galapagos' ongoing financial commitments are listed under 'contractual commitments and obligations' and mainly consist of operating lease obligations and purchase commitments.

**5.4.3** Comparison for the Years Ended 31 December 2014 and 2013

The following table summarizes the results of Galapagos' consolidated audited statement of cash flows for the years ended 31 December 2014 and 2013.

| | Year Ended 31 December, | |
|---|---|---|
| | 2014 | 2013 |
| | (Euro, in thousands) | |
| **Cash and cash equivalents at beginning of the period** | **€ 138,175** | **€ 94,369** |
| Net cash flows generated / used (-) in operating activities | (75,555) | 1,846 |
| Net cash flows generated / used (-) in investing activities | 120,606 | (11,988) |
| Net cash flows generated in financing activities | 4,214 | 54,495 |
| Effect of exchange rate differences on cash and cash equivalents | 271 | (548) |
| **Cash and cash equivalents at end of the period** | **€ 187,712** | **€ 138,175** |

Cash and cash equivalents at 31 December 2014 amounted to €187.7 million.

Net cash outflow from operating activities increased by €77.4 million to a €75.6 million outflow for the year ended 31 December 2014 compared to a €1.8 million inflow for the year ended 31 December 2013. The higher cash burn from operations recorded in 2014 compared to 2013 was primarily due to cash inflows in 2013 from the collaboration agreements with AbbVie. In the first half of 2013, Galapagos received an upfront payment from AbbVie for $20 million (€15.6 million) in connection with the first amendment to the collaboration agreement with AbbVie for filgotinib which expanded the initial development plan. In the second half of 2013, Galapagos received an upfront payment of $45.0 million (€34.0 million) in connection with the global collaboration agreement with AbbVie for CF.

The net cash inflow from investing activities increased by €132.6 million to €120.6 million net cash inflow for the year ended 31 December 2014 compared to €12.0 million net cash outflow for the year ended 31 December 2013, reflecting €130.8 million of net cash and cash equivalents proceeds from the sale of the service division to Charles River on 1 April 2014 (€129 million headline consideration adjusted with agreed price adjustments and costs of the sale for a total amount of €1.8 million) decreased by €7.4 million held as escrow and presented as restricted cash in Galapagos' statement of financial position.

The net cash inflow from financing activities decreased by €50.3 million, from €54.5 million net cash inflow for the year ended 31 December 2013 to €4.2 million net cash inflow for the year ended 31 December 2014. The substantial net cash inflow in 2013 can primarily be attributed to €52.8 million of net new funds from issuing ordinary shares through a private placement with institutional investors.

In addition, proceeds received on exercise of warrants contributed to cash generated by financing activities in 2014 and to a lesser extent in 2013.

The consolidated cash flow table above included both continuing and discontinued operations. The table below summarizes the audited statement of cash flows from discontinued operations included in the table above for the years ended 31 December 2014 and 2013.

| | Year Ended 31 December, | |
|---|---|---|
| | 2014 | 2013 |
| | (Euro, in thousands) | |
| Net cash flows generated/ used (-) in operating activities | € (1,722) | € 7,855 |
| Net cash flows generated/ used (-) in investing activities | 122,580 | (4,308) |
| Net cash flows generated/ used (-) in financing activities | - | (34) |
| **Net cash generated** | **€ 120,858** | **€ 3,513** |

## 5.5 Restrictions on the use of capital resources

Restricted cash of EUR 7.9 million on 31 December 2015 is related to EUR 0.3 million and EUR 0.7 million bank guarantees on real estate lease obligations in Belgium and in the Netherlands respectively, and to EUR 6.9 million escrow account containing part of the proceeds from the sale of the service division in 2014 for which the release will be possible after final agreement between the parties on the exposure regarding one outstanding claim. An amount of EUR 0.3 million has been accrued in 2015 based on a preliminary estimate of the exposure.

## 5.6 Anticipated sources of funds needed

The Company does not anticipate the need of additional funds for financing any firm commitment the Company has already entered into.

# 6 Governance and management

The Company has adopted a two-tier governance structure:

(i) the Board of Directors is the highest decision making body of the Company and is entitled to do anything needed or useful for achieving the Company's purpose, except for those matters which by law are reserved for the shareholders' meeting; and

(ii) the Executive Committee, which has been established by the Board of Directors in accordance with article 524*bis* of the Belgian Companies Code, exercises the powers delegated to it within the framework of the general strategy determined by the Board of Directors.

## 6.1 Board of directors

### 6.1.1 Role and responsibilities

The Board of Directors, as collegial body, is responsible for the overall management of the Company with a view to pursuing the long term success of the Company. The Board does so by combining entrepreneurial leadership with appropriate risk assessment and management.

Key responsibilities of the Board include:

(i) deciding on the values and strategy of the Company, the willingness to take risks, and the key management policies as proposed by the Executive Committee;

(ii) ensuring that the necessary financial and human resources are in place so as to allow the Company to meet its objectives;

(iii) approving the annual budget;

(iv) deciding on disposals or transfers of any substantial part of the Company's assets;

(v) entering into collective bargaining agreements at Company level (other than those implementing inter-professional or sector-level collective bargaining agreements) and deciding on restructurings or collective lay-offs;

(vi) appointing and dismissing members of the Board's committees, the CEO and the other members of the Executive Committee;

(vii) reviewing the performance of the Executive Committee and the realization of the Company's strategy and granting discharge to the members of the Executive Committee;

(viii) monitoring and reviewing the effectiveness of the Board's committees;

(ix) reviewing and approving the annual report;

(x) convening the shareholders' meeting and deciding upon any resolution to be submitted for approval to such shareholders' meeting;

(xi) taking all necessary measures to ensure the integrity and timely disclosure of the Company's financial statements and other material financial and non-financial information disclosed to the shareholders and potential shareholders;

(xii) monitoring the internal control and risk management systems, taking into account the review by and findings of the audit committee;

(xiii) supervising the performance of the external auditor and supervising the internal audit function, taking into account the review by the audit committee; and

(xiv) determining the corporate governance structure of the Company and approving any modifications to the corporate governance charter.

The Board of Directors shall act in accordance with the interests of the Company in the performance of its duties.

In accordance with article 21.1 of the Company's Articles of Association, the Board has established an Executive Committee to which it has delegated the responsibilities as described in Section 6.2.1 of this Part VIII of this Prospectus. However, the Board of Directors retains the right ("evocation right") to deliberate and decide on matters which have in principle been delegated to the Executive Committee, if the Board of Directors is of the opinion that these specific matters require deliberation at board level.

**6.1.2** Composition

The Articles of Association of the Company provide that the Company is managed by a board of directors composed of between five and nine members, of which at least three are independent directors as defined by the Belgian Companies Code. Half of the members of the Company's Board of Directors must be non-executive directors. Directors are appointed, reappointed and may be revoked by the shareholders' meeting with a simple majority vote of the votes cast. Pursuant to the Articles of Association, the directors serve terms of up to four-years. Directors whose term has come to an end may be reappointed.

At the Date of this Prospectus the Board of Directors is composed as follows:

| **Name** | **Term** | **Function** |
|---|---|---|
| Onno van de Stolpe | 2017 | Director and Chief Executive Officer |
| Rajesh Parekh, MA, DPhil | 2017 | Chairman of the Board of Directors |
| Harrold van Barlingen Ph.D. | 2018 | Director |
| Werner Cautreels, Ph.D. | 2018 | Director |

| | | |
|---|---|---|
| Howard Rowe, JD | 2018 | Director |
| Katrine Bosley | 2017 | Director |
| Christine Mummery, Ph.D. | 2019 | Director |

**Onno van de Stolpe – Chief Executive Officer**

Onno van de Stolpe founded Galapagos in 1999 and has served as Chief Executive Officer and member of the 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 this 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 N.V. in Leiden. He received an MSc degree from Wageningen University. Mr. Van de Stolpe currently also serves as a member of the supervisory board of the Stichting Institute for Human Organ and Disease Model Technologies and has in the past served as a member of the board of directors of DCPrime B.V.

**Rajesh Parekh, MA, DPhil - Chairman**

Rajesh Parekh, MA, DPhil has served as the chairman of the Board of Directors since 2004. Dr. Parekh is a General Partner at Advent Life Sciences LLP, which he joined in 2005. During an academic career at Oxford University, he co-founded Oxford GlycoSciences PLC, where he served as Chief Scientific Officer and Chief Executive Officer from 1988 until its sale to Celltech Group PLC (now UCB SA) in 2003. He has founded or served on the boards of several life sciences companies in the United States and Europe including Celldex Therapeutics, Inc.; Avila Therapeutics, Inc.; EUSA Pharma (Europe) Limited; Thiakis Limited; 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 Limited; Itara Ltd.; Levicept Limited; PE Limited; and Project Paradise Limited. He is also a member of the supervisory board of the Novartis Venture Fund. During the past five years, he served as a member of the board of directors of Biocartis NV, 4-Antibody AG, NeRRe Therapeutics Limited, F2G Limited, LuxFold S.A., CoCo Therapeutics Limited. He received his MA in Biochemistry and DPhil in Molecular Medicine from the University of Oxford, where he was a Senior Research Fellow and Professor.

**Harrold van Barlingen, Ph.D. – non-executive director**

Harrold van Barlingen, Ph.D. has served as a member of the 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 2006, 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 1999 to 2002. 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 Ph.D. 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., TheraSolve NV (chairman) and Hemics B.V. (chairman). In addition, during the last five years he also served on the boards of arGEN-X N.V., Okapi Sciences NV and Curacyte GmbH.

**Werner Cautreels, Ph.D. – independent director**

Werner Cautreels, Ph.D. has served as a member of the 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. 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. Dr. Cautreels currently serves as a member of the board of directors of Seres Health, Inc.

**Howard Rowe, JD – independent director**

Howard Rowe, JD has served as a member of the Board of Directors since 2010. Mr. Rowe is managing director at Hayfin Capital Management LLP. Prior to joining Hayfin Capital Management, Mr. Rowe was a managing director with The Goldman Sachs Group, Inc. where he had multiple healthcare responsibilities over his 12 years at the firm. His most recent roles at Goldman Sachs were as part of the European Special Situations and Principal Strategies teams where he established and led the private healthcare investing effort. During that time he served on the boards of EUSA Pharma (Europe) Limited, Healthcare Brands International Limited, SmallBone Innovations, Inc. and Ikonisys, Inc. Prior to his investing activities, 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. Mr. Rowe currently serves as a member of the board of directors of MedAvante, Inc.

**Katrine Bosley – independent director**

Katrine Bosley has served as a member of the 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. and as a director of Scholar Rock, LLC. She also serves on the board of directors of the Biotechnology Innovation Organization and is a review committee member of the Wellcome Trust. Ms. Bosley has in the past also served as a member of the board of directors of Coco Therapeutics Limited.

**Christine Mummery, Ph.D. – independent director**

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

**6.1.3** Organization

In principle, the Board of Directors meets once every calendar quarter. The Board can meet more often if the interests of the Company so require.

Meetings of the Board are convened by its chairman, by two directors or by a person entrusted with the day-to-day management.

Except in the event of urgency, which will be determined by the Chairman, the agenda of the meeting is sent to the members of the Board at least four days prior to the date of the meeting. The Chairman ensures that the directors receive complete and accurate information in respect of the items on the agenda. The convening notice should specify whether the topics on the agenda are included for information, for discussion or for decision-making purposes.

The meetings of the Board are chaired by the Chairman of the Board. In his/her absence, the meeting of the Board is chaired by the CEO of the Company.

The non-executive directors can meet in the absence of the CEO or the other executive directors. During such meeting, the non-executive directors can evaluate their interaction with the members of the Executive Committee and, if applicable, propose improvements to the Chairman.

The Secretary of the Company, or another person appointed by the chairman of the meeting, prepares minutes of the deliberations of the Board. The minutes refer to the discussions which took place, specify the resolutions which have been adopted and summarize any reservations voiced by a member of the Board.

**6.1.4** Conflict of interests with the Board of Directors

If a director has an interest of a monetary nature that conflicts with a decision or an act falling within the scope of the responsibilities of the Board of Directors, the provisions of article 523 of the Belgian Companies Code shall apply.

If at a meeting of the Board the required quorum to validly deliberate is present and one or more of the directors need to abstain pursuant to article 523 of the Belgian Companies Code, then the resolutions are validly taken by a majority of the other directors present or represented, even if as a result of such abstentions the abovementioned quorum is no longer satisfied.

If all directors need to abstain according to article 523 of the Belgian Companies Code, the Board must promptly convene a shareholders' meeting, which shall resolve itself or appoint an ad hoc director, which will be entrusted with the taking of the decision.

In the event a conflict of interests exists within the Board that falls outside of the scope of article 523 of the Belgian Companies Code, the existence of such conflict shall be reported by the relevant director to the Chairman of the Board, its existence shall be included in the minutes (but shall not be published) and the relevant director shall not vote on the matter.

(i) Cases of conflict of interests between the Company and a director in 2015

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

(a) In a meeting of the Board of Directors held on 23 June 2015, the following was reported in accordance with article 523 of the Belgian Companies Code and in connection with the recommendation of the Nomination and Remuneration Committee, further to the resolution of the Shareholders' Meeting of 28 April 2015, as to the allocation of the aggregate annual remuneration of EUR 200,000 (plus expenses) for Directors (other than Dr. Parekh and Mr. Van de Stolpe) for the exercise of their mandate as Director: the Chairman declared that the Directors involved had informed the Board of a conflict of interest, concerning their proposed remuneration. It has been explained to the Board that the proposed remuneration for each Director falls within the scope and limits of the authorization of the AGM of 28 April 2015. The level of these remunerations will have no material impact on the financial position of the Company. Insofar as it related to his/her individual remuneration, the Director

involved did not take part in the deliberation and the vote concerning this decision.

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

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

**6.1.5** Board committees

In addition to establishing an Executive Committee, as further set out in Section 6.2 of this Part of the Prospectus, the Board has established an Audit Committee and a Nomination and Remuneration Committee. The role of these committees is only advisory; the final decision-making power remains with the Board.

(i) General rules – Audit Committee and Nomination and Remuneration Committee

The members of each committee are appointed by the Board and can be dismissed by the Board at any time. The duration of the mandate of a member of a committee cannot exceed that of his/her Board membership.

In deciding on the specific composition of each committee, consideration is given to the needs and qualifications required for the optimal functioning of that committee. Each committee may invite any non-member to attend its meetings and is entitled to seek external professional advice at the Company's expense after informing the chairman of the Board.

The meetings of each committee are in principle convened by the Secretary, in consultation with the chairman of that committee. Each member of a committee may also convene a meeting of that committee.

Except in case of urgency, the agenda of the meeting is sent to the members of the relevant committee at least four calendar days prior to the meeting. If all members of a committee are present at a meeting, that committee can validly deliberate, irrespective of whether the convening formalities were complied with.

In order to validly deliberate, a quorum of two members who are physically present or who attend the meeting by teleconference is required.

Decisions are made by majority of votes cast. In the event of a tie, the chairman of the relevant committee has a casting vote.

(ii) Audit Committee

The Audit Committee is composed of at least three directors. In accordance with article 526 BCC, all members of the Audit Committee are non-executive directors. The majority of the members of the Audit Committee are also independent directors.

The Audit Committee of the Company currently consists of three members of which two are independent directors.

The current members of the Audit Committee are Werner Cautreels, Harrold van Barlingen and Howard Rowe.

The Audit Committee assists the Board in overseeing the accuracy and integrity of the Company's accounting and financial reporting processes and audits of the Company's consolidated financial statements, the implementation and effectiveness of an internal control system and the compliance with legal and regulatory requirements, the independent auditors' qualifications and independence and the performance of the independent auditors.

The Audit Committee's duties and responsibilities to carry out its purposes include, among others:

- ensuring the integrity of the Company's financial reporting, including review of period information before it is made public;
- evaluating the Company's system of internal controls set up by the Company's Executive Committee, including evaluation and approval of the explanatory notes on internal controls in the Company's annual reports;
- reviewing the functions of the Company's internal risk management system and the efficacy of these systems;
- assessing the necessity for setting up an internal audit function; and
- supervising the Company's relationship with the Company's external auditors during the external audit process, including evaluation of the Company's auditors' independence.

The Audit Committee reports regularly to the Board of Directors on the exercise of its functions. It informs the Board about all areas in which action or improvement is necessary in its opinion and produces recommendations concerning the necessary steps that need to be taken. The audit review and the reporting on that review cover the Company and its subsidiaries as a whole. The members of the audit committee are entitled to receive all information which they need for the performance of their function, from the Board, Executive Committee and employees. Every member of the Audit Committee shall exercise this right in consultation with the chairman of the Audit Committee.

(iii) Nomination and Remuneration Committee

The Nomination and Remuneration Committee is composed of at least three directors. All members of the Nomination and Remuneration Committee are non-executive directors. The majority of its members are also independent directors.

The chairman of the Nomination and Remuneration Committee shall be appointed by the Board of Directors. The chairman of the Nomination and Remuneration Committee cannot chair the meeting when the appointment of his/her successor is being discussed.

The current members of the Nomination and Remuneration Committee are Rajesh Parekh, Katrine Bosley and Werner Cautreels.

Concerning the Company's nomination policy, the Nomination and Remuneration Committee's duties and responsibilities to carry out its purposes include, among others:

- making and evaluating proposals to the Board of Directors with regard to the election and re-election of non-executive directors;
- advising on the size and composition of the Board of Directors periodically;
- making selection criteria and nomination procedures for members of the Executive Committee; and
- advising on proposals relating to the appointment or dismissal of the members of the Executive Committee.

Concerning the Company's remuneration policy, the Nomination and Remuneration Committee's duties and responsibilities to carry out its purposes include, among others:

- making and evaluating proposals to the Board of Directors with regard to the remuneration policy for non-executive directors and the proposals which have to be submitted to the shareholders;
- making and evaluating proposals to the Board of Directors relating to the remuneration policy for members of the Executive Committee;
- making proposals relating to individual remuneration, including bonuses; and

- discussing and evaluating the operations and performance of the Executive Committee at least once a year.

## 6.2 Executive Committee

**6.2.1** Role and responsibilities

The Executive Committee shall manage the business and exercise the powers delegated to it by the Board of Directors. Such powers shall in any event not include the determination of the general strategy of the Company and powers that are expressly reserved for the Board of Directors or the shareholders' meeting by law, the Articles of Association or the Corporate Charter.

Key responsibilities of the Executive Committee include:

(i) under the supervision of the CEO, examining, defining and exploring strategic opportunities and proposals which could lead to the further development of the Company, including but not limited to:

- analyzing strategies, business plans and budgets, and developing a plan and budget for the Company in order to submit a proposal to the Board for discussion and approval;
- organizing activities required for the implementation of strategies and, if needed, proposing changes;
- making recommendations to the Board for collaboration and investment possibilities, by means of joint ventures, mergers, acquisitions or other transaction structures, which have to be submitted to the Board because of their size, impact, or risks involved, or for any other reason;

(ii) drafting and working out strategic guidelines to be submitted to the Board for approval, such as:

- financial strategy;
- operational goals of the Company;
- other topics that, in the opinion of the Board or the CEO, require a strategic decision at Board level;

(iii) under the leadership of the CEO, managing the Company by:

- giving direction to, supervising and supporting the business of the Company;
- ensuring that the results of the Company are consistent with its strategic goals, plans and budgets and that the Company complies with applicable laws and regulations;
- organizing and supervising supporting functions such as those related to human resources, legal, fiscal and compliance matters, internal and external reporting, and communication with investors;

(iv) without prejudice to the tasks of the Audit Committee, setting up and maintaining policies related to the risk profile of the Company and systems to identify, assess, manage and monitor financial and other risks;

(v) being responsible and accountable for the complete, timely, reliable and accurate preparation of the Company's financial statements, in accordance with the accounting standards and policies of the Company;

(vi) reporting to the Board with regard to the implementation of strategic guidelines in general and specifically the financial development of the Company within the strategy;

(vii) providing the Board with the information it needs in order to fulfil its duties;

(viii) supporting the CEO in the daily management of the Company and the exercise of his/her other responsibilities;

(ix) executing any other tasks and responsibilities entrusted to the Executive Committee by the Board, relating to specific matters and as proposed by the CEO; and

(x) verifying and evaluating the efficacy of the Corporate Governance Charter and making recommendations to the Board for any modifications to this Charter it deems necessary.

Notwithstanding the above, the Board of Directors retains the right to deliberate and decide on matters which have in principle been delegated to the Executive Committee, if the Board is of the opinion that these specific matters require deliberation at Board level.

**6.2.2** Composition

The members of the Executive Committee are appointed by the Board of Directors upon the recommendation of the Nomination and Remuneration Committee. They can be dismissed by the Board at any time.

The CEO of the Company shall act as chairman of the Executive Committee.

The members of the Executive Committee are nominated for an indefinite duration. However, when a member of the Executive Committee ceases to have an employment or management agreement with the Company or its subsidiaries, such person must also cease to be a member of the Executive Committee.

At the Date of this Prospectus the Executive Committee is composed as follows:

| **Name** | **Office** |
|---|---|
| Onno van de Stolpe | Chief Executive Officer |
| Piet Wigerinck, Ph.D. | Chief Scientific Officer |
| Bart Filius, MBA | Chief Financial Officer |
| Andre Hoekema, Ph.D. | Senior Vice President Corporate Development |

**Onno van de Stolpe – Chief Executive Officer**

Please see Section 6.1.2 of the Part VIII of the Prospectus for Mr. Van de Stolpe's biographical information.

**Piet Wigerinck, Ph.D. – Chief Scientific Officer**

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

**Bart Filius, MBA – Chief Financial Officer**

Bart Filius has served as Galapagos' Chief Financial Officer since December 2014. Prior to that, Mr. Filius worked over 13 years at Sanofi, where he was CFO Sanofi Europe during the last three years. Earlier at Sanofi, Mr. Filius was CFO and Country Manager of Sanofi in the Netherlands. Before that, he was Vice President for Mergers & Acquisitions, during which time Mr. Filius led and completed the divestiture of various franchises. Prior to joining Sanofi, Mr. Filius 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.

**Andre Hoekema, Ph.D. – Senior Vice President Corporate Development**

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

**6.2.3** Conflict of interest with the Executive Committee

If a member of the Executive Committee has an interest of a monetary nature that conflicts with a decision or an act falling within the scope of the responsibilities of the Executive Committee, the Executive Committee shall refrain from making any decision. The Executive Committee shall instead escalate the matter to the Board. The Board shall decide whether or

not to approve such decision or act and shall apply the conflict of interests procedure set out in article 523 of the Belgian Companies Code.

In the event a conflict of interests exists within the Executive Committee that falls outside of the scope of article 523 of the Belgian Companies Code, the existence of such conflict shall be reported by the relevant member of the Executive Committee, its existence shall be included in the minutes (but shall not be published) and the relevant member of the Executive Committee shall not vote on the matter.

## 6.3 Additional information

As of the Date of this Prospectus and except as set out below, none of the directors or Executive Committee members of the Company for at least the previous five years:

- holds any convictions in relation to fraudulent offenses;
- has held an executive function in the form of senior manager or a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation, with the exception of Rajesh Parekh, who was chairman of CoCo Therapeutics Limited, and Katrine Bosley, who served as a member of its board of directors, when CoCo Therapeutics Limited entered a members' voluntary liquidation process in December 2014, following negative pre-clinical results;
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body); or
- has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any company or from acting in the management or conduct of affairs of any company.

## 6.4 Transactions between the Company and its directors or Executive Committee members

The Company applies the following guidelines to transactions or other contractual relationships between the Company (including related companies within the meaning of article 11 of the Belgian Companies Code) and members of its Board or Executive Committee that are not covered by the applicable legislation on conflicts of interests:

(i) all directors and members of the Executive Committee are expected to avoid all acts, standpoints or interests that conflict with, or give the impression that they conflict with, the interests of the Company;

(ii) all transactions between the Company and its directors or members of its Executive Committee need the approval of the Board. By way of example, directors and members of the Executive Committee are not allowed, directly nor indirectly, to enter into agreements with the Company pertaining to the supply of materials or delivery of services (other than management services), the Board has expressly granted its approval; and

(iii) any transaction between the Company and its directors or members of its Executive can only be entered into at arm's length (normal market conditions).

## 6.5 Remuneration and benefits

### 6.5.1 Remuneration policy

The goal of the Company's remuneration policy is to attract, motivate and retain the qualified and expert individuals that it needs in order to achieve its strategic and operational objectives.

(i) Members of the Board

In consideration for the performance of their duties as director, the non-executive directors shall receive a fixed annual remuneration, irrespective of the number of Board meetings that are held during the year. However, in the event a director has an attendance rate at Board meetings that is below 75%, the amount of his/her fixed remuneration is proportionally decreased. The non-executive directors are not entitled to any performance-related remuneration such as bonuses, benefits in kind or pension schemes.

Although provision 7.7 of the Belgian Corporate Governance Code stipulates that non-executive directors should not be entitled to performance-related remuneration such as stock-related long-term incentive schemes, warrants can nevertheless be granted to both executive and non-executive directors. Allowing for the possibility to also grant warrants to the non-executive directors helps to enable the Company to attract skilled non-executive directors and to offer them an attractive additional remuneration that does not affect the cash position of the Company. Furthermore, the grant of warrants is a commonly used method in the sector in which the Company operates. Without this possibility, the Company would be confronted with a considerable disadvantage compared to competitors who do offer stock-related incentive schemes to their non- executive directors. The Board is of the opinion that the grant of warrants does not have any negative impact on the functioning of the non-executive directors.

The rules for reimbursement of directors' business-related out-of-pocket expenses shall be determined and revised by the Board from time to time.

Remuneration for directors will be disclosed to shareholders in accordance with applicable laws and stock exchange rules.

(a) Remuneration of non-executive Directors

Pursuant to the decision of the Annual Shareholders' Meeting of 28 April 2015, the total maximum amount of the annual remuneration for all Directors together (other than Dr. Parekh and the CEO) for the exercise of their mandate as a Director of the Company is fixed, on an aggregate basis, at EUR 200,000 (plus expenses). The same Annual Shareholders' Meeting granted a power of attorney to the Board to determine the remuneration of the individual Board members within the limits of said aggregate amount. Pursuant to this power of attorney, the Board determined, after discussion within the Nomination and Remuneration Committee, the allocation of the aggregate annual remuneration for Directors as follows: (a) annual remuneration for each non-executive Director (Dr. Cautreels, Dr. Van Barlingen, Mr. Rowe and Ms. Bosley): EUR 40,000; and (b) additional remuneration for the chairman of the Audit Committee (Dr. Cautreels): EUR 5,000. Dr. Mummery, being appointed as non-

executive Director as from 30 September 2015, received EUR 10,000 as remuneration for the performance of her mandate during the last quarter of 2015.

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

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

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

In 2015, the Company issued three warrant plans for the benefit of employees of the Company and of the Directors and one independent consultant of the Company: Warrant Plan 2015, Warrant Plan 2015 (B) and Warrant Plan 2015 RMV.

- In accordance with the resolution of the Annual Shareholders' Meeting of 28 April 2015, the following number of warrants were offered under Warrant Plan 2015 to the non-executive Directors: Dr. Parekh: 5,400 warrants; Dr. Cautreels: 3,780 warrants; and Ms. Bosley, Dr. Van Barlingen and Mr. Rowe: each 2,520 warrants. All Directors accepted the warrants offered. These warrants have a term of eight years. The exercise price of the warrants is EUR 28.75. As regards the Directors, the warrants vest over a period of 36 months at a rate of $1/36^{th}$ per month. The warrants cannot be transferred and cannot be exercised prior to the end of the third calendar year following the year of the grant.

- In accordance with the resolution of the Special Shareholders' Meeting of 22 December 2015, the following number of warrants were offered under Warrant Plan 2015 (B) to the non-executive Directors: Dr. Parekh: 15,000 warrants; Dr. Cautreels, Dr. Van Barlingen, Mr. Rowe, Ms. Bosley and Dr. Mummery: each 7,500 warrants. All Directors accepted the warrants offered. These warrants have a term of eight years. The exercise price of the warrants is EUR 49.00. As regards the Directors, the warrants vest over a period of 36 months at a rate of $1/36^{th}$ per month. The warrants cannot be transferred and cannot be exercised prior to the third anniversary of the notary deed enacting the acceptance of the warrants. No warrants were offered to Directors under Warrant Plan 2015 RMV.

The Board of Directors does not consider the above warrants as variable remuneration as defined by the Belgian Companies Code as they are not subject to any performance-related criteria.

The table below sets forth the total number of shares and warrants held by each non-executive Director as of the Date of this Prospectus:

| Name | Number of Shares | Number of Warrants |
|---|---|---|
| **Raj Parekh** | 31,250 | 23,700 |
| **Harrold van Barlingen** | 15,620 | 17,580 |
| **Werner Cautreels** | 2,520 | 21,360 |
| **Howard Rowe** | - | 25,080 |
| **Katrine Bosley** | - | 20,040 |
| **Christine Mummery** | 454 | 7,500 |

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

(b) Remuneration of executive Directors of the Company

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

(ii) Executive Committee members.

In light of the remuneration policy, the structure of the remuneration package for members of the Executive Committee is designed to balance short-term operational performance with the long-term objective of creating sustainable value within the Group, while taking into account the interests of all stakeholders.

The remuneration of the CEO (who is an executive director) and of the other members of the Executive Committee consists of a fixed amount and of a variable part (bonus). Remuneration increases and bonuses are merit-driven and based on a performance rating system that is based on individual performance (including exceptional deliverables) in combination with the overall performance of the Group, 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, 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. 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 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.

The amount of remuneration and the other main contractual terms of hiring of, and termination arrangements with, members of the Executive Committee will be disclosed in the Company's annual report in accordance with applicable laws and stock exchange rules.

(a) Gross remuneration of the Company's CEO for financial year 2015

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

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

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

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

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

(b) Aggregate gross remuneration of the other Executive Committee members for financial year 2015

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

(ii) Variable remunerations (bonuses): given the level of achievement of the criteria from the Senior Management Bonus Scheme to be entitled to a bonus (i.e. the corporate objectives for 2015), an aggregate bonus of EUR 520,830 (i.e. 100% of the aggregate bonus pool) was awarded

over 2015 of which 50% was paid early January 2016, and the other 50% was deferred for three years. The value of the 50% deferred part of the bonus awarded over 2012 was established at the end of 2015 and resulted in a payment in early January 2016 of an amount of EUR 227,703 (a multiple of 3.17 of the deferred bonus, as a result of the share price performance over the period 2012-2015 as per the liabilities of the Senior Management Bonus Scheme). In addition, upon recommendation of the Nomination and Remuneration Committee, the Board resolved to award an exceptional special bonus given the success of the NASDAQ listing, amounting to EUR 750,000, of which 50% was payable in June 2015, and the other 50% was deferred for three years.

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

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

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

(c) Shares, warrants or other rights to acquire shares awarded to, exercised by or expired for Executive Committee members during financial year 2015

In 2015, only warrants were offered to the members of the Executive Committee, and no shares or other rights to acquire shares were awarded. No warrants expired for members of the Executive Committee in 2015 and, in aggregate, 243,126 warrants were exercised by members of the Executive Committee in 2015 (228,126 warrants were exercised by Onno van de Stolpe, 7,500 warrants by Piet Wigerinck and 7,500 warrants by Andre Hoekema). The Board of Directors does not consider the granted warrants as a variable remuneration, as they are not subject to any performance criteria.

The following number of warrants were offered to and accepted by members of the Executive Committee in 2015:

- under Warrant Plan 2015, issued by the Board of Directors under the authorized capital on 30 April 2015, to Mr. Van de Stolpe: 100,000 warrants, each of Dr. Hoekema and Dr. Wigerinck: 30,000 warrants and to Mr. Filius: 15,000 warrants. The warrants issued under Warrant Plan 2015 have an exercise price of EUR 28.75 per warrant, a life time of eight years, and vest only and fully at the end of the third calendar year after the year of the grant, except for Mr. Van de Stolpe, whose warrants vest over a period of 36 months at a rate of 1/36$^{th}$ per

month. The warrants cannot be exercised prior to the end of the third calendar year after the year of the grant; they are not transferable, and each warrant gives the right to subscribe to one share of the Company; and

- under Warrant Plan 2015 (B), issued by the Board of Directors under the authorized capital on 21 December 2015, to Mr. Van de Stolpe: 100,000 warrants, each of Dr. Wigerinck and Mr. Filius: 50,000 warrants and to Dr. Hoekema: 40,000 warrants. The warrants issued under Warrant Plan 2015 (B) have an exercise price of EUR 49.00 per warrant, a life time of eight years, vest only and fully on the third anniversary of the notary deed enacting the acceptance of the warrants, except for Mr. Van de Stolpe, whose warrants vest over a period of 36 months at a rate of 1/36$^{th}$ per month. The warrants cannot be exercised prior to the third anniversary of the notary deed enacting the acceptance of the warrants. They are not transferable, and each warrant gives the right to subscribe to one share of the Company.

The table below sets forth the total number of shares and warrants held by each Executive Committee member as of the Date of this Prospectus:

| Name | Number of Shares | Number of Warrants |
|---|---|---|
| **Onno van de Stolpe** | 538,289 | 726,874 |
| **Piet Wigerinck** | 5,500 | 342,500 |
| **Andre Hoekema** | 14,852 | 317,500 |
| **Bart Filius** | - | 215.000 |

(d) Contractual provisions regarding compensation for severance for the Executive Committee members

The contracts between the Company 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, the Company entered into undertakings with the CEO and the other members of the Executive Committee, providing that in case their contract with the Company is terminated as a result of a change of control of the Company, 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.

## 6.6 Corporate Governance Practices

Along with the Company's Articles of Association, the Company adopted a corporate governance charter in accordance with the recommendations set out in the Belgian Corporate Governance Code issued on 12 March 2009 by the Belgian Corporate Governance Committee. The Belgian Corporate Governance Code is based on a "comply or explain" system: Belgian listed companies are expected to follow the Belgian Corporate Governance Code, but can deviate from specific provisions and guidelines (though not the principles) provided they disclose the justification for such deviations.

The Company's Board of Directors complies with the Belgian Corporate Governance Code, but believes that certain deviations from its provisions are justified in view of its particular situation. These deviations include the grant of warrants to non-executive directors. In this way, the Company has additional possibilities to attract competent non- executive directors and to offer them an attractive additional remuneration without the consequence that this additional remuneration weighs on the financial results. Furthermore, the grant of warrants is a commonly used method in the sector in which the Company operates. Without this possibility, the Company would be subject to a considerable disadvantage compared to competitors who do offer warrants to their non-executive directors. The Board of Directors is of the opinion that the grant of warrants has no negative impact on the functioning of the non- executive directors.

The Board of Directors reviews the Corporate Governance Charter from time to time and makes such changes as it deems necessary and appropriate. Additionally, the Board of Directors adopted a written charter for each of the Executive Committee, the Audit Committee and the Nomination and Remuneration Committee, which are part of the Corporate Governance Charter.

## 7 Related party transactions

### 7.1.1 Transactions with related companies

From time to time, in the ordinary course of the Company's business it may contract for services from companies in which certain of the members of its Executive Committee or directors may serve as director or advisor. The cost of these services is negotiated on an arm's length basis and none of these arrangements is material to the Company.

### 7.1.2 Related party transactions policy

Article 524 of the Belgian Companies Code provides for a special procedure that applies to intragroup or related party transactions with affiliates. The procedure applies to decisions or transactions between the Company and its affiliates that are not one of the Company's subsidiaries. Prior to any such decision or transaction, the Board of Directors must appoint a special committee consisting of three independent directors, assisted by one or more independent experts. This committee must assess the business advantages and disadvantages of the decision or transaction, quantify its financial consequences and determine whether the decision or transaction causes a disadvantage to us that is manifestly illegitimate in view of the Company's policy. If the committee determines that the decision or transaction is not illegitimate but will prejudice the Company, it must analyze the advantages and disadvantages of such decision or transaction and set out such considerations as part of its advice. The Board of Directors must then make a decision, taking into account the opinion of the committee. Any deviation from the committee's advice must be justified. Directors who have a conflict of interest are not entitled to participate in the deliberation and vote. The committee's advice and the decision of the Board of Directors must be notified to the Company's Statutory Auditor, who must render a separate opinion. The conclusion of the committee, an excerpt from the minutes of the Board of Directors and the opinion by the Statutory Auditor must be included in the Company's annual report. This procedure does not apply to decisions or transactions in the ordinary course of business under customary market conditions and security documents, or to transactions or decisions with a value of less than 1% of the Company's net assets as shown in its consolidated annual accounts.

In addition to this, the Company's Corporate Governance Charter provides for guidelines for transactions between the Company and its directors or members of the Executive Committee (see section 6.4 of this part of the Prospectus).

**7.1.3** Transactions with the Company's major shareholders

On 16 December 2015, Gilead Biopharmaceutics Ireland Unlimited Company and the Company signed an exclusive license and collaboration agreement to develop and commercialize filgotinib in multiple indications. Under the terms of the collaboration, Gilead is primarily responsible for development and for seeking regulatory approval of the licensed product. The Company is required to use commercially reasonable efforts as requested by Gilead to assist Gilead with certain development activities. In the framework of the closing of the transaction on 19 January 2016, Gilead Biopharmaceutics Ireland Unlimited Company made a USD 425 million (or EUR 392 million) equity investment in the Company by subscribing to the New Shares at the Issue Price of EUR 58.00 per share, including issuance premium. This resulted in Gilead owning 6,760,701 ordinary shares of the Company, representing 14.75% of its then outstanding share capital. Moreover, under the Subscription Agreement relating hereto, the parties agreed to a lock-up arrangement (expiring on 31 December 2017) and a standstill arrangement. For further information on the exclusive license and collaboration agreement between Gilead and the Company, please see Section 14 of this Part VIII of the Prospectus.

## 8 Dividend policy

The Company has never declared or paid any cash dividends on its shares. The Company does not anticipate paying cash dividends on its equity securities in the foreseeable future and intends for the foreseeable future to retain all available funds and any future earnings for use in the operation and expansion of its business. All of the shares covered by this listing prospectus, have the same dividend rights as all of the Company's other outstanding ordinary shares, including in the form of ADSs. In general, distributions of dividends proposed by the Board of Directors require the approval of the shareholders at a shareholders' meeting with a simple majority vote, although the Board of Directors may declare interim dividends without shareholder approval, subject to the terms and conditions of the Belgian Companies Code.

Pursuant to Belgian law, the calculation of amounts available for distribution to shareholders, as dividends or otherwise, must be determined on the basis of the Company's non-consolidated statutory financial accounts. In addition, under the Belgian Companies Code, the Company may declare or pay dividends only if, following the declaration and issuance of the dividends, the amount of its net assets on the date of the closing of the last financial year according to the Company's statutory annual accounts (i.e., the amount of the assets as shown in the balance sheet, decreased with provisions and liabilities, all as prepared in accordance with Belgian accounting rules), decreased with the non-amortized costs of incorporation and expansion and the non-amortized costs for research and development, does not fall below the amount of the paid-up capital (or, if higher, the called capital), increased with the amount of non-distributable reserves. Finally, prior to distributing dividends, the Company must allocate at least 5% of its annual net profits (under the non-consolidated statutory accounts prepared in accordance with Belgian accounting rules) to a legal reserve, until the reserve amounts to 10% of the Company's share capital.

## 9 Employees

As of 31 December 2015, Galapagos had 435 employees. Its employees in France and Croatia are represented by a labor union and/or covered by a collective bargaining agreement. Galapagos has never experienced any employment related work stoppages, and it considers its relations with its employees to be good. Galapagos has also engaged and may continue to engage independent contractors to assist with its clinical project activities. At each date shown, Galapagos had the following employees (excluding certain employees of Galapagos' service division that was sold in April 2014), broken out by department and geography:

| | At 31 December | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| **Function:** | | | |
| Executive officers | 4 | 4 | 4 |
| Research | 252 | 213 | 205 |
| Development | 36 | 38 | 53 |
| Research services | 101 | 102 | 102 |
| Corporate and support | 66 | 60 | 71 |
| Total | **459** | **417** | **435** |
| **Geography:** | | | |
| Leiden, The Netherlands | 70 | 31 | 34 |
| Mechelen, Belgium | 134 | 138 | 151 |
| Romainville, France | 133 | 128 | 129 |
| Zagreb, Croatia | 122 | 120 | 121 |
| Total | **459** | **417** | **435** |

## 10 Property, plants and equipment

Galapagos leases its principal executive, operational offices and laboratory space, which consists of 5,471 square meters, located in Mechelen, Belgium. The lease for this facility expires on 31 May 2024. Galapagos also has facilities in Romainville, France; Zagreb, Croatia; and Leiden, The Netherlands. These facilities are also leased by Galapagos.

## 11 Research and development, patents and licenses

### 11.1 Research and development

As a clinical-stage biotechnology company, Galapagos main business activities relate to research and development. See Part IX "Business Overview" of this Prospectus.

For additional details on Galapagos' research and development expenditures, see Part VII "Operating and financial review" of this Prospectus.

### 11.2 Intellectual Property

The proprietary nature of, and protection for, Galapagos' product candidates, their methods of use, and Galapagos' platform technologies are an important part of its strategy to develop and commercialize novel medicines. Galapagos has obtained patents relating to certain of its product candidates, and is pursuing additional patent protection for them and for its other product candidates and technologies. Galapagos also relies on trade secrets to protect aspects of its business that are not amenable to, or that it does not consider appropriate for, patent protection. Additionally, Galapagos has registered and unregistered trademarks, including amongst others the company name.

Galapagos' success will depend significantly on its ability to obtain and maintain patent and other proprietary protection for commercially important products, technologies, inventions and know-how related to its business and its ability to defend and enforce its patents, preserve the confidentiality of its trade secrets and operate without infringing the valid and enforceable patents and proprietary rights of third parties. Galapagos also relies on know-how, continuing technological innovation and in-licensing opportunities to develop, strengthen and maintain the proprietary position of its development programs.

As of the Date of this Prospectus, patent rights held by the Company relating to its product candidates include the following:

Filgotinib Product Candidate: the Company has four U.S. patents relating to filgotinib, one pending U.S. patent application, and counterpart patent applications that are pending in Australia, Canada, Europe and other foreign countries. The four issued U.S. patents, and any additional patents that may be granted based on the pending U.S. and foreign patent applications, are currently expected to expire in 2030, not including any potential extensions for the marketed candidate that may be available via supplementary protection certificates or patent term extensions. In addition, the Company has two pending U.S. applications, with counterpart applications pending under the Patent Cooperation Treaty, or PCT, and other foreign countries, which are directed to certain physical forms, including polymorphic forms and compositions, of its filgotinib product candidate, and patents, if granted, based on these patent applications are estimated to expire in 2035, not including any potential extensions that may be available for the marketed product via supplementary protection certificates or patent term extensions. The Company also has a pending PCT application related to the use of its filgotinib product candidate in cardiovascular disorders, and a pending PCT application related to the specific use of its filgotinib product candidate at particular doses in inflammatory conditions. Any patents, if granted, based on these patent applications are estimated to expire in 2036. The Company has additional patents and pending patent applications directed to the use of compounds related to its filgotinib product candidate and these patents, and patents that may be issued based on these pending patent applications, are currently expected to expire from 2029 to 2033, not including any potential extensions that may be available for the marketed product via supplementary protection certificates or patent term extensions.

GLPG1690 Product Candidate: the Company has two issued U.S. patents relating to GLPG1690, one pending U.S. patent application and counterpart foreign patent applications that are pending in Australia, Canada, Europe and other foreign countries. Patents, if any, that issue based on these pending patent applications are estimated to expire in 2034, not including any potential extensions that may be available for the marketed product via supplementary protection certificates or patent term extensions.

GLPG1837 Product Candidate: the Company has one issued U.S. patent relating to GLPG1837, one pending U.S. patent application and counterpart foreign patent applications that are pending in Australia, Canada, Europe and other foreign countries. Patents, if any, that issue based on these pending patent applications are estimated to expire in 2034, not including any potential extensions that may be available for the marketed product via supplementary protection certificates or patent term extensions.

GLPG2222 Product Candidate: the Company has rights in a pending U.S. application, with a counterpart application pending under the PCT and in other foreign countries relating to GLPG2222. Patents, if any, that issue based on these pending patent applications are estimated to expire in 2035,

not including any potential extensions that may be available for the marketed product via supplementary protection certificates or patent term extensions.

GLPG2665 Product Candidate: the Company has rights in a pending U.S. patent application relating to GLPG2665. Patents, if any, that issue, based on this pending patent application are estimated to expire in 2036, not including any potential extensions that may be available for the marketed product via supplementary protection certificates or patent term extensions.

GLPG1972 Product Candidate: the Company has rights, jointly with its alliance partner Servier, in a pending patent application under the PCT, as well as patent applications pending in Taiwan and other foreign countries relating to GLPG1972. Patents, if any, that issue based on these pending patent applications are estimated to expire in 2035, not including any potential extensions that may be available for the marketed product via supplementary protection certificates or patent term extensions.

MOR106 Product Candidate: the Company has rights in a pending European patent application relating to MOR106. Patents, if any, that issue based on this pending patent application are estimated to expire in 2037, not including any potential extension that may be available for the marketed product via supplementary protection certificates or patent term extensions.

Galapagos also owns or has rights in patents relating to its target discovery platform.

## 12 Legal and arbitration proceedings

From time to time the Company becomes involved in legal proceedings or is subject to claims arising in the ordinary course of its business. At present the Company is not a party to any legal proceedings that, if determined adversely to the Company, would individually or taken together have a material adverse effect on the Company's business, results of operations, financial condition or cash flows. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.

## 13 Significant change in the Company's financial or trading position

On 19 January 2016, the Company completed the closing of the Collaboration Agreement with Gilead and the Capital Increase, as a result of which the Company received an upfront license fee of USD 300 million and a USD 425 million contribution in cash to its share capital. See Section 14 of this Part of the Prospectus for further details on the Collaboration Agreement and Part X of the Prospectus for further details on the Capital Increase.

## 14 Material contracts

### 14.1 Exclusive Collaboration Agreement for Filgotinib

In September 2015, Galapagos' exclusive collaboration with AbbVie for JAK1 inhibitors was terminated, following which Galapagos regained all unencumbered rights to filgotinib. In its press release dated 25 September 2015, AbbVie stated that it decided not to exercise its right to in-license filgotinib following a thorough review of available data. AbbVie referred in the same press release to AbbVie's belief that its internally developed JAK inhibitor, ABT-494, offered "*a faster path to Phase 3 development with less uncertainty*".

In December 2015, the Company entered into a global collaboration agreement with Gilead to develop and commercialize filgotinib for the treatment of inflammatory indications. On 13 January 2016, the

parties announced that the U.S. Federal Trade Commission provided early termination of the waiting period under the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the parties closed this transaction on 19 January 2016.

In connection with the entry into the collaboration agreement, the Company received an upfront payment of USD 725 million consisting of a one-time, non-refundable, non-creditable license fee in the amount of USD 300 million and a USD 425 million equity investment. This equity investment was effected on 19 January 2016 through the Capital Increase. For further details on the Subscription Agreement, the ancillary agreement governing the terms of the equity investment by Gilead, please see Section 7.1.3 of this Part VIII of this Prospectus.

In addition, the Company will be eligible to receive development and regulatory milestone-based payments of up to USD 755 million and sales-based milestone payments of up to USD 600 million. The Company will be eligible to receive tiered royalty percentages starting at 20% on global net sales of licensed products. The royalties payable to the Company under the collaboration agreement may be reduced under certain circumstances. The right to receive royalties under the collaboration agreement continues, on a country-by-country basis, until the later to occur of certain specified events. In the event the Company exercises its co-promotion option with respect to licensed products in one or more of the territories eligible for co-promotion, the Company would assume a portion of the co-promotion effort in The United Kingdom, Germany, France, Italy, Spain, The Netherlands, Belgium, and/or Luxembourg and share equally in the net profit and net losses in these territories instead of receiving royalties in those territories during the period of co-promotion.

The collaboration is managed by a set of joint committees comprised of equal numbers of representatives from each of Galapagos and Gilead. The joint steering committee monitors and provides strategic oversight of the activities under the collaboration and facilitates communications between the parties. The joint development committee oversees and coordinates the development of the licensed products. The joint commercialization committee will oversee commercialization of licensed products, and co-promoted licensed products in co-promotion territories if the Company elects to exercise its co-promotion option, as described below.

Under the terms of the collaboration, Gilead is primarily responsible for development and for seeking regulatory approval of the licensed product. The parties agreed to share the costs related to the development of licensed products, with Gilead being responsible for 80% and the Company being responsible for 20% of such development costs. The Company is also required to use commercially reasonable efforts as requested by Gilead to assist Gilead with certain development activities. The Company plans to initiate with Gilead Phase 3 trials in RA and Crohn's disease and a Phase 2 trial in UC in 2016 pending the successful outcome of discussions with regulatory authorities.

The collaboration agreement will expire (a) on a country-by-country basis at the end of the royalty term in such country or (b) at such time as a generic product is first sold in a co-promotion country in the event the Company exercises its co-promotion option with respect to licensed products in The United Kingdom, Germany, France, Italy, Spain, The Netherlands, Belgium, and/or Luxembourg. Upon expiration of the collaboration agreement, the licenses will become fully-paid, perpetual and irrevocable. Either the Company or Gilead may terminate the collaboration agreement for the other party's uncured material breach. Either the Company or Gilead may terminate the collaboration agreement in the event of specified insolvency events involving the other party. Gilead may also terminate the collaboration agreement in its entirety for convenience following a certain period upon prior written notice.

If the collaboration agreement terminates in its entirety for any reason, all rights and licenses granted by either party will terminate, and the Company will obtain an exclusive, perpetual, irrevocable, royalty-bearing license from Gilead under certain intellectual property rights to exploit the licensed product that is the subject of development or commercialization at the time of termination. If the collaboration agreement is terminated in a specific territory, all rights and licenses granted by the Company will be deemed to be amended not to include such territory, and the Company will have a corresponding license with respect to such terminated country. The collaboration agreement also contains other specified termination rights.

Either party may, without the consent of the other party, assign the collaboration agreement to an affiliate or successor. Any other assignment requires written consent of the other party. However, with respect to an assignment to an affiliate, the assigning party will remain bound by the terms of the collaboration agreement. If the Company undergoes a change in control, Gilead has the right to terminate the co-promotion option or, if the option has already been exercised, the Company's right to co-promote, and disband all joint committees and undertake exclusive control of their activities; provided, that Gilead has no right to exercise such rights if the Company undergoes a change in control with a drug company that has a market capitalization less than a certain percentage of the Company's market capitalization.

### 14.2 Exclusive Collaboration Agreement for CFTR Modulators

In September 2013, the Company entered into a global collaboration agreement with AbbVie focused on the discovery and worldwide development and commercialization of potentiator and corrector molecules for the treatment of CF. The amounts mentioned below reflect the financial terms of the original collaboration agreement and do not take into account any amendments resulting from the discussions regarding this contract that were ongoing between the Company and AbbVie in April 2016.

In connection with the entry into the collaboration agreement the Company received a one-time, non-refundable, non-creditable upfront payment in the amount of USD 45 million. As of the Date of this Prospectus, the Company had received an additional USD 20 million in payments under this agreement.

The collaboration is managed by a set of joint committees comprised of equal numbers of representatives from each of the Company and AbbVie. The joint steering committee ("JSC") oversees and coordinates the overall conduct of the collaboration. The joint research committee ("JRC") oversees and coordinates the discovery phase of the collaboration. The joint development committee ("JDC") oversees and coordinates the development phase of the collaboration. The joint commercialization committee will oversee and develop the strategies for commercialization of co-promoted licensed products in The Netherlands, Belgium and Luxembourg if the Company elects to exercise its co-promotion option, as described below.

Under the terms of the collaboration, the Company and AbbVie are required to use commercially reasonable efforts to identify and deliver a specified number of potentiator molecules which may be used as a stand-alone product or in combination with a corrector molecule, and a specified number of corrector molecules to be used in combination with a potentiator molecule.

If (i) the JRC determines that a potentiator molecule and/or a corrector molecule have met certain specified criteria, or AbbVie otherwise decides to continue development, and (ii) an IND has been accepted for such potentiator molecule and/or a combination product candidate containing such potentiator and corrector molecules, the Company and AbbVie will develop and approve (through the JDC) a plan in connection with the Phase 1 and Phase 2 proof-of-concept clinical trials for the molecule

or molecules. The Company is responsible for the Phase 1 and Phase 2 proof-of-concept clinical trials at its expense up to an agreed cost cap, and then each party will be responsible for the excess costs associated with its respective agreed upon development activities.

If certain criteria associated with the Phase 1 and Phase 2 proof-of-concept clinical trials are met or AbbVie otherwise decides to continue development, the Company and AbbVie will develop and approve (through the JDC) a plan in connection with Phase 3 clinical trials for the molecule or molecules, in which the Company responsible for a specified percentage of the costs.

Following approval, AbbVie will have the sole right to commercialize licensed products worldwide, except in China and South Korea, in which the Company will have the sole right to commercialize licensed products, and further subject to the Company's co-promotion option in The Netherlands, Belgium and Luxembourg. The Company will be solely responsible for obtaining regulatory and other approvals required for commercialization of licensed products in China and South Korea.

Under the agreement, the Company is eligible to receive up to USD 340 million in total additional developmental, regulatory and sales-based milestones. In addition, the Company will be eligible to receive tiered royalty percentages ranging from the mid-teens to twenty percent on net sales of licensed products payable on a product-by-product basis. The royalties payable to the Company under the collaboration agreement may be reduced under certain circumstances, including if generic competition on an active ingredient of a licensed product in a particular territory results in market share losses of a certain amount. The Company's right to receive royalties under the collaboration agreement expires, on a product-by-product and country-by-country basis, on the later of (1) the last day that at least one valid patent claim subject to the agreement and covering the licensed product exists, (2) the tenth anniversary of the first commercial sale of the licensed product in the applicable country, or (3) the expiration of regulatory exclusivity for the licensed product in the applicable country. In the event the Company exercises its co-promotion option with respect to a licensed product, it would assume a portion of the co-promotion effort in The Netherlands, Belgium and Luxembourg and share in the net profit and net losses in these territories instead of receiving royalties in those territories during the period of co-promotion.

Under the agreement, neither party may directly or indirectly (including by means of licensing, acquisition or otherwise), on its own or through a third party, research, develop, commercialize or manufacture any molecule, compound or product that has as one of its primary mechanisms of action modulation of the activity of CFTR.

The collaboration agreement will expire upon the expiration of the longest royalty term applicable to licensed products under the agreement as described above. Either the Company or AbbVie may terminate the agreement on a country-by-country basis in the respective jurisdictions if the Company is unable to secure or maintain regulatory approval for the licensed product. After development, but before the first commercial sale of any licensed product by AbbVie, AbbVie may terminate the agreement for convenience in its entirety or on a country-by-country basis upon prior written notice to the Company. Either the Company or AbbVie may terminate the agreement for the other party's uncured material breach; however, if such breach relates solely to a breach with respect to Galapagos' diligence obligations in China or South Korea or AbbVie's commercialization diligence obligations in the United States, France, Italy, Spain, the United Kingdom or Germany, the Company or AbbVie may only terminate the agreement with respect to such country. Either the Company or AbbVie may terminate the agreement in the event of specified insolvency events involving the other party.

If the agreement terminates due to the Company's material breach or as a result of a change of control, all rights and licenses granted to AbbVie will become exclusive or non-exclusive at AbbVie's sole option, irrevocable, unrestricted and perpetual, and AbbVie will provide consideration for such rights and licenses in an amount to be mutually agreed between us and AbbVie. If the agreement terminates in its entirety for any other reason, all rights and licenses granted by either party will terminate, and the Company will have an exclusive option to obtain an exclusive or non-exclusive license from AbbVie under certain intellectual property rights to exploit the licensed product that is the subject of development or commercialization at the time of termination. If the Company exercises such option, the Company and AbbVie will then negotiate a transition agreement which will, in most termination cases, include reasonable financial consideration to AbbVie.

If the agreement is terminated in a specific territory because of AbbVie's material, uncured breach in such territory, or due to an inability by AbbVie to obtain regulatory approval, all rights and licenses granted by the Company will be deemed amended not to include such territory, and the Company will have specified rights for, and AbbVie will take specified actions to assist the Company in continuing the development, manufacture and commercialization of the licensed product in such territory. If the agreement is terminated in a specific territory because of the Company's material, uncured breach in such territory, or because of the Company's inability to obtain regulatory approval, all rights and licenses granted to AbbVie with respect to that country will become exclusive or non-exclusive at AbbVie's sole option, irrevocable, unrestricted and perpetual, and AbbVie will provide consideration for such rights and licenses in an amount to be mutually agreed between the Company and AbbVie. In addition, AbbVie will have specified rights for, and the Company will take specified actions to assist AbbVie in, continuing the development, manufacture and commercialization of the licensed product in such territory.

Either party may, without the consent of the other party, assign the agreement to an affiliate or successor. Any other assignment requires written consent of the other party. However, with respect to an assignment to an affiliate, the assigning party will remain responsible. If the Company undergoes a change in control prior to the first commercial sale of a product, AbbVie has the right to terminate the agreement. At any time, if the Company undergoes a change in control, AbbVie may disband all joint committees and undertake exclusive control of their activities, terminate the Company's right to co-promote and/or terminate the Company's rights and licenses in connection with development and sale of any product in China and South Korea.

### 14.3 Underwriting Agreement for NASDAQ IPO

The Company entered into an underwriting agreement among Morgan Stanley & Co. LLC and Credit Suisse Securities (USA) LLC, as representatives of the underwriters, on 13 May 2015, with respect to the ADSs and ordinary shares sold in the IPO on the NASDAQ Global Select Market and the concurrent private placement. The Company has agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriters may be required to make in respect of such liabilities.

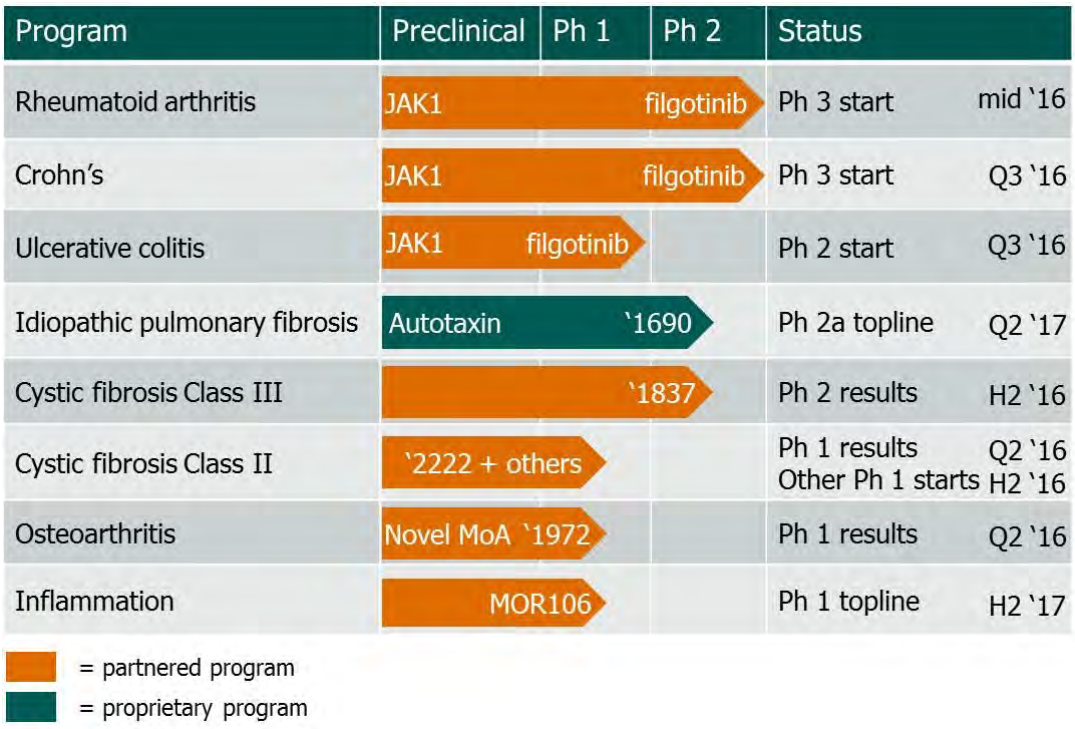
# Party IX: Business overview

## 1 Overview

Galapagos is a clinical-stage biotechnology company, with currently no approved products, specialized in the discovery and development of small molecule medicines with novel modes of action, addressing disease areas of high unmet medical need. Execution on its proprietary drug target discovery platform has delivered a pipeline that at the end of 2015 consisted of three Phase 2, three Phase 1, five pre-clinical, and 20 discovery programs in inflammation, cystic fibrosis, fibrosis, osteoarthritis and other indications. Its highly flexible platform offers applicability across a broad set of therapeutic areas.

Galapagos' lead program is selective JAK1 inhibitor filgotinib, which has shown potentially best-in-class efficacy and safety in Phase 2 studies in rheumatoid arthritis and Crohn's disease. The Company's partner Gilead plans to start Phase 3 trials in RA and CD and a Phase 2 trial in UC this year. Other lead programs are GLPG1837, for which the Company started a Phase 2 program in February 2016 in certain mutations of cystic fibrosis; GLPG1690, for which it initiated a Phase 2a trial for IPF in April 2016; GLPG2222, for which it initiated a Phase 1 study in January 2016, GLPG1972, for which it initiated a Phase 1 first-in-human study in November 2015, MOR106, for which it initiated a Phase 1 study in April 2016, and a series of novel potentiators and correctors for cystic fibrosis in pre-clinical stages. Except for the Company's CF program, these programs are derived from its proprietary target discovery platform, and it is the Company's goal to develop these programs into best-in-class treatments.

In February 2012, the Company signed a collaboration agreement for filgotinib with Abbott (now AbbVie). In September 2015, AbbVie notified the Company of the termination of this agreement, following which, the Company regained all unencumbered rights to filgotinib. In December 2015, the Company entered into a global collaboration with Gilead for the development and commercialization of filgotinib for inflammatory indications. Galapagos' CF program is a joint research and development alliance with AbbVie. The Company's GLPG1972 osteoarthritis program is a joint research and development alliance with Servier. The Company's MOR106 program is a joint antibody research and development alliance with MorphoSys. The following table summarizes key information on the Company's lead development programs as of the Date of this Prospectus:




## 2 Strategy

Galapagos seeks to develop a robust portfolio of clinical-stage breakthrough therapies with potential to revolutionize existing treatment paradigms. Its ambition is to become a leading global biotechnology company focused on the development and commercialization of novel medicines. Its strategy is to leverage its unique and proprietary target discovery platform, which facilitates its discovery and development of therapies with novel modes of action.

Key elements of its strategy include:

- Rapidly advance the development of filgotinib with the Company's partner Gilead in RA, CD, UC and potentially other inflammatory diseases

  Based on the favorable safety and efficacy profile demonstrated in the Company's Phase 2 clinical trials, it believes that filgotinib is a promising candidate for the treatment of RA and other inflammatory diseases. The Company expects Gilead to initiate Phase 3 clinical programs in RA and CD and a Phase 2 program in UC in 2016.

- Collaborate with the Company's partner AbbVie to develop a CF franchise of oral therapies composed of novel potentiators and correctors

  The Company is developing a novel potentiator therapy, called GLPG1837, for CF patients with the Class III (G551D) mutation of the CFTR gene, the same mutation which is targeted by the only approved therapy to address the cause of Class III mutation CF, Kalydeco®, marketed by Vertex. The most common mutation in the CFTR gene, the Class II (F508del) mutation, is present in approximately 90% of CF patients. Orkambi® (Vertex) is the only approved therapy for the underlying cause of CF in this mutation. In order to address the unmet need in patients with Class II or other mutations, the Company believes that a combination of a potentiator and two corrector molecules will be required. To that aim, it is developing a potential triple combination therapy. The Company currently has lead and backup compounds for all three

components of this therapy in development. In October 2015, the Company announced selection of GLPG2665, completing the triple combination therapy in CF. The Company initiated a Phase 1 trial for its first oral corrector candidate, GLPG2222, in January 2016, and it entered Phase 2 trials with potentiator GLPG1837 in Class III mutation patients in February 2016. The Company intends to initiate additional Phase 1 trials with novel CF compounds in 2016. The Company has an exclusive collaboration agreement with AbbVie to jointly discover, develop and commercialize these and other novel CF modulators. See Section 14.2 of Part VIII of this Prospectus for additional details on this collaboration agreement.

- Advance GLPG1690 in clinical trials in IPF

  In February 2015, the Company announced the results of a Phase 1 first-in-human trial of GLPG1690, a potent and selective inhibitor of autotaxin, or ATX. In this trial GLPG1690 demonstrated the ability to reduce plasma lipid lysophosphathidic acid (LPA) levels on a sustained basis, implying ATX engagement. The Company has initiated recruitment of patients in a Phase 2a trial in IPF, and the Company intends to disclose topline results of this trial in the first half of 2017. The Company currently retains worldwide development and commercialization rights for GLPG1690 and intends to develop this drug independently.

- Advance GLPG1972 through Phase 1 clinical trials with the Company's partner Servier

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

- Maximize and capture the value of Galapagos' target discovery platform by becoming a fully integrated biotechnology company

  Galapagos' platform has yielded a number of new mode-of-action therapies across multiple therapeutic areas, demonstrating the potential of this technology platform. In addition to its current clinical programs, Galapagos has 20 different target-based discovery programs advancing toward clinical development with novel modes of action. An example of such a program is MOR106, which recently entered Phase 1 and which is partnered with MorphoSys. The Company intends to continue to advance more clinical candidates in various therapeutic areas. It aims to select promising programs in specialty pharmaceutical and orphan indications for internal development and commercialization to capture greater value for shareholders and establish Galapagos as a fully integrated biotechnology company.

## 3 Proprietary target discovery platform

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

- closely mimics the *in vivo* situation through the use of primary human cell with relevant trigger and readout for a specific disease phenotype;

- identifies the optimal point to intervene in a disease pathway by knocking down of a given protein in these assays; and
- enables Galapagos to rapidly analyze all of the drugable genome and select pharmaceutically tractable protein targets directly by their ability to regulate key disease biology.

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

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

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

In order to study proteins in human cells, Galapagos takes 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 Galapagos works with, have been engineered to act as a shuttle vehicle, allowing the delivery of specific pieces of DNA into human cells. Additionally, these viruses have been made replication incompetent, meaning they do not replicate in the human cell they infect, and so do not interfere with the processes in the cell. Galapagos has engineered the viruses to carry small pieces of DNA, specific for individual human genes. When the virus enters the cell, this DNA piece leads to the production of a short sequence of RNA that is processed in the cell to become "short interfering RNA", or siRNA, that specifically interferes with the mRNA of the protein it was designed for. By using these viruses, Galapagos 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. Galapagos has built a collection with these adenoviruses, now in excess of 20,000 viruses, that addresses over 6,000 drugable genes.

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

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

# 4 Key treatment areas

## 4.1 Filgotinib in RA is a selective JAK1 inhibitor with a potential best-in-class product profile.

### 4.1.1 RA and limitations of current treatments

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

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

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

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

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

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

#### 4.1.2 Filgotinib in RA

New oral therapies that target the Janus kinase, or JAK, signaling pathway are emerging; JAK-inhibitors, however, are associated with a range of side effects, including aberrations in low-density lipoprotein, or LDL, cholesterol and red blood cell counts.

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

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

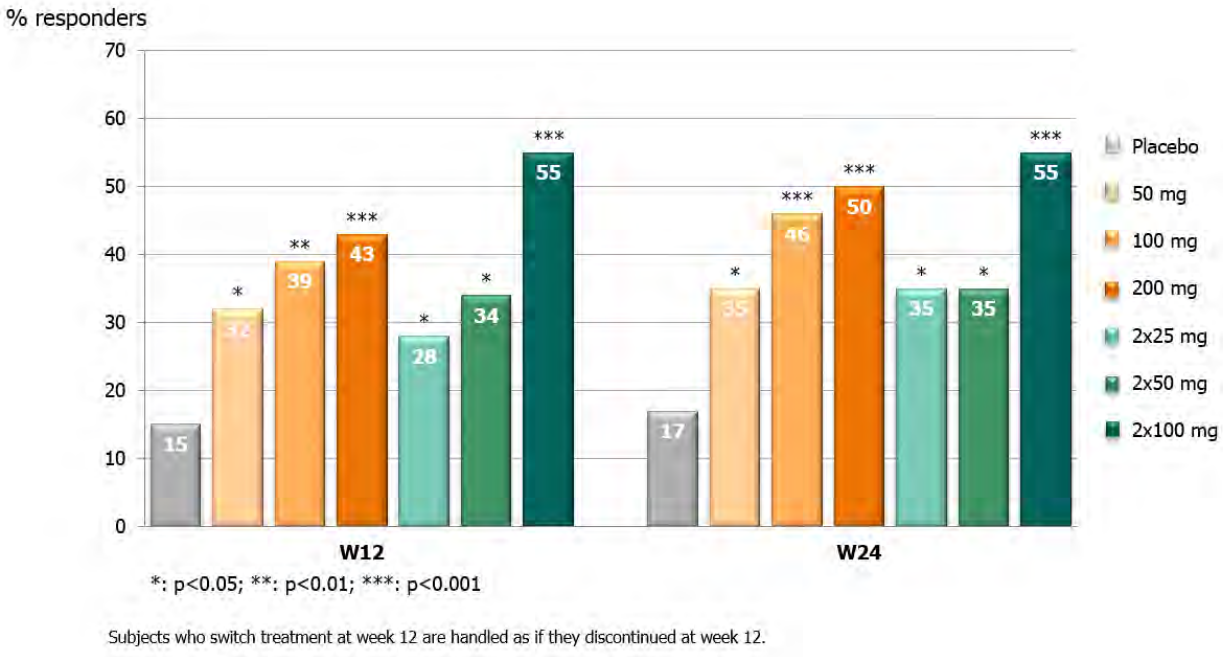
Through the DARWIN clinical programs, Galapagos demonstrated the following clinical and product effects of filgotinib for the treatment of RA:

- **Safety profile**: That filgotinib was well-tolerated, showed absence of treatment-induced anemia, showed stability or improvement in the atherogenic index (percentage of LDL versus HDL cholesterol) and resulted in an overall low infection rate and a favorable profile for liver enzymes.
- **Efficacy profile**: That filgotinib enabled rapid onset of action, as measured by ACR20 response rates, with durable activity.

- **Convenience**: That filgotinib enabled oral, once-daily dosing.
- **Combination with other therapies**: That filgotinib will be able to be combined with other therapies commonly prescribed to RA patients, due to its low likelihood of drug-drug interactions.

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

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




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

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

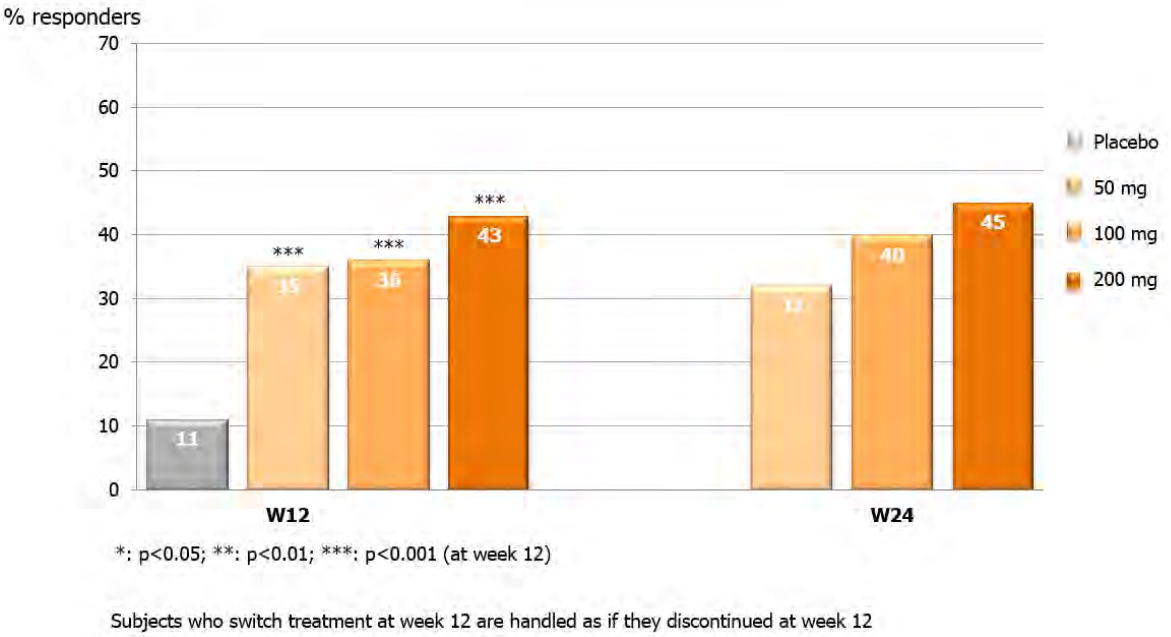
including HDL and LDL increased, with the largest percentage increase in HDL. Lymphocytes were not impacted by treatment with filgotinib in this study. No clinically significant changes or discontinuations were observed for male reproductive hormones.

The Company announced topline results after 24 weeks of treatment in the DARWIN 2 trial in August 2015. DARWIN 2 was a 24-week, double-blind, placebo-controlled evaluation of filgotinib, as once-daily administration (QD dosing) at three dose levels. DARWIN 2 results were for 283 patients with moderate to severe rheumatoid arthritis who showed an inadequate response to methotrexate. Filgotinib or placebo was given as monotherapy. The patients were evaluated up to 24 weeks.

Galapagos achieved the primary endpoint of ACR20 response with all three doses at 12 weeks and went on to report the following ACR50 responses at 12 and 24 weeks of once-daily monotherapy:

**ACR50 Responses**

**DARWIN 2, ITT-NRI**




*: p<0.05; **: p<0.01; ***: p<0.001 (at week 12)

Subjects who switch treatment at week 12 are handled as if they discontinued at week 12

The results from DARWIN 2 showed a rapid onset of efficacy, as of week one for ACR and DAS28(CRP) responses. Maximum ACR20 and ACR50 responses were obtained at week eight and week twelve respectively. Additional gain was reported for ACR70 and DAS28(CRP) during the second half of the study. In the highest dose groups, up to 50% of the patients reached low disease activity or remission. The 100 mg and 200 mg QD doses achieve similar levels of efficacy.

Over all DARWIN 2 dose groups including placebo, 3.9% of patients stopped treatment during the study for safety reasons. A higher discontinuation rate for safety was observed for placebo (5.6%) during the first 12 weeks of the study compared to filgotinib treated patients (2.5%) up to week 24. Similar incidence of serious and non-serious treatment-emergent adverse events was reported, evenly spread over the dose groups including placebo. A higher rate of infections was observed in filgotinib (19% over 24 weeks) compared to placebo (10% up to week 12), with serious infections remaining limited (1.4% of filgotinib patients). No

malignancies, tuberculosis, major adverse cardiac events, opportunistic infections, or deaths were reported. Consistent with its selective JAK1 inhibition, filgotinib treatment led to an improvement in hemoglobin (up to 0.4 g/dL, or 3.6% increase from baseline). Neutrophil levels remained stable after initial decline to mid-normal range at week four. There was no impact on lymphocytes or liver function tests. The similar increases in LDL and HDL were maintained. No clinically significant changes or discontinuations were observed for male reproductive hormones.

The Company is party to 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. The Company is required to use commercially reasonable efforts as requested by Gilead to assist Gilead with certain development activities. Gilead submitted the dossiers for End of Phase 2 meetings with regulatory authorities in Q1 2016 and plans to initiate Phase 3 trials in RA in 2016, pending the successful outcome of these discussions with regulatory authorities. See Section 14.1 of Part VIII of this Prospectus for further details on this Collaboration Agreement.

## 4.2 Galapagos' second treatment area is IBD: filgotinib in CD with Phase 3 trials expected to be initiated in 2016

### 4.2.1 CD and Limitations of Current Treatments

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

The disease is characterized by inflammation that may affect any part of the GI tract from mouth to anus, but most commonly the distal small intestine and proximal colon, causing a wide variety of symptoms including anemia, abdominal pain, diarrhea, vomiting, and weight loss. The characteristic inflammatory response of CD is focal transmural inflammation, frequently associated with granuloma formation, which may evolve to progressive damage over time. Treatment of CD will depend on severity of the disease. The main goal of treatment is to stop the inflammation in the intestine, prevent flare-ups and keep patients' disease in remission. While mild to moderate symptoms may respond to an antidiarrheal medicine, antibiotics, and other medicines to control inflammation, severe symptoms are often treated with anti-TNF agents. Anti-TNF agents, however, do not work for all patients, and, in patients who do find therapeutic benefit, they can lose their effect over time resulting in relapse. Anti-TNF agents have also demonstrated side effects arising from long term suppression of the immune system including increased rate of infections. Unlike in RA, few biologics have been approved in CD and, as such, caregivers have a more limited number of available treatments.The market for CD therapies, across the 10 main healthcare markets, was approximately $3.2 billion in 2012 and is estimated to exceed $4.1 billion in 2022, according to a January 2014 GlobalData PharmaPoint report, driven primarily by use of anti-TNF agents. The primary existing brands are shown in the table below.

| Brand | Drug Class | Company |
|---|---|---|
| Remicade (infliximab) | Anti-TNF agent | Johnson & Johnson |
| Humira (adalimumab) | Anti-TNF agent | AbbVie |
| Cimzia (certolizumab pegol) | Anti-TNF agent | UCB |
| Tysabri (natalizumab) | Integrin inhibitor | Biogen Idec |
| mesalamine/olsalazine/sulfasalazine/balsalazide | Intestinal anti-inflammatory | generic |
| Uceris (budesonide MMX) | glucocorticoid steroid | Salix |
| azathioprine (AZA) | Purine analog (immunosuppressant) | generic |
| Entyvio (vedoluzimab) | integrin receptor antagonist | Takeda |

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

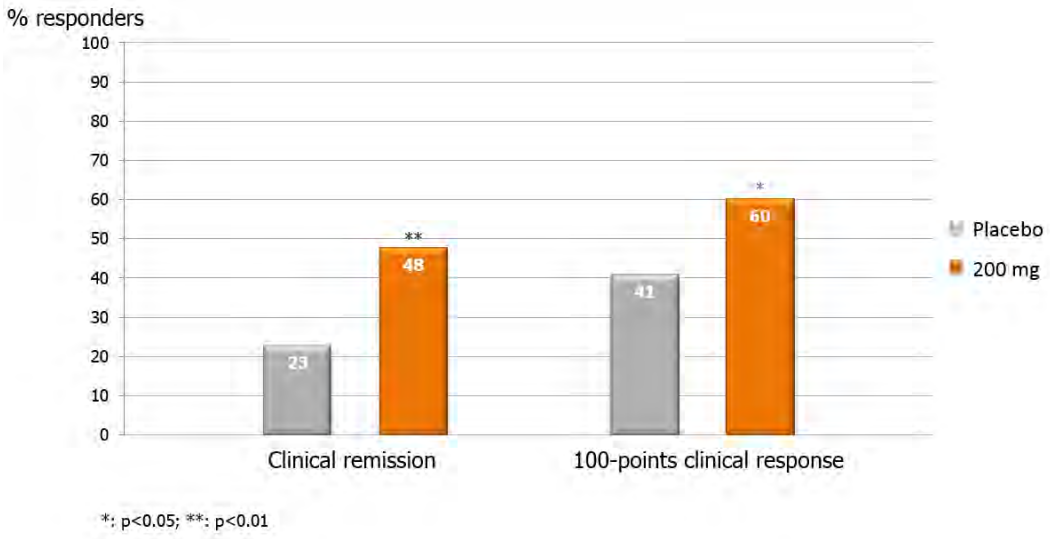
#### 4.2.2 Filgotinib in CD

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

- **Safety profile**: That filgotinib was well-tolerated, showed an increase in haemoglobin, showed a marginal increase of LDL cholesterol, and resulted in an overall low infection rate.
- **Efficacy profile:** That filgotinib demonstrated rapid onset of action and durable activity.
- **Convenience:** That filgotinib enabled oral dosing, as there are currently no approved effective oral therapies for CD.
- **Combination with other therapies:** That filgotinib can be combined with other therapies commonly prescribed to CD patients, due to its low likelihood of drug-drug interactions.

Filgotinib recently completed a Phase 2 clinical development study for CD. In December 2015 the Company announced achievement of the 10-week primary endpoint in FITZROY.

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




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

The Company announced results from the 20-week final readout in April 2016. The second part of the study investigated continued treatment through 20 weeks in an exploratory analysis that was not powered for statistical significance. Clinical responses continued 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 study.

There were no new safety signals during the second part of the FITZROY study, consistent with the profile of filgotinib previously described. Most common adverse events observed during this study were infections, gastrointestinal disorders and nervous system disorders. There were no gastrointestinal perforations, no cancers and no deaths reported during the study.

Gilead plans to initiate Phase 3 trials with filgotinib in Crohn’s disease in 2016, pending the successful outcome of discussions with regulatory authorities.

### 4.2.3 Ulcerative Colitis

UC affected nearly 625,000 people in the United States in 2012, according to a December 2013 GlobalData EpiCast report. 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 could likely be achieved by a new mechanism of action.

In 2015, the Company conducted a Proof of Concept study with GLPG1205, a potent and selective inhibitor of GPR84, in patients with ulcerative colitis (UC). On 26 January 2016, the Company announced the results of the ORIGIN Phase 2a study, which confirmed good pharmacokinetics, safety and tolerability. The endpoints for efficacy in UC, however, were not met and the Company resolved to discontinue clinical development of GLPG1205 in UC.

Galapagos expects its collaboration partner Gilead to initiate a Phase 2 study with filgotinib in UC in the third quarter of 2016.

### 4.3 Galapagos' third treatment area is CF: an area of significant unmet medical need for which it is developing a three-product combination therapy

CF is a rare, life-threatening, genetic disease that affects the lungs and the digestive system, impacting approximately 80,000 patients worldwide with approximately 30,000 patients in the United States. The market for CF therapies, across the six main healthcare markets, exceeded USD 1 billion in 2012 and is expected to exceed USD 5 billion in 2018, according to a July 2014 GlobalData OpportunityAnalyzer report. CF patients carry a defective cystic fibrosis transmembrane conductance regulator, or 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® (Vertex Pharmaceuticals, or Vertex) being the only approved therapy for the underlying cause of CF in this mutation. Vertex also markets Kalydeco®, a disease-modifying treatment, for Class III mutations, representing 4% of total CF patients.

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

- disease modifying activity in Class II/III mutations in CF;
- regaining greater than 50% of CFTR activity, important for achieving compelling clinical efficacy;
- improved risk/benefit compared to standard of care;
- small molecules allowing for oral administration;
- adequate safety profile for chronic use, including pediatric application;
- no adverse interactions with drugs commonly taken by CF patients, including antibiotics and anti- inflammatory drugs; and
- activity in homozygous and heterozygous patients.

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

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

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

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

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

In October 2015, the Company presented topline Phase 1 results for novel potentiator GLPG1837, and in February 2016 the Company announced the start of a Phase 2a program with GLPG1837 in Class III mutation patients. In October 2015, the Company announced that it selected GLPG2665 as the first C2 next generation corrector compound candidate, completing the potential triple combination therapy for the Class II mutation in CF. The Company initiated a Phase 1 trial for its first oral corrector candidate, GLPG2222, in January 2016. The Company intends to initiate additional Phase 1 trials with novel CF compounds in 2016. In pre-clinical cellular studies, the Company consistently demonstrated that combinations of potentiator, C1, and C2 correctors restore close to healthy CFTR function in lung epithelial cells cultured from Class II patients. These results are suggestive of a compelling therapeutic option for these patients. The Company believes that its CF combination therapy addresses unmet need in both homozygous and heterozygous Class II patients.

### 4.4 Galapagos' fourth treatment area is IPF: another area of significant unmet medical need for which it is developing autotaxin inhibitor GLPG1690

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

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

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

The Company evaluated GLPG1690 in a pre-clinical lung fibrosis model (bleomycin-treated mice) and observed effects on reducing the fibrotic score, numerically favoring GLPG1690 over pirfenidone, an approved anti-fibrotic drug for the treatment of IPF.

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

Galapagos has started recruiting patients for a Phase 2a trial in IPF, and it expects to complete patient recruitment for this trial before year end 2016, with topline results expected in H1 2017. This randomized, placebo-controlled double-blind study will recruit 24 patients with IPF from multiple centers in Europe.

### 4.5 Galapagos' fifth treatment area is osteoarthritis: with no disease-modifying treatments available today, GLPG1972 presents a unique opportunity to address the need with a novel mechanism of action

Sometimes called degenerative joint disease or degenerative arthritis, osteoarthritis, or OA, is the most common chronic condition of the joints. OA can affect any joint, but it occurs most often in the small joints of the fingers, knees, hips, lower back and neck, and the bases of the thumb and big toe[1]. According to a November 2015 GlobalData EpiCast Report, OA will be the fourth leading cause of disability by the year 2020. There are limited data on the total prevalence of OA, but as an example, in the 7 major markets in 2014 the diagnosed prevalence of hand OA was over 60 million patients. In normal joints, a firm, rubbery material called cartilage covers the end of each bone. Cartilage provides a smooth, gliding surface for joint motion and acts as a cushion between the bones. In OA, the cartilage breaks down, causing pain, swelling and problems moving the joint. As OA worsens over time, bones may break down and develop growths called spurs. Bits of bone or cartilage may chip off and float around in the joint. In the body, an inflammatory process occurs and cytokines (proteins) and

[1] From arthritis.org website

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[2].

Although OA occurs in people of all ages, osteoarthritis is most common in people older than 65. Common risk factors include obesity, previous joint injury, overuse 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. One in 12 people 60 years or older have had OA[2]. Current treatments for OA include weight loss, physical therapy, pain and anti-inflammatory medicines, and surgery, all of which address only the symptoms of the disease. There currently are no approved disease-modifying therapies available.

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

The aim of the Phase 1 study is to evaluate the safety, tolerability, and pharmacokinetics of oral single and multiple ascending doses of GLPG1972. The randomized, double-blind, placebo-controlled, single center study is being conducted in at least 40 healthy volunteers in Belgium. In the first part of the study, single ascending doses will be evaluated. In the second part, the new compound will be administered daily for 14 days in multiple ascending doses. Topline results for this Phase 1 study and additional data resulting from the ongoing program are expected respectively in the second quarter of 2016 and in the second quarter of 2017, after which Servier has an option to in-license the compound for further development. The Company also expects to initiate a patient study in osteoarthritis patients in 2016. Galapagos has retained full rights to the compound in the United States.

## 5 Collaborations

The Company has entered into multiple collaboration agreements with pharmaceutical partners, which have generated approximately USD 496 million in cash to date to fund discovery and development. The Company expects to continue to collaborate selectively with pharmaceutical and biotechnology companies to leverage its discovery platform and accelerate product candidate development. Two significant current alliances are the exclusive Collaboration Agreement for filgotinib with Gilead and the exclusive collaboration agreement with AbbVie. See Section 14 of Part VIII of this Prospectus for a summary of the main terms of these collaboration agreements.

## 6 Competition

The Company's industry is highly competitive and subject to rapid and significant change. While the Company believes that its development and commercialization experience, scientific knowledge and industry relationships provides it with competitive advantages, the Company faces competition from pharmaceutical, medical device and biotechnology companies, including specialty pharmaceutical companies, and generic drug companies, academic institutions, government agencies and research institutions.

In the field of RA, therapeutic approaches have traditionally relied on DMARDS such as methotrexate and sulphasalazine as first-line therapy. These oral drugs work primarily to suppress the immune system and, while effective in this regard, the suppression of the immune system leads to an increased

risk of infections and other side effects. Accordingly, in addition to DMARDS, monoclonal antibodies targeting TNF, like AbbVie's Humira, or IL-6 like Roche's Actemra, have been developed. These biologics, which must be delivered via injection, are currently the standard of care as first- and second-line therapies for RA patients who have an inadequate response to DMARDS. In November 2012, Xeljanz, marketed by Pfizer, was approved by the FDA as an oral treatment of adult patients with RA who have had an inadequate response to, or who are intolerant of, methotrexate. Xeljanz is the first and only JAK inhibitor for RA approved for commercial sale in the United States. The Company is aware of other JAK inhibitors in development for patients with RA, including a once-daily JAK1/2 inhibitor called baricitinib which is being developed by Lilly and expected to be approved as early as 2016, a JAK3/2/1 inhibitor called ASP015k which is being developed in Japan by Astellas, and a JAK inhibitor called ABT-494 which is being developed by AbbVie. Filgotinib, which is a selective JAK1 inhibitor, is being developed in collaboration with Gilead.

The Company expects that filgotinib, for which it has completed a Phase 2 program in patients with moderate to severe RA who have an inadequate response to methotrexate, will compete with all of these therapies when marketed. If generic or biosimilar versions of these therapies are approved the Company would also expect to compete against these versions of the therapies.

In the field of IBD, first line therapies are oral (or local) treatments with several low-cost generic compounds such as mesalazine, more effective in UC, and azathioprine, more effective in CD. Steroids such as budesonide are used in both UC and CD. Companies such as Santarus have developed controlled-release oral formulation with the aim to have local intestinal delivery of budesonide thereby limiting systemic side effects. For more advanced therapy, monoclonal antibodies with various targets such as TNF and more recently, integrins by vedoluzimab (Entyvio) are approved. The Company is also aware of other biologics in clinical development for these indications, such as: ustekinumab, developed by Johnson & Johnson, which is in Phase 3 clinical trials and RPC1063, which is being developed by Celgene and has shown efficacy in a Phase 2 trial in UC. There are also several novel oral treatments being explored in Phase 2 and Phase 3, including Xeljanz. The large number of treatments for UC, and somewhat less for CD, presents a substantial level of competition for any new treatment entering the IBD market.

In the field of CF, the approved therapies to treat CF patients have mostly been designed to treat the symptoms of the disease rather than its cause. Kalydeco and more recently Orkambi, both from Vertex, are currently the only two FDA-approved therapies to address the cause of Class III and Class II mutation CF, respectively. Kalydeco, also approved in Europe, is a CFTR potentiator to treat CF in patients with a Class III (G551D) mutation of the CFTR gene. Vertex also developed lumacaftor, a corrector molecule to address a broader patient population, including patients with a Class II (F508del) mutation of the CFTR gene. Vertex obtained approval in July 2015 in the United States for Orkambi, a combination product (Kalydeco + lumacaftor) and obtained approval in November 2015 in Europe. The Company is also aware of other companies, including Novartis, Nivalis, Pfizer, Proteostasis and ProQR, and not-for-profit organizations like Flatley Discovery Lab, which are actively developing drug candidates for the treatment of CF. These typically target the CFTR protein as potentiators, correctors or other modulators of its activity.

In the field of idiopathic pulmonary fibrosis, there are two approved disease modifying drugs, pirfenidone, marketed by Roche, and nintenanib, marketed by Boehringer Ingelheim. These drugs prolong life for IPF patients by months, leaving an unmet medical need for those developing disease-modifying drugs in this field.

In the field of osteoarthritis, there are currently no disease-modifying drugs approved. Current treatment involves weight-loss, physical therapy, and pain management.

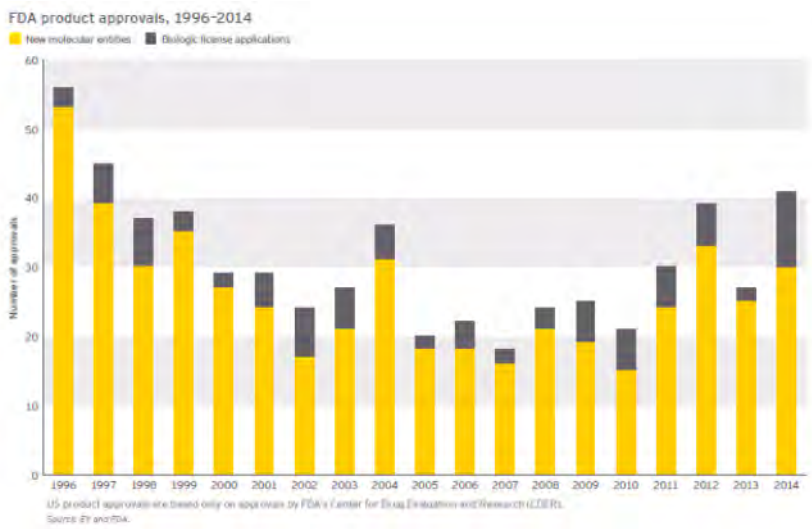
Many of the Company's competitors have significantly greater financial, technical and human resources than the Company. Mergers and acquisitions in the pharmaceutical, medical device and biotechnology industries may result in even more resources being concentrated among a smaller number of its competitors. The Company's commercial opportunity could be reduced or eliminated if its competitors develop or market products or other novel therapies that are more effective, safer or less costly than the Company's current or future product candidates, or obtain regulatory approval for their products more rapidly than the Company may obtain approval for its product candidates. The Company's success will be based in part on its ability to identify, develop and manage a portfolio of product candidates that are safer and more effective than competing products.

## 7 Significant industry trends

Overall, the R&D productivity in the industry appears to be improving. Industry revenues, profitability, and R&D spend continued to increase in 2015, also in Europe. Consolidation of the industry continued throughout 2015, with a number of large acquisitions driven for a large part by the need for large pharmaceutical companies to fill their pipelines with promising new drugs. 2015 was a large year for IPO's and fundraising for biotech, with fears about future drug pricing limitation fueling a slowdown in the first months of 2016.

In the field of inflammation, one of the largest therapeutic areas in healthcare, there are many competitors, both with approved drugs and drugs in development. These competitors are investing in their inflammation franchises, maintaining a highly competitive market for inflammation drugs.

The US Federal Drug Administration (FDA) approved more drugs in 2014 than in the previous 16 years:



# Part X: General information relating to the issue of the New Shares and the admission to trading on Euronext Brussels and Euronext Amsterdam

## 1 Reasons for the issue of the New Shares and use of proceeds

### 1.1 Reasons for the issue

On 16 December 2015, the Company entered into a license and collaboration agreement with Gilead Biopharmaceutics Ireland Unlimited Company, granting Gilead a license under the intellectual property right with respect to filgotinib with a view to co-developing and co-promoting products comprising filgotinib. As part of the collaboration between the Company and Gilead, the latter committed, by entering into a subscription agreement with the Company, to invest an aggregate cash amount in euro of up to USD 425,000,000 in the share capital of the Company through a private placement of shares. Thereto the Company has realized a capital increase on 19 January 2016 by an amount of EUR 392,120,658 pursuant to a decision of the Board of Directors within the framework of the Company's authorized capital with the cancellation of the preferential subscription rights of the existing shareholders for the benefit of Gilead (the "Capital Increase"). Following the Capital Increase the Company has issued the 6,760,701 New Shares at an Issue Price of EUR 58.00.

This Prospectus is published in view of the admission to trading on Euronext Brussels and Euronext Amsterdam of the New Shares issued pursuant to the Capital Increase.

The collaboration and strategic partnership with Gilead, of which this equity investment forms an integral part, will allow Galapagos to pursue its goal of rapidly delivering therapies to patients. Therefore, the collaboration is of strategic importance for the future growth and development of Galapagos.

### 1.2 Use of proceeds

The collaboration and the subscription agreements do not contain provisions with respect to the use of proceeds from the license fee and the Capital Increase. The cash raised with this Transaction can be used freely by Galapagos. In the collaboration agreement, the parties agreed on a 20-80 (Galapagos – Gilead) split for development costs of the licensed product.

Based on the forecast for the remainder of the year, management retains 2016 guidance for operational cash burn, excluding payments received from Gilead for filgotinib, of EUR 100-120 million, of which cash use for filgotinib in 2016 would represent EUR 17-27 million.

The proceeds will be used (i) to invest in Galapagos' considerable R&D pipeline of more than 25 programs and (ii) the co-development and co-promotion of filgotinib and (iii) further research and development activities exploring possible other indications and new compounds. More specifically, in addition to supporting the further development of filgotinib, Galapagos has set a high priority to co-fund development of the cystic fibrosis portfolio, develop GLPG1690 in idiopathic pulmonary fibrosis, explore potential application of GLPG1972 in osteoarthritis and co-fund MOR106 in inflammation. Galapagos also intends to invest in earlier stage programs in metabolic disease, fibrosis, and other indications.

### 1.3 Estimated net proceeds

The estimated total net proceeds amount to EUR 391.9 million.

## 2 Information concerning the New Shares to be admitted to trading

### 2.1 Nature and form of the New Shares

As a result of the Capital Increase, 6,760,701 New Shares were issued. The New Shares are ordinary shares of the only existing class in the share capital of the Company. They do not have a nominal value and each represent the same fraction of the Company's capital as the other outstanding shares of the Company.

The New Shares are registered in form.

### 2.2 Pricing

Taking into account article 598 BCC, the Issue Price for the New Shares was fixed at EUR 58.00 on 16 December 2015, i.e. the date of signing the Subscription Agreement with Gilead. The Issue Price for the New Shares of EUR 58.00 was more than the average of the closing prices of the Company's Shares on Euronext Brussels and Euronext Amsterdam during the thirty calendar days preceding the date of signing of the Subscription Agreement, which amounted to (rounded down) EUR 48.17.

The closing prices of the Company's shares on Euronext Brussels and Euronext Amsterdam during the thirty calendar days preceding the date of signing of the Subscription Agreement are listed in the table below:

| Date | Closing Price |
|---|---|
| 12/15/2015 | 52.33 |
| 12/14/2015 | 51.62 |
| 12/11/2015 | 53.20 |
| 12/10/2015 | 53.39 |
| 12/09/2015 | 52.25 |
| 12/08/2015 | 50.77 |
| 12/07/2015 | 44.78 |
| 12/04/2015 | 44.78 |
| 12/03/2015 | 45.67 |
| 12/02/2015 | 46.76 |
| 12/01/2015 | 46.33 |
| 11/30/2015 | 47.21 |
| 11/27/2015 | 46.60 |
| 11/26/2015 | 46.32 |
| 11/25/2015 | 45.70 |
| 11/24/2015 | 44.82 |
| 11/23/2015 | 46.40 |

| | |
|---|---|
| 11/20/2015 | 46.47 |
| 11/19/2015 | 47.20 |
| 11/18/2015 | 48.43 |
| 11/17/2015 | 49.75 |
| 11/16/2015 | 49.00 |
| **30-day Average (rounded-down)** | **48.17** |

The number of New Shares that was issued to Gilead was determined by (i) converting the Investment Amount of USD 425,000,000 into euro by dividing it by the agreed upon EUR- USD exchange rate (i.e. the exchange rate at which Gilead purchased euros prior to the Capital Increase) of 1.08385 and (ii) dividing the result of EUR 392,120,680.91 by the Issue Price of EUR 58.00, resulting in 6,760,701 New Shares. The issuance of the EUR 6,760,701 New Shares at an Issue Price of EUR 58.00 has resulted in the Capital Increase of EUR 392,120,658.

The portion of the Issue Price per New Share up to the accounting par value of (rounded up) EUR 5.41 per share has been recorded on the "capital" account, i.e. an aggregate amount of EUR 36,575,392.41. The balance, i.e. an aggregate amount of EUR 355,545,265.59, has been recorded on a non-available "issue premium" account, which in the same manner as the Company's share capital, serves as guarantee for third parties and which, save for the possibility of contribution into capital, can only be decided on in accordance with the conditions required for an amendment of the Articles of Association.

## 2.3 Subscription

Gilead subscribed to the entire Capital Increase through a contribution in cash. The Capital Increase thus entailed the cancellation of the preferential subscription rights of the existing shareholders of the Company in favor of Gilead. Hence articles 596 and 598 BCC needed to be complied with to complete the Capital Increase.

In accordance with articles 596 and 598 BCC, the capital of the Company can be increased when accompanied by cancellation of the preferential subscription rights of the existing shareholders of the Company for the benefit of identified investors, subject to compliance with the conditions set forth in such provisions of the Belgian Companies Code. In addition, a capital increase of the Company with cancellation of the preferential subscription rights of the existing shareholders can be executed in the framework of the authorized capital (in accordance with article 1 of the temporary provisions of the Company's Articles of Association). The shareholders' meeting of 23 May 2011 authorized the Board of Directors to increase the share capital of the Company within the framework of the authorized capital for a period of five years. This authorization was therefore still valid on the date of the Capital Increase.

The Board of Directors and Statutory Auditor have drawn up special reports in order to account for the Capital Increase and to justify the cancellation of the preferential subscription rights of the existing shareholders in the framework of such Capital Increase and in particular relating to the Issue Price and the financial consequences for the existing shareholders.

## 2.4 Currency

The currency of the New Shares is euro and the New Shares will also be traded in euros on Euronext Brussels and Euronext Amsterdam.

## 2.5 Rights attached to the New Shares

The New Shares are in all respects identical to and fully share in the results and in any dividends declared as from their issue, as the existing shares. Each share in the Company's share capital, like the New Shares, carries one vote.

## 2.6 Resolutions and issue of the New Shares

The New Shares were issued pursuant to the Capital Increase of 19 January 2016 by an amount equal to EUR 392,120,658. The Capital Increase and the issuance of the New Shares were approved by unanimous decision of the Board of Directors within the framework of the authorized capital and with cancellation of the preferential subscription rights of the existing shareholders for the benefit of Gilead.

## 2.7 Legislation

The New Shares are ordinary shares in the capital of the Company, and are governed by Belgian law.

## 2.8 Belgian tax regime applicable to the New Shares

*The paragraphs below present a summary of certain material Belgian federal income tax consequences of the acquisition, ownership and disposal of shares by an investor.* ***Please note that the tax rules described in the paragraphs below are subject to frequent changes and attention should be paid to the evolution of the relevant legislation.***

*This summary does not purport to address all tax consequences of the ownership and disposal of shares, and does not take into account the specific circumstances of particular investors, some of which may be subject to special rules, or the tax laws of any country other than Belgium. This summary does not describe the tax treatment of investors that are subject to special rules, such as banks, insurance companies, collective investment undertakings, dealers in securities or currencies, persons that hold, or will hold, shares as a position in a straddle, share-repurchase transaction, conversion transactions, synthetic security or other integrated financial transactions.*

*For the purpose of this summary, a Belgian resident is (i) an individual subject to Belgian personal income tax (i.e. an individual who has his domicile in Belgium or has the seat of his estate in Belgium, or a person assimilated to a Belgian resident), (ii) a company subject to Belgian corporate income tax (i.e. a company that has its registered office, its main establishment or its place of management in Belgium), (iii) an OFP subject to Belgian corporate income tax (i.e., a Belgian pension fund incorporated under the form of an Organization for Financing Pensions),or (iv) a legal entity subject to the Belgian tax on legal entities (i.e. a legal entity other than a company subject to the corporate income tax that has its registered office, its main establishment or its place of management in Belgium). A Belgian non-resident is a person that is not a Belgian resident.*

***Investors should consult their own advisers as to the tax consequences of the acquisition, ownership and disposal of the shares.***

### 2.8.1 Dividends

(i) General rules

For Belgian income tax purposes, the gross amount of all distributions made by the Company to its shareholders is generally taxed as dividend, except for the repayment of statutory capital carried out in accordance with the Belgian Companies Code to the extent that the statutory capital qualifies as "fiscal" capital.

The fiscal capital includes, in principle, the paid-up statutory capital and, subject to certain conditions, the paid issue premiums and the amounts subscribed to at the time of the issue of profit sharing certificates.

In general, a Belgian withholding tax of (currently) 27% is levied on dividends.

In the case of a redemption of shares, the redemption price (after deduction of the part of the paid-up fiscal capital represented by the shares redeemed) will be treated as dividend that is subject to a Belgian withholding tax of 27% unless this redemption is carried out on a stock exchange and meets certain conditions. In the event of liquidation of the Company, a withholding tax of 27% will be levied on any distributed amount exceeding the paid-up fiscal capital.

Belgian tax law provides for certain exemptions from Belgian withholding tax on Belgian source dividends. If there is no exemption applicable under Belgian domestic tax law, the Belgian withholding tax can potentially be reduced for investors who are non-residents pursuant to the treaties regarding the avoidance of double taxation concluded between the Kingdom of Belgium and the state of residence of the non-resident shareholder (see below).

(ii) Belgian resident individuals holding shares as a private investment

Belgian resident individuals who hold the New Shares as a private investment do not have to declare the dividend income in their personal income tax return since 27% Belgian withholding tax has been withheld which is the final tax due.

If the dividend income would be declared in the personal income tax return, it will be taxed at 27% or, if lower, at the progressive personal income tax rates applicable to the taxpayer's overall declared income.

If the dividends are declared in the personal income tax return, the Belgian withholding tax paid can be credited against the final personal income tax liability of the investor and may also be refunded if it exceeds the final income tax liability with at least EUR 2.50, provided that the dividend distribution does not result in a reduction in value of, or capital loss on, the shares. This condition is not applicable if the Belgian individual can demonstrate that he has had full ownership of the shares during an uninterrupted period of 12 months prior to the attribution of the dividends.

(iii) Belgian resident individuals holding shares for professional purposes

Belgian resident individuals who acquire and hold the shares for professional purposes must always declare the dividend income in their personal income tax return and will be taxable at the individual's personal income tax rate increased with local surcharges. Withholding tax withheld at source may be credited against the personal income tax due and is reimbursable if it exceeds the income tax due with at least EUR 2.50, subject to two conditions: (i) the taxpayer must own the shares in full legal ownership at the time the dividends are paid or attributed, and (ii) the dividend distribution may not result in a reduction in value of or a capital loss on the shares.

The latter condition is not applicable if the individual can demonstrate that he has held the full legal ownership of the shares for an uninterrupted period of 12 months prior to the payment or attribution of the dividends.

(iv) Belgian resident companies

For Belgian resident companies, the gross dividend income, including the Belgian withholding tax and excluding the foreign withholding tax, if any, must be added to their taxable income, which is, in principle, taxed at the ordinary corporate income tax rate of 33.99%. In certain circumstances lower tax rates may apply.

Belgian resident companies can generally deduct up to 95% of the gross dividend received from the taxable income ("dividend received deduction"), provided that at the time of a dividend payment or attribution: (1) the Belgian resident company holds shares representing at least 10% of the share capital of the company or a participation in the company with an acquisition value of at least EUR 2,500,000; (2) the shares have been held or will be held in full legal ownership for an uninterrupted period of at least one year; and (3) the conditions relating to the taxation of the underlying distributed income, as described in article 203 of the Belgian Income Tax Code ("ITC") are met (together the "Conditions for the application of the dividend received deduction regime").

For qualifying investment companies and for financial institutions and insurance companies, certain of the aforementioned conditions with respect to the dividend received deduction do not apply.

The Conditions for the application of the dividend received deduction regime depend on a factual analysis and for this reason the availability of this regime should be verified upon each dividend distribution.

The Belgian withholding tax may, in principle, be credited against the corporate income tax and is reimbursable if it exceeds the corporate income tax payable with at least EUR 2.50, subject to the two following conditions: (i) the taxpayer must own the shares in full legal ownership at the time of payment or attribution of the dividends and (ii) the dividend distribution may not give rise to a reduction in the value of, or a capital loss on, the shares. The latter condition is not applicable if the company proves that it held the shares in full legal ownership during an uninterrupted period of 12 months prior to the attribution of the dividends or if, during that period, the shares never belonged to a taxpayer who was not a resident company or who was not a non-resident company that held the shares through a permanent establishment in Belgium.

No Belgian withholding tax will be due on dividends paid by the Company to a resident company provided the resident company owns, at the time of the distribution of the dividend, at least 10% of the share capital of the Company for an uninterrupted period of at least one year and, provided further, that the resident company provides the Company or its paying agent with a certificate as to its status as a resident company and as to the fact that it has owned a 10% shareholding for an uninterrupted period of one year. For those companies owning a share participation of at least 10% in the share capital of the Company for less than one year, the Company will levy the withholding tax but, provided the company certifies its resident

status and the date on which it acquired the shareholding, will not transfer it to the Belgian Treasury. As soon as the investor owns the share participation of at least 10% in the capital of the Company for one year, it will receive the amount of this temporarily levied withholding tax.

(v) Organizations for Financing Persons ("OFP")

For Belgian pension funds incorporated under the form of an OFP, the dividend income is generally tax-exempt. Subject to certain limitations, any Belgian dividend withholding tax levied at source may be credited against the corporate income tax due and is reimbursable to the extent that it exceeds the corporate income tax due.

(vi) Other Belgian legal entities

The Belgian legal entities will be subject to the Belgian withholding tax on the dividends distributed by the Company. Under the current Belgian tax rules, Belgian withholding tax will represent the final tax liability and the dividends should, therefore, not be included in the tax returns of the legal entities.

(vii) Non-residents

For non-resident individuals and companies, the dividend withholding tax will be the only tax on dividends in Belgium, unless the non-resident holds the shares in connection with a business conducted in Belgium through a fixed base in Belgium or a Belgian permanent establishment.

If the shares are acquired by a non-resident in connection with a business in Belgium, the investor must report any dividends received, which will be taxable at the applicable non-resident individual or corporate income tax rate, as appropriate. Belgian withholding tax levied at source may be credited against non-resident individual or corporate income tax and is reimbursable if it exceeds the income tax due with at least EUR 2.50 and subject to two conditions: (1) the taxpayer must own the shares in full legal ownership at the time the dividends are paid or attributed and (2) the dividend distribution may not result in a reduction in value of or a capital loss on the shares. The latter condition is not applicable if (a) the non-resident individual or the non-resident company can demonstrate that the shares were held in full legal ownership for an uninterrupted period of 12 months prior to the payment or attribution of the dividends or (b) with regard to non-resident companies only, if, during the relevant period, the shares have not belonged to a taxpayer other than a resident company or a non-resident company which has, in an uninterrupted manner, invested the shares in a Belgian establishment.

For non-resident companies whose shares are invested in a fixed base in Belgium or Belgian establishment the dividend received deduction will apply on the same conditions as for Belgian resident companies.

(viii) Belgian dividend withholding tax relief for non-residents

Belgian tax law provides for certain exemptions from withholding tax on Belgian source dividends distributed to non-resident investors. No Belgian withholding tax is due on dividends paid by the Company to a non-resident organization that is not engaged in any business or other profit making activity and is exempt from income taxes in its country of residence, provided that it is not contractually obligated to

redistribute the dividends to any beneficial owner of such dividends for whom it would manage the shares. The exemption will only apply if the organization signs a certificate confirming that it is the full legal owner or usufruct holder of shares, that it is a non-resident that is not engaged in any business or other profit making activity and is exempt from income taxes in its country of residence and that it has no contractual redistribution obligation. The organization must then forward that certificate to the Company or the paying agent.

If there is no exemption applicable under Belgian domestic tax law, the Belgian dividend withholding tax can potentially be reduced for investors who are non-residents pursuant to the treaties regarding the avoidance of double taxation concluded between the Kingdom of Belgium and the state of residence of the non-resident shareholder. Belgium has concluded tax treaties with more than 95 countries, reducing the dividend withholding tax rate to 15%, 10%, 5% or 0% for residents of those countries, depending on conditions related to the size of the shareholding and certain identification formalities.

Additionally, dividends distributed to non-resident companies that (i) are either established in a Member State of the EU or in a country with which Belgium has concluded a double tax treaty, where that treaty or any other treaty concluded between Belgium and that jurisdiction includes a qualifying exchange of information clause; and (ii) qualify as a parent company, will be exempt from Belgian withholding tax provided that the shares held by the non-resident company, upon payment or attribution of the dividends, amount to at least 10% of the Company's share capital and are held or will be held during an uninterrupted period of at least one year. A company qualifies as a parent company if: (i) for companies established in a Member State of the EU, it has a legal form as listed in the annex to the EU Parent-Subsidiary Directive of 23 July 1990 (90/435/EC), as amended, or, for companies established in a country with which Belgium has concluded a double tax treaty and where that treaty or any other treaty concluded between Belgium and that country includes a qualifying exchange of information clause, it has a legal form similar to the ones listed in such annex, (ii) it is considered to be a tax resident according to the tax laws of the country where it is established and the double tax treaties concluded between such country and third countries and (iii) it is subject to corporate income tax or a similar tax without benefiting from a tax regime that derogates from the ordinary tax regime.

In order to benefit from this exemption, the investor must provide the Company or its paying agent with a certificate confirming its qualifying status and the fact that it satisfies the required conditions. If the investor holds the shares for less than one year, at the time the dividends are paid on or attributed to the shares, the Company must deduct the withholding tax but does not need to transfer it to the Belgian Treasury provided that the investor certifies its qualifying status, the date from which the investor has held the shares, and the investor's commitment to hold the shares for an uninterrupted period of at least one year. The investor must also inform the Company or its paying agent when the one-year period has expired or if its shareholding drops below 10% of the Company's share capital before the end of the one-year holding period. Upon satisfying the one-year shareholding requirement, the deducted dividend withholding tax will be paid to the investor.

Dividends paid or attributable to non-resident companies will under certain conditions be subject to a reduced 1.6995% withholding tax (5% of 33.99%), provided that the non-resident companies (i) are either established in a Member State of the EEA or in a country with which Belgium has concluded a double tax treaty, where that treaty, or any other treaty concluded between Belgium and that jurisdiction, includes a qualifying exchange of information clause; and (ii) have a legal form as listed in Annex I, Part A to Council Directive 2011/96/EU of 30 November 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States, as amended by the Council Directive of 8 July 2014 (2014/86/EU), or a legal form similar to the legal forms listed in the aforementioned annex and which is governed by the laws of another Member State of the EEA or a similar legal form in a country with which Belgium has concluded a double tax treaty; and (iii) hold a share participation in the Belgian dividend distributing company, upon payment or attribution of the dividends, of less than 10% of the Company's share capital but with an acquisition value of at least EUR 2,500,000; and (iv) have held this share participation in full legal ownership during an uninterrupted period of at least one year.

The reduced 1.6995% withholding tax is only applied to the extent that the Belgian withholding tax applicable pursuant to Articles 261 to 269 of the ITC cannot be credited nor reimbursed at the level of the qualifying, dividend receiving, company. The non-resident company must provide the Company or its paying agent with a certificate confirming its qualifying status and the fact that it meets the required conditions. The reduced 1.6995% withholding tax is applicable on dividends paid or made attributable to non-resident companies after 28 December 2015.

Prospective holders should consult their own tax advisers to determine whether they qualify for an exemption or a reduction of the withholding tax rate upon payment of dividends and, if so, the procedural requirements for obtaining such an exemption or a reduction upon the payment of dividends or making claims for reimbursement.

**2.8.2** Capital gains and losses

(i) Belgian resident individuals

Belgian resident individuals acquiring the shares as a private investment should in general not be subject to Belgian capital gains tax on the disposal of the shares and capital losses are not tax deductible.

However, as of 1 January 2016, a new tax on capital gains entered into effect called the Speculation Tax. The Speculation Tax introduces a withholding tax of 33% (not subject to local surcharges) on the capital gains realized by Belgian resident individuals on listed shares acquired for consideration after 1 January 2016 and disposed within 6 months after the date of acquisition, outside the exercise of a professional activity. The Speculation Tax also applies on short sales as defined under article 2, 1st ind., b of EU Regulation n° 236/2012 dd. 14 March 2012. The speculation tax also applies on the capital gains on shares acquired by way of (direct or indirect) gift and disposed for consideration within 6 months after the date of the acquisition/gift of the shares.

The Speculation Tax is applicable on shares (as well as other qualifying financial instruments) listed on a Belgian or foreign-regulated market (pursuant Art. 2, 1st ind., 3° of the Law of 2 August 2002), or a multilateral trading facility (pursuant Art. 2, 1st ind., 4° of the Law of 2 August 2002) (provided there is at least one daily transaction and a central order book), or a trading platform situated in a third country fulfilling a similar function. The Speculation Tax could therefore apply to capital gains on shares in the Company.

Certain capital gains are however excluded from the Speculation Tax such as the capital gains realized on shares where the acquisition has triggered a taxable professional income in the hands of the beneficiary, according to the Belgian ITC or similar foreign law provisions. Capital gains realized following the transfer of listed shares where the transfer took place solely on the issuer's initiative and where no choice was presented to the taxpayer (mandatory corporate actions such as mergers, demergers and squeeze outs) are also excluded from the Speculation Tax.

The taxable base of the speculation tax is equal to the difference between (i) the price received when disposing the Shares (in whatever form), reduced with the levied Belgian tax on stock exchange transactions (see "Belgian Tax on Stock Exchange Transactions" below) borne by the taxpayer on the transfer, and (ii) the acquisition price paid by the taxpayer (or the donor in case of a gift) increased with the Belgian tax on stock exchange transactions borne by the taxpayer (or donor) upon the acquisition of the shares. If the acquisition price is unknown, the withholding tax is applied on the entire price received for the shares (reduced with the Belgian tax on stock exchange transactions) and any excess Speculation Tax may be reclaimed through the personal income tax return.

If multiple acquisitions occur of shares with the same ISIN-code, by the same person, within 6 months before the disposal of these shares, the shares are to be regarded as acquired at the same time. The total selling price, reduced by the total acquisition price of said shares will then be subject to the Speculation Tax. The result of this reduction may however not be lower than 0.

For the calculation of the six month period the "Last In, First Out" method is used. This method implies that the last share that was acquired by the shareholder is also deemed to be the first share that is sold. The six month period is calculated per share with an identical ISIN-code. In case of short-selling the six month period is calculated by looking at the time elapsed between the date of the short sale and the date of the acquisition of the concerned shares.

The Speculation Tax is levied by the intermediary if that intermediary is based in Belgium and intervenes in the disposal of the shares. The Speculation Tax is final. This entails that, if the Speculation Tax has been levied, the capital gains no longer have to be declared in the personal income tax return of the shareholder/taxpayer. Resident individuals who have a foreign custody account and who realize the capital gains without the intervention of a Belgian based intermediary have to declare the realized capital gains in their personal income tax return.

Capital losses incurred when disposing shares within 6 months after the date of acquisition are generally not tax deductible even if the capital gains on these shares would have been subject to the Speculation Tax.

Capital gains realized by a private individual are taxable at 33% (plus local surcharges) if the capital gain is deemed to be realized outside the scope of the normal management of the individual's private estate. Capital losses incurred in such transactions are generally not tax deductible.

Capital gains realized by Belgian resident individuals on the disposal of the shares for consideration, outside the exercise of a professional activity, to a non-resident company (or a body constituted in a similar legal form), to a foreign state (or one of its political subdivisions or local authorities) or to a non-resident legal entity, are in principle taxable at a rate of 16.5% (plus local surcharges) if, at any time during the five years preceding the sale, the Belgian resident individual has owned directly or indirectly, alone or with his/her spouse or with certain relatives, a substantial shareholding in the Company (i.e., a shareholding of more than 25% in the Company). This capital gains tax does not apply if the shares are transferred to the above mentioned persons provided that they are established in the European Economic Area (EEA).

Belgian resident individuals who hold shares for professional purposes are taxed at the ordinary progressive income tax rates increased by the applicable local surcharges on any capital gains realized upon the disposal of the shares. If the shares were held for at least five years prior to such disposal, the capital gains tax would, however, be levied at a reduced rate of 16.5% (plus local surcharges). Losses on shares incurred by such an investor are tax deductible.

(ii) Belgian resident companies

Belgian resident companies are normally not subject to Belgian capital gains taxation on gains realized upon the disposal of the shares provided that (i) the conditions relating to the taxation of the underlying distributed income in the framework of the dividend received deduction, as described in article 203 ITC, are satisfied, and (ii) that the shares have been held in full legal ownership for an uninterrupted period of at least one year, except for companies which do not qualify as a small-and-medium sized company as any realized capital gain will be taxed at 0.412%

If the holding condition mentioned under (ii) is not met (but the condition relating to the taxation of the underlying distributed income mentioned under (i) is met) then the capital gain will be taxable at a separate corporate income tax rate of 25.75% If the condition mentioned under (i) would not be met, the capital gains realized will be taxable at the ordinary corporate income tax rate of principally 33.99%

Capital losses on shares are, in principle, not tax deductible.

However, shares held in the trading portfolios of qualifying credit institutions, investment enterprises and management companies of collective investment undertakings are subject to a different regime. In general, the capital gains on such shares are taxable at the corporate income tax rate of 33.99% and capital losses on

such shares are tax deductible. Internal transfers to and from the trading portfolio are assimilated to a realization.

(iii) Organizations for Financing Pensions

Belgian pension funds incorporated under the form of an OFP are, in principle, not subject to Belgian capital gains taxation on the disposal of the shares, and capital losses are not tax deductible.

(iv) Other Belgian taxable legal entities

Belgian resident legal entities subject to the legal entities income tax are, in principle, not subject to Belgian capital gains taxation on the disposal of the shares, except in the case of the transfer of a substantial shareholding to an entity established outside the EEA (see the sub-section regarding Belgian resident individuals above).

Capital losses on shares incurred by Belgian resident legal entities are not tax deductible.

(v) Belgian non-residents

(a) Non-resident individuals

Capital gains realized on the shares by a Belgian non-resident individual that has not acquired the shares in connection with a business conducted in Belgium through a fixed base in Belgium or a Belgian permanent establishment are generally not subject to taxation, unless in case the gain would be subject to the above described Speculation tax or unless the gain is deemed to be realized outside the scope of the normal management of the individual's private estate and the capital gain is obtained or received in Belgium.

However, Belgium has concluded tax treaties with more than 95 countries which generally provide for a full exemption from Belgian capital gain taxation on gains realized by residents of those countries. Capital losses are generally not tax deductible.

Capital gains will be taxable at the ordinary progressive income tax rates and capital losses will be tax deductible, if those gains or losses are realized on shares by a non-resident individual that holds shares in connection with a business conducted in Belgium through a fixed base in Belgium.

Capital gains realized by non-resident individuals on the transfer of a substantial shareholding to an entity established outside the EEA are generally subject to the same regime as Belgian resident individuals. However, Belgium has concluded tax treaties with more than 95 countries which generally provide for a full exemption from Belgian capital gain taxation on such gains realized by residents of those countries. Capital losses are generally not tax deductible.

(b) Non-resident companies or entities

Capital gains realized on the shares by non-resident companies or non-resident entities that have not acquired the shares in connection with a business

conducted in Belgium through a Belgian permanent establishment are generally not subject to taxation and losses are not tax deductible.

Capital gains realized by non-resident companies or other non-resident entities that hold the shares in connection with a business conducted in Belgium through a Belgian permanent establishment are generally subject to the same regime as Belgian resident companies.

**2.8.3** Tax on stock exchange transactions

The purchase and the sale and any other acquisition or transfer for consideration in Belgium through a "professional intermediary" of existing shares (secondary market) is subject to the tax on stock exchange transactions, generally in the amount of 0.27% of the transfer price. The amount of tax on stock exchange transactions is capped at a maximum of EUR 800 per transaction and per party.

In any event, no tax on stock exchange transactions is payable by (i) professional intermediaries described in articles 2, 9° and 10° of the Law of 2 August 2002 on the supervision of the financial sector and financial services acting for their own account, (ii) insurance companies described in article 2, §1 of the Insurance Supervision Act of 9 July 1975 acting for their own account, (iii) institutions for occupational retirement provision funds described in article 2, 1° of the Law of 27 October 2006 on the supervision of institutions for occupational retirement provision, (iv) UCITs acting for their own account, (v) non-residents acting for their own account (upon delivery of a certificate of non-residency in Belgium) or (vi) regulated real estate companies acting for their own account.

The EU Commission adopted on 14 February 2013 the Draft Directive on an FTT. The Draft Directive currently stipulates that once the FTT enters into force, the Participating Member States shall not maintain or introduce taxes on financial transactions other than the FTT (or VAT as provided in the Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax). For Belgium, the tax on stock exchange transactions would no longer apply if and to the extent the transactions fall in the scope of application of the FTT. The Draft Directive is still subject to negotiation between the Participating Member States and therefore may be changed at any time.

**2.8.4** Potential Application of Article 228, §3 ITC

Under a strict reading of Article 228, §3 ITC, capital gains realized on shares by non-residents could be subject to Belgian taxation, levied in the form of a professional withholding tax, if the following three conditions are cumulatively met: (i) the capital gain would have been taxable if the non-resident were a Belgian tax resident, (ii) the income is "borne by" a Belgian resident or by a Belgian establishment of a foreign entity (which would, in such a context, mean that the capital gain is realized upon a transfer of shares to a Belgian resident or to a Belgian establishment of a foreign entity, together a "Belgian Purchaser"), and (iii) Belgium has the right to tax such capital gain pursuant to the applicable double tax treaty, or, if no such tax treaty applies, the non-resident does not demonstrate that the capital gain is effectively taxed in its state of residence.

However, it is unclear whether a capital gain included in the purchase price of an asset can be considered to be "borne by" the purchaser of the asset within the meaning of the second condition mentioned above.

Furthermore, applying this withholding tax would require that the Belgian Purchaser is aware of (i) the identity of the non-resident (to assess the third condition mentioned above), and (ii) the amount of the capital gain realized by the non-resident (since such amount determines the amount of professional withholding tax to be levied by the Belgian Purchaser). Consequently, the application of this professional withholding tax on transactions with respect to the shares occurring on the stock exchange would give rise to practical difficulties as the seller and purchaser typically do not know each other.

In addition to these uncertainties, the parliamentary documents of the law that introduced Article 228, §3 ITC support the view that the legislator did not intend for Article 228, §3 ITC to apply to a capital gain included in the purchase price of an asset, but only to payments for services.

On 23 July 2014, formal guidance on the interpretation of article 228, §3 ITC has been issued by the Belgian tax authorities (published in the Belgian Official Gazette on 23 July 2014). The Belgian tax authorities state therein that article 228, §3 ITC only covers payments for services, as a result of which no professional withholding tax should apply to capital gains realized by non-residents in the situations described above. It should, however, be noted that a formal guidance issued by the tax authorities does not supersede and cannot amend the law if the latter is found to be sufficiently clear in itself.

## 2.9 Tax regime in the Netherlands

### 2.9.1 General

The following is a general summary of certain material Netherlands tax consequences of the holding and disposal of the New Shares by certain Netherlands resident individuals and Netherlands resident entities. This summary does not purport to describe all possible tax considerations or consequences that may be relevant to all categories of investors, some of which may be subject to special treatment under applicable law (such as trusts or other similar arrangements), and in view of its general nature, it should be treated with corresponding caution. Holders should consult with their tax advisors with regard to the tax consequences of investing in the Shares in their particular circumstances. The discussion below is included for general information purposes only.

Please note that this summary does not describe the tax considerations for:

(i) holders of shares if such holders, and in the case of individuals, his/her partner or certain of their relatives by blood or marriage in the direct line (including foster children), have a substantial interest or deemed substantial interest in the Company under the Netherlands Income Tax Act 2001 (*Wet inkomstenbelasting 2001*). Generally speaking, a holder of securities in a company is considered to hold a substantial interest in such company, if such holder alone or, in the case of individuals, together with his/her partner (statutorily defined term), directly or indirectly, holds (i) an interest of 5% or more of the total issued and outstanding capital of that company or of 5% or more of the issued and outstanding capital of a certain class of shares of that company; or (ii) rights to acquire, directly or indirectly, such interest; or (iii) certain profit sharing rights in that company that relate to 5% or more of the company's annual profits and/or to 5% or more of the company's liquidation proceeds. A deemed substantial interest may arise if a substantial interest (or part

thereof) in a company has been disposed of, or is deemed to have been disposed of, on a non-recognition basis;

(ii) holders of shares in the Company that qualify or qualified as a participation for purposes of the Netherlands Corporate Income Tax Act 1969 (*Wet op de vennootschapsbelasting 1969*). Generally, a taxpayer's shareholding of 5% or more in a company's nominal paid-up share capital qualifies as a participation. A holder may also have a participation if such holder does not have a 5% shareholding but a related entity (statutorily defined term) has a participation or if the company in which the shares are held is a related entity (statutorily defined term);

(iii) holders of shares who are individuals for whom the shares or any benefit derived from the shares are a remuneration or deemed to be a remuneration for activities performed by such holders or certain individuals related to such holders (as defined in the Netherlands Income Tax Act 2001); and

(iv) pension funds, investment institutions (*fiscale beleggingsinstellingen*), exempt investment institutions (*vrijgestelde beleggingsinstellingen*) and other entities that are, in whole or in part, not subject to or exempt from corporate income tax in The Netherlands, as well as entities that are exempt from corporate income tax in their country of residence, such country of residence being another state of the European Union, Norway, Liechtenstein, Iceland or any other state with which The Netherlands have agreed to exchange information in line with international standards.

Except as otherwise indicated, this summary only addresses Netherlands national tax legislation and published regulations, whereby the Netherlands means the part of the Kingdom of the Netherlands located in Europe, as in effect on the date hereof and as interpreted in published case law until this date, without prejudice to any amendment introduced at a later date and implemented with or without retroactive effect.

**2.9.2** Withholding Tax

Payments made by the Company on the shares may be made free from withholding or deduction of, for or on account of any taxes of whatever nature imposed, levied, withheld or assessed by The Netherlands.

**2.9.3** Taxes on Income and Capital Gains

(i) Netherlands Resident Individuals

If a holder of shares is a Netherlands Resident Individual, any benefit derived or deemed to be derived from the shares is taxable at the progressive income tax rates (with a maximum of 52%), if:

(d) the shares are attributable to an enterprise from which the Netherlands Resident Individual derives a share of the profit, whether as an entrepreneur or as a person who has a co-entitlement to the net worth (*medegerechtigd tot het vermogen*) of such enterprise, without being an entrepreneur or a shareholder, as defined in the Netherlands Income Tax Act 2001; or

(e) the holder of the shares is considered to perform activities with respect to the shares that go beyond ordinary asset management (*normaal, actief*

*vermogensbeheer*) or derives benefits from the shares that are taxable as benefits from other activities (*resultaat uit overige werkzaamheden*).

If the above-mentioned conditions (a) and (b) do not apply to the individual holder of shares, the shares are recognized as investment assets and included as such in such holder's net investment asset base (*rendementsgrondslag*). Such holder will be taxed annually on a deemed income of 4% of his or her net investment assets for the year at an income tax rate of 30%. As of 1 January 2017, the applicable deemed return will no longer be a fixed rate of 4% but will depend on the amount of the holder's net investment asset base. The net investment assets for the year are the fair market value of the investment assets less the allowable liabilities on 1 January of the relevant calendar year. A tax free allowance may be available. Actual benefits derived from the shares are as such not subject to Netherlands income tax.

(ii) Netherlands Resident Entities

Any benefit derived or deemed to be derived from the shares held by Netherlands Resident Entities, including any capital gains realized on the disposal thereof, will generally be subject to Netherlands corporate income tax at a rate of 25% (a corporate income tax rate of 20% applies with respect to taxable profits up to EUR 200,000).

**2.9.4** Gift and Inheritance Taxes

(i) Residents of The Netherlands

Gift and inheritance taxes will arise in The Netherlands with respect to a transfer of the shares by way of a gift by, or on the death of, a holder of shares who is resident or deemed to be resident in The Netherlands at the time of the gift or his/her death.

**2.9.5** Other Taxes and Duties

No Netherlands VAT and no Netherlands registration tax, stamp duty or any other similar documentary tax or duty will be payable by a holder of Shares on any payment in consideration for the holding or disposal of the Shares.

## 3 Admission to trading

The ordinary shares of the Company's share capital are currently listed on Euronext Brussels and Euronext Amsterdam. Given the fact that the New Shares belong to the same class as the other outstanding shares in the Company, which are listed on Euronext Brussels and Euronext Amsterdam, application will be made for admission to trading on Euronext Brussels and Euronext Amsterdam.

Following an IPO on the NASDAQ Global Select Market in May 2015, part of the ordinary shares of the Company are traded on the NASDAQ Global Select Market as ADSs (NASDAQ Global Select Market Symbol: "GLPG").

Pursuant to the Prospectus Law the Company is under the obligation to publish a listing prospectus, resulting in the publication of this Prospectus by the Company in view of the admission to trading of the New Shares issued pursuant to the Capital Increase.

When admission to trading is granted, the New Shares shall be listed on Euronext Brussels and Euronext Amsterdam and not as ADSs on the NASDAQ Global Select Market.

ISIN: BE0003818359

Euronext Brussels and Euronext Amsterdam Symbol: "GLPG"

## 4 Dilution

### 4.1 Dilution of voting powers and liquidation and dividend rights

The table below shows the dilution of voting power and liquidation and dividend rights that has resulted from the Capital Increase, based on the number of shares outstanding of the capital of the Company on the date of the unanimous decision by the Company's Board of Directors giving effect to the Capital Increase, i.e. 19 January 2016.

The table below does not take into account the exercise of any outstanding warrants under the warrant plans of the Company and the dilutive effect thereof. The exercise of all granted warrants that are still outstanding under the existing plans can possibly lead to the creation of up to 3,139,497 additional shares.

| Number of shares prior to Capital Increase | Number of shares issued as a result of the Capital Increase | Dilution of existing shareholders |
|---|---|---|
| 39,076,342 | 6,760,701 | 14.75% |

### 4.2 Effect on the equity of Galapagos

EUR 392,120,658 was received from Gilead in the scope of the subscription of the new shares on 19 January 2016. Net Proceeds after estimated cost of Capital increase (amounting to EUR 195,109) are expected to amount to EUR 391,925,549.

Following the Capital Increase, the Equity of Galapagos has been increased for an amount of EUR 352,922,734 compared to the equity as at the end of the year 2015 corrected from the effects of the share subscription agreement. As the Issue Price was higher than the equity value per share before the Capital Increase, there is a positive effect on the equity value per share for the existing shareholders as set out in the tables below, i.e. the equity value per share for the existing shareholders before the share subscription agreement and related Capital Increase amounted to EUR 10.12 and the equity value per share after the Capital Increase amounted to EUR 16.33.

Existing situation before the Capital Increase as at 31 December 2015 corrected from the effects of the share subscription agreement

| | |
|---|---|
| Number of shares before the Capital Increase | 39,076,342 |
| Equity of Galapagos as at 31 December 2015 corrected from the effects of the share subscription agreement | EUR 395,631,301 |
| Equity value per share before the Capital Increase | EUR 10.12 |

The Equity of Galapagos as at 31 December 2015 in the above table is corrected from the effect of EUR 30,632,265 of fair value charge recognized in 2015 related to the share subscription agreement, principally explained by the increase of the stock price of Galapagos between the date of entering into the share subscription agreement (16 December 2015) and 31 December 2015. The fair value of the

derivative financial asset is determined by using the difference between the strike price and the implied forward rate of the Galapagos share, which is strongly influenced by the closing price of the share at this date. We refer to the Critical accounting estimates in the F-pages.

Effect of the share subscription agreement and Capital Increase

| | |
|---|---|
| Number of shares after the Capital Increase | 45,837,043 |
| Equity increase through Capital Increase | EUR 352,922,734 |
| Equity of Galapagos after the Capital Increase | EUR 748,554,035 |
| Equity value per share after the Capital Increase | EUR 16.33 |

| | |
|---|---|
| Gross proceeds from Capital Increase | EUR 392,120,158 |
| Estimated costs of Capital Increase | EUR 195,109 |
| Estimated net proceeds from Capital Increase | EUR 391,925,549 |
| Equity increase through Capital Increase | EUR 352,922,734 |
| Increase in Deferred Income | EUR 39,002,815 |

The increase in equity amounting to EUR 352,922,734 is composed of:

- EUR 326,076,321 of increase in Share Capital and Share Premium
- EUR 26,846,413 of increase in accumulated results reported as net financial gain related to the transaction reflecting the fair value re-measurement of the derivative financial asset between 16 December 2015 and its maturity on 19 January 2016, as required by IAS39, in which:
  - EUR 30,632,265 of fair value charge was recognized in 2015 principally explained by the increase of the stock price of Galapagos between the date of entering into the share subscription agreement (16 December 2015) and 31 December 2015.
  - EUR 57,478,678 of fair value gain was reported in 2016, explained by the decrease of the stock price of Galapagos between 31 December 2015 and the date of completion of the Capital Increase, 19 January 2016.

## 5 Interest of natural and legal persons involved in the issue

Not applicable

## 6 Expense of the issue

The Company estimates to receive net proceeds from the transaction of approximately EUR 391.9 million after deducting estimated expenses of the Capital Increase. Set forth in the table below is an itemization of the total estimated expenses which are expected to be incurred in connection with the issuance of the 6,760,701 New Shares from the share subscription of Gilead Biopharmaceutics Ireland Unlimited Company.

| | | **Amount** |
|---|---|---|
| **Gross proceeds** | € | 392,120,658 |
| Euronext listing fee | | (117,853) |
| FSMA fee | | (13,180) |
| Legal fees and expenses | | (62,076) |
| Accounting fees and expenses | | (2,000) |
| **Total cost of capital increase** | | (195,109) |
| **Net Proceeds** | **€** | **391,925,549** |

## Part XI: Significant balance sheet transactions after 31 December 2015

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

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

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

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

# Part XII: General information

As from the Date of this Prospectus until the date the New Shares are admitted to trading on Euronext Brussels and Euronext Amsterdam, copies of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excluded), for inspection at the registered office of the Company, Generaal De Wittelaan L11 A3, 2800 Mechelen, Belgium, as well as on the Company's website (www.glpg.com):

(i) the articles of association (*statuten / statuts*) of the Company;

(ii) the annual report and audited financial statements of the Company for the years ended 31 December 2015, 31 December 2014 and 31 December 2013 (statutory in accordance with Belgian GAAP) and the annual report and audited financial statements of the year 31 December 2015, 31 December 2014 and 31 December 2013 (consolidated in accordance with IFRS) together with the audit reports thereon;

(iii) a copy of this Prospectus together with any supplement to this Prospectus, if applicable; and

(iv) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is included or referred to in this Prospectus.

## Part XIII: Index to financial statements

*This Part XIII and the following F-pages contain the audited consolidated financial statements of the Company for the year ended 31 December 2015. Please note that there are certain additional comments in such financial statements included in the Prospectus vis-à-vis the audited consolidated financial statements of the Company for the year ended 31 December 2015 contained in the Annual Report 2015 as published per 25 March 2016. The footnotes included in the F-pages mark the additional comments included in the audited consolidated financial statements in the Prospectus.*

## Consolidated statements of financial position

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2015 | 2014 | 2013 | Notes |
| **Assets** | (Euro, in thousands) | | | |
| Goodwill | € - | € - | € 39,239 | |
| Intangible assets | 1,550 | 2,015 | 7,832 | 13 |
| Property, plant and equipment | 13,782 | 10,091 | 19,525 | 14 |
| Deferred tax assets | 1,726 | 293 | 4,558 | 22 |
| Non-current R&D incentives receivables | 49,384 | 43,944 | 39,347 | 15 |
| Non-current restricted cash | 1,046 | 306 | 3,306 | 16 |
| Other non-current assets | 557 | 215 | 220 | |
| **Non-currents assets** | **68,044** | **56,864** | **114,027** | |
| Inventories | 325 | 281 | 249 | |
| Trade and other receivables | 3,931 | 3,211 | 19,207 | 17 |
| Current R&D incentives receivables | 9,161 | 7,351 | 10,625 | 15 |
| Cash and cash equivalents | 340,314 | 187,712 | 138,175 | 18 |
| Current restricted cash | 6,857 | 10,422 | - | 16 |
| Current financial asset from share subscription agreement | 8,371 | - | - | 8 |
| Other current assets | 5,512 | 4,625 | 5,091 | 17 |
| **Current assets** | **374,470** | **213,603** | **173,347** | |
| **Total assets** | **€ 442,514** | **€ 270,467** | **€ 287,374** | |
| **Equity and liabilities** | | | | |
| Share capital | € 185,399 | € 157,274 | € 154,542 | 19 |
| Share premium account | 357,402 | 114,182 | 112,484 | 19 |
| Other reserves | (18) | (220) | 47 | 20 |
| Translation differences | (467) | (1,157) | 170 | 21 |
| Accumulated losses | (177,317) | (63,944) | (100,107) | |
| **Total equity** | **364,999** | **206,135** | **167,137** | |
| Pension liabilities | 2,693 | 2,865 | 2,189 | 29 |
| Provisions | 55 | 72 | 668 | 25 |
| Deferred tax liabilities | - | - | 2,192 | 22 |
| Finance lease liabilities | 63 | 115 | 167 | 23 |
| Other non-current liabilities | 2,291 | 923 | 2,462 | 24 |
| **Non-current liabilities** | **5,103** | **3,976** | **7,678** | |
| Provisions | - | 105 | 81 | 25 |
| Finance lease liabilities | 52 | 52 | 226 | 23 |
| Trade and other payables | 29,482 | 30,007 | 29,365 | 24 |
| Current tax payable | 2,583 | 2,582 | 50 | 10 |
| Accrued charges | 490 | 585 | 3,858 | 24 |
| Deferred income | 39,806 | 27,026 | 78,979 | 24 |
| **Current liabilities** | **72,412** | **60,356** | **112,559** | |
| **Total liabilities** | **77,515** | **64,332** | **120,237** | |
| **Total equity and liabilities** | **€ 442,514** | **€ 270,467** | **€ 287,374** | |

## Consolidated statements of income and comprehensive income

| Consolidated income statement | Year Ended 31 December | | | |
|---|---|---|---|---|
| | 2015 | 2014 | 2013 | Notes |
| | (Euro, in thousands) | | | |
| Revenues | € 39,563 | € 69,368 | € 76,625 | 5 |
| Other income | 21,017 | 20,653 | 19,947 | 5 |
| **Total revenues and other income** | **60,579** | **90,021** | **96,572** | |
| Service cost of sales | | | | |
| Research and development expenditure | (129,714) | (111,110) | (99,380) | 6 |
| General and administrative expenses | (19,127) | (13,875) | (12,353) | 6 |
| Sales and marketing expenses | (1,182) | (992) | (1,464) | 6 |
| Restructuring and integration costs | - | (669) | (290) | 6 |
| **Operating loss** | **(89,444)** | **(36,624)** | **(16,915)** | |
| Fair value remeasurement of share subscription agreement | (30,632) | | | 8 |
| Other financial income | 1,987 | 2,291 | 2,182 | 9 |
| Other financial expenses | (1,539) | (867) | (1,402) | 9 |
| **Loss before tax** | **(119,627)** | **(35,201)** | **(16,135)** | |
| Income taxes | 1,218 | (2,103) | (676) | 10 |
| **Net loss from continuing operations** | **(118,410)** | **(37,303)** | **(16,811)** | |
| **Net income from discontinued operations** | **-** | **70,514** | **8,732** | 11 |
| **Net income / loss (-)** | **€ (118,410)** | **€ 33,211** | **€ (8,079)** | 12 |
| **Net income / loss (-) attributable to:** | | | | |
| Owners of the parent | (118,410) | 33,211 | (8,079) | |
| **Basic and diluted income / loss (-) per share** | **€ (3.32)** | **€ 1.10** | **€ (0.28)** | 12 |
| **Basic and diluted loss per share from continuing operations** | **€ (3.32)** | **€ (1.24)** | **€ (0.58)** | |
| Weighted average number of shares (in '000 shares) | 35,700 | 30,108 | 28,787 | 12 |

| Consolidated statement of comprehensive income | Year Ended 31 December | | | |
|---|---|---|---|---|
| | 2015 | 2014 | 2013 | Notes |
| | (Euro, in thousands) | | | |
| **Net income / loss (-)** | **€ (118,410)** | **€ 33,211** | **€ (8,079)** | |
| **Items that will not be reclassified subsequently to profit or loss:** | | | | |
| Remeasurement of defined benefit obligation | 202 | (267) | 47 | 29 |
| **Items that may be reclassified subsequently to profit or loss:** | | | | |
| Translation differences, arisen from translating foreign activities | 690 | 460 | (824) | 21 |
| Translation differences, arisen from the sale of service division | | (1,787) | - | 21 |
| **Other comprehensive income, net of income tax** | **892** | **(1,594)** | **(777)** | |
| **Total comprehensive income attributable to:** | | | | |
| Owners of the parent | € (117,517) | € 31,617 | € (8,856) | |

## Consolidated statement of changes in equity

| | (Euro, in thousands) | | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Share premium account | Translation differences | Other reserves | Accumul. losses | **Total** |
| **On 1 January, 2013** | **€ 139,347** | **€ 72,876** | **€ 994** | | **€ (94,770)** | **€ 118,447** |
| Net loss | | | | | (8,079) | (8,079) |
| Other comprehensive income | | | (824) | 47 | | (777) |
| **Total comprehensive income** | | | **(824)** | **47** | **(8,079)** | **(8,856)** |
| Share-based compensation | | | | | 2,742 | 2,742 |
| Private placement | 13,429 | 39,346 | | | | 52,775 |
| Exercise of warrants | 1,766 | 262 | | | | 2,028 |
| **On 31 December, 2013** | **€ 154,542** | **€ 112,484** | **€ 170** | **€ 47** | **€ (100,107)** | **€ 167,137** |
| Net income | | | | | 33,211 | 33,211 |
| Other comprehensive income | | | (1,327) | (267) | | (1,594) |
| **Total comprehensive income** | | | **(1,327)** | **(267)** | **33,211** | **31,617** |
| Share-based compensation | | | | | 2,952 | 2,952 |
| Exercise of warrants | 2,732 | 1,698 | | | | 4,430 |
| **On 31 December, 2014** | **€ 157,274** | **€ 114,182** | **€ (1,157)** | **€ (220)** | **€ (63,944)** | **€ 206,135** |
| Net income | | | | | (118,410) | (118,410) |
| Other comprehensive income | | | 690 | 202 | | 892 |
| **Total comprehensive income** | | | **690** | **202** | **(118,410)** | **(117,517)** |
| Share-based compensation | | | | | 5,036 | 5,036 |
| Issue of new shares | 40,751 | 237,952 | | | | 278,703 |
| Share issue costs | (19,360) | | | | | (19,360) |
| Exercise of warrants | 6,734 | 5,269 | | | | 12,002 |
| **On 31 December, 2015** | **€ 185,399** | **€ 357,402** | **€ (467)** | **€ (18)** | **€ (177,317)** | **€ 364,999** |

## Consolidated statement of cash flows

| | Year Ended 31 December | | | |
|---|---|---|---|---|
| | 2015 | 2014 | 2013 | Notes |
| | (Euro, in thousands) | | | |
| **Cash and cash equivalents at beginning of year** | **€ 187,712** | **€ 138,175** | **€ 94,369** | 18 |
| Net income / loss (-) | (118,410) | 33,211 | (8,079) | |
| **Adjustments for:** | | | | |
| Tax income (-) /expenses | (1,218) | 2,337 | (3,115) | 10 |
| Other net financial income (-) / expense | (448) | (1,841) | 174 | 9 |
| Fair value remeasurement of share subscription agreement | 30,632 | | | 8 |
| Depreciation of property, plant and equipment | 2,372 | 3,582 | 6,036 | 14 |
| Amortization of intangible fixed assets | 1,030 | 1,067 | 2,118 | 13 |
| Net realized loss on foreign exchange transactions | (398) | (261) | (2,078) | |
| Share-based compensation | 5,036 | 2,952 | 2,742 | 30 |
| Increase / decrease (-) in provisions | (125) | 27 | (88) | 25 |
| Increase in pension liabilities | 30 | 409 | 154 | 29 |
| Gain on disposal of fixed assets | (62) | - | - | |
| Gain on sale of service division | - | (67,508) | - | 33 |
| **Operating cash flows before movements in working capital** | **(81,560)** | **(26,025)** | **(2,137)** | |
| Increase in inventories | (44) | (32) | (39) | |
| Increase (-) / decrease in receivables | (7,220) | (10,110) | 1,069 | 17 |
| Increase / decrease (-) in payables | (26,728) | (40,311) | 2,242 | 24 |
| **Cash generated / used (-) from operations** | **(115,553)** | **(76,479)** | **1,136** | |
| Interest paid | (49) | (113) | (164) | |
| Interest received | 1,106 | 951 | 959 | |
| Income taxes paid (-) / received | (94) | 86 | (85) | |
| **Net cash flows generated/used (-) in operating activities** | **(114,590)** | **(75,555)** | **1,846** | |
| Purchase of property, plant and equipment | (6,100) | (2,061) | (7,328) | 14 |
| Purchase of and expenditure in intangible fixed assets | (565) | (743) | (545) | 13 |
| Proceeds from disposal of property, plant and equipment | 110 | 45 | 65 | 14 |
| Acquisitions (-) of subsidiaries, net of cash acquired | | - | (1,152) | 33 |
| Disposals of subsidiaries, net of cash disposed | | 130,787 | - | 33 |
| Increase (-) / decrease in restricted cash | 2,258 | (7,422) | (3,028) | 16 |
| **Net cash flows generated/used (-) in investing activities** | **(4,297)** | **120,606** | **(11,988)** | |
| Repayment of obligations under finance leases and other debts | (43) | (216) | (308) | 23 |
| Proceeds from Capital and Share premium increases, net of issue costs | 271,413 | 4,430 | 54,803 | 19 |
| **Net cash flows generated in financing activities** | **271,370** | **4,214** | **54,495** | |
| **Effect of exchange rate differences on cash and cash equivalents** | **118** | **271** | **(548)** | |
| **Increase in cash and cash equivalents** | **152,601** | **49,537** | **43,806** | |
| **Cash and cash equivalents at end of year** | **€ 340,314** | **€ 187,712** | **€ 138,175** | |

## Notes to 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 "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. Galapagos' ambition is to become a leading global biotechnology company focused on the development and commercialization of novel medicines. Its strategy is to leverage its unique and proprietary target discovery platform, which facilitates its discovery and development of therapies with novel modes of action.

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

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

#### Services

Galapagos sold its service division to Charles River Laboratories International, Inc. on 1 April 2014.

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

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

### 2. Significant accounting policies

Galapagos' principal accounting policies are summarized below.

#### Basis of preparation and going concern assumption

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

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

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

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

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

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

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

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

### Consolidated reporting

The consolidated financial statements comprise the financial statements of Galapagos NV and entities controlled by Galapagos NV. Control is achieved where Galapagos NV has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities. The results of subsidiaries are included in the income statement and statement of comprehensive income from the effective date of acquisition up to the date when control ceases to exist. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with Galapagos' 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 Galapagos in exchange for control of the acquired entity.

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

Goodwill arising on business combinations is recognized as an asset and initially measured as excess of the cost of acquisition over Galapagos' 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 Galapagos' 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
- Galapagos has the intention to complete the intangible assets and use or sell it
- Galapagos has 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
- It is possible 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 Galapagos' balance sheet when it becomes a party to the contractual provisions of the instrument. Hedging and derivatives have never been used: Galapagos does not actively use currency derivatives to hedge planned future cash flows, nor does it make use of forward foreign exchange contracts. However, at year-end 2015 an embedded derivative existed under the terms of the Gilead contract (see note 8).

### Research and development incentives receivables

The R&D incentives receivables relate to refunds resulting from R&D incentives on research 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. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

### Foreign currencies

- Functional and presentation currency

Items included in the financial statements of each of Galapagos' 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 the functional and presentation currency.

- Transactions and balances in foreign currency

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

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

- Financial statements of foreign group companies

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

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

### Revenue recognition

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

Collaboration and alliance agreements with its 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 Galapagos' involvement. The payments and its involvement relate to a contractually defined phase of the project. At inception Management estimates the period of its 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 it reassesses the estimated time and cost to complete the project phase and adjusts the time period over which the revenue is deferred accordingly.

### Milestone payments

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

### Costs reimbursements

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

### Licenses

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

### Royalties

Royalty revenues are recognized when Galapagos can reliably estimate such amounts and collectability is reasonably assured. As such, it generally recognizes royalty revenues in the period in which the licensees are reporting the royalties 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 Galapagos reports are not based upon its estimates and such royalty revenues are typically reported in the same period in which its receives payment from its licensees.

### Grants and R&D incentives

As Galapagos carries out extensive research and development activities, it benefits 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 its 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 Galapagos undertakes its activities under joint operations, it as a joint operator recognizes in relation to its interest in a joint operation:

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

Galapagos accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When Galapagos transacts with a joint operation in which it is a joint operator (such as sale or contribution of assets), it is 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 its consolidated financial statements only to the extent of other parties' interests in the joint operation.

When it transacts with a joint operation in which it is a joint operator (such as purchase of assets), it does not recognize its share of the gains and losses until it resells those assets to a third party.

### Equity instruments

Equity instruments issued by Galapagos 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. Remeasurement, 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. Remeasurement 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
- Remeasurement

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the 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 Galapagos can no longer withdraw the offer of the termination benefit and when it recognizes any related restructuring costs.

### c/ Staff bonus plan

Galapagos recognizes an expense in the income statement for staff bonus plans.

### d/ Management bonus plan

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

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

The possible payment of the deferred component of the Senior Management bonus schemes within three years is recognized 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 Galapagos until maturity of the bonus. The changes in fair value are recognized in profit or loss for the period.

### Share-based payments

Galapagos grants equity-settled incentives to certain employees, Directors and consultants in the form of warrants. Equity-settled warrants are measured at fair value at the date of acceptance. The fair value determined at the acceptance date of the warrants is expensed over the vesting period, based on the 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 Galapagos has 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 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, Galapagos reviews the carrying amount of its 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, Galapagos estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

### Net income/loss per share

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

### Discontinued operations

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

### Segment reporting

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of revenue and expenses that can be allocated on a reasonable basis to a segment. Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated

to the segment on a reasonable basis. Segment assets and liabilities do not include income tax items. There are only two segments.

## 3. Critical accounting estimates and judgments

In the application of the accounting policies, Galapagos is 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.

The 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 Galapagos has made in the process of applying the accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements presented elsewhere in this Annual Report.

### Critical judgments in applying accounting policies

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

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

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

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

#### Revenue recognition

Evaluating the criteria for revenue recognition with respect to the 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 the revenue-generating transactions have been subject to such evaluation by management.

### Critical accounting estimates

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

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

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

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

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

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

This computation is based on the following unobservable assumptions:

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

Relationship of unobservable inputs to the fair value measurement:

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

Recognition of clinical trial expenses

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

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

Share-based payments plans

Galapagos determines the costs of the share-based payments plans (warrant plans) on the basis of the fair value of the equity instrument at grant date. Determining the fair value assumes choosing the most suitable valuation model for these equity instruments, by which the characteristics of the grant have a decisive influence. This

assumes also the input into the valuation model of some relevant judgments, like the estimated expected life of the warrant and the volatility. The judgments made and the model used are further specified in note 30.

### Pension obligations

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

### Corporate income taxes

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

## 4. Segment information

In 2014, following the sale of the service division on 1 April 2014, the continuing operations related primarily to R&D activities. Consequently, there was one reportable segment as at 31 December 2014.
In 2015, the IFRS 8 threshold of 10% of the combined revenues, external and inter-segment, of all segments was met by the external and internal revenues reported by the Fee-for-service business located in Croatia. Consequently, there are two reportable segments in 2015, R&D and Fee-for-service business.

### Segment information for year 2015 (Euro, in thousands))

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

(1) Unallocated expenses consist mainly of expenses for warrant plans under IFRS 2[2]

[2] The unallocated expenses of €4,731 thousand are composed of (1) €5,036 thousand of warrant costs, (2) €507 thousand of decrease in depreciation cost triggered by an IFRS adjustment on the depreciation charges reported by Fidelta (Croatia) reflecting the expected useful lifetime following the purchase accounting of the acquisition of the Zagreb Research operations of GSK in 2010, (3) €202 thousand of cost from the IAS19R reclassification of actuarial gains on long term defined post-employment benefit obligations, from Profit or

(2) Cash and taxes are handled at the Group level and are therefore presented under unallocated (expenses)/income

### Segment information for the year 2014 (Euro, in thousands)

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

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

### Geographical information

In 2014 and 2015 the operations were located in Belgium, Croatia, France and The Netherlands. In 2013 Galapagos' operations were located in Belgium, Croatia, France, Switzerland, The Netherlands and United Kingdom, with its R&D division (continuing operations) located in Belgium, Croatia, France and The Netherlands and its service division (discontinued operations) operating in the remaining countries.

In 2015 the top 10 customers represented 97% of the revenues. In 2014 the continuing operations top 10 customers represented 98% of the revenues. In 2013 the top 10 customers represented 91% of the revenues. The client base in 2015, 2014 and 2013 included six of the top 20 pharmaceutical companies in the world.

Following table summarizes the revenues by destination of customer:

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| United States | € 17,077 | € 31,100 | € 46,963 |
| Europe | 22,446 | 38,169 | 29,662 |
| Asia Pacific | 40 | 100 | - |
| **Total** | **€ 39,563** | **€ 69,368** | **€ 76,625** |

Following table summarizes the revenues by major customers:

Loss accounts to Other Comprehensive Income. The above listed items are not presented to the Chief Operating Decision Maker in our management reporting as segment results, and are, therefore, presented on the line "unallocated expenses" in our Segment Reporting.

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

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

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| Galapagos NV (Belgium) | € 34,082 | € 65,448 | € 73,913 |
| Galapagos SASU (France) | 25 | 108 | - |
| Fidelta d.o.o. (Croatia) | 5,440 | 3,726 | 2,514 |
| Xenometrix, Inc. (United States) | 16 | 86 | 198 |
| **Total revenues** | **€ 39,563** | **€ 69,368** | **€ 76,625** |

In 2015, Galapagos held €68 million of non-current assets (€57 million in 2014; €114 million in 2013) distributed as follows:

France: €29 million (€26 million in 2014; €27 million in 2013)
Belgium: €30 million (€25 million in 2014; €24 million in 2013)
Croatia: €5 million (€4 million in 2014; €4 million in 2013)
The Netherlands: €4 million (€1 million in 2014; €2 million in 2013)

The decrease in non-current assets 2014 vs 2013 is explained by the sale of the service division located in the United Kingdom which was contributing €57 million of non-current assets in 2013.

The increase in non-current assets 2015 vs 2014 is explained by the increase in non-current R&D incentives receivables (see note 15).

## 5. Total revenues and other income

### Revenues

The following table summarizes the revenues for the years ended 31 December 2015, 2014 and 2013.

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| Recognition of non-refundable upfront payments | € 26,419 | € 45,838 | € 51,751 |
| Milestone payments and costs reimbursments | 7,643 | 19,768 | 20,488 |
| Other revenues | 5,501 | 3,762 | 4,387 |
| **Total revenues** | **€ 39,563** | **€ 69,368** | **€ 76,625** |

Total revenue decreased by €7.3 million, or 9%, to €69.4 million for the year ended 31 December 2014, from €76.6 million for the year ended 31 December 2013. This decrease was mainly driven by lower recognition of non-refundable upfront payments, as explained below.

- Revenue from non-refundable upfront payments relates to the deferred recognition of upfront payments received under the agreements with AbbVie, amounting to €111.6 million in 2012 and €49.6 million in 2013, which are amortized over a period ranging from 27 to 40 months, based on the estimated period of Galapagos' involvement.[3]

- Milestone revenues decreased by €0.7 million, or 4%, to €19.8 million for the year ended 31 December 2014 compared to €20.5 million for the year ended 31 December 2013. This decrease was primarily related to fewer milestones achieved in 2014 compared to 2013 as a result of the maturing pipeline of projects under alliance. For the year ended 31 December 2014 €8.3 million of milestones were recognized in relation with the CF Collaboration Agreement with AbbVie and €11.5 million of milestones primarily related to partnered programs with Janssen Pharmaceutica, Servier and GSK. For the year ended 31 December 2013, €20.5 million of milestones primarily related to partnered programs with Janssen Pharmaceutica, Servier and GSK.

- Other revenues decreased by €0.6 million, or 14%, to €3.8 million for the year ended 31 December 2014 compared to €4.4 million for the year ended 31 December 2013, principally due to lower revenues from fee-for-service activities.

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

- Revenue from non-refundable upfront payments related to the deferred recognition of upfront payments received under the agreements with AbbVie, amounting to €111.6 million in 2012 and €49.6 million in 2013, which were amortized over a period ranging from 21 to 42 months, based on the estimated period of the involvement.[4]

[3] At inception and as of 31 December 2012, the period of involvement was estimated at 30 months starting in March 2012. As from April 2013 and as of 31 December 2013, the Company changed the estimate of its period of involvement to 34 months due to delays that occurred in clinical trials and changed its recognition of the remaining unrecognized upfront payments accordingly. As of 30 June 2014 and December 31, 2014, the Company changed the estimate of its period of involvement from 34 months to 39 months and 40 months, respectively, due to additional delays and changed its recognition of the remaining unrecognized upfront payments accordingly.

[4] As of 30 June 2015, the Company changed the estimate of its period of involvement from 40 months to 42 months (i.e. until August 2015), due to additional delays and changed its recognition of the remaining unrecognized upfront payments accordingly. In September 2015 AbbVie decided not to opt-in, which ended the collaboration and subsequently the period of Galapagos' involvement. This change in estimate, i.e. reassessment of amortization period of up-front, will not affect future periods as the upfront has been fully

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

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

### Other income

The following table summarizes other income for the years ended 31 December 2015, 2014 and 2013.

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| Grant income | € 3,095 | € 5,646 | € 5,054 |
| Other income | 17,922 | 15,008 | 14,893 |
| **Total other income** | **€ 21,017** | **€ 20,653** | **€ 19,947** |

Total other income was composed of grant income and other income and increased by €0.7 million, or 4%, from €19.9 million for the year ended 31 December 2013 to €20.7 million for the year ended 31 December 2014.

The increase in total other income was primarily attributed to increased grant income, which increased by €0.6 million, or 12%, from €5.1 million for the year ended 31 December 2013 to €5.6 million for the year ended 31 December 2014. The majority of this grant income was related to grants from a Flemish agency, representing approximately 90% of all reported grant income in both years. In many cases these carry clauses which require Galapagos to maintain a presence in the same region for a number of years and invest according to pre-agreed budgets.

Other income increased slightly by €0.1 million, or 1%, from €14.9 million for the year ended 31 December 2013 to €15.0 million for the year ended 31 December 2014. Other income was primarily composed of:

- Income from an innovation incentive system of the French government, which represented €7.8 million of other income for the year ended 31 December 2014 compared to €8.1 million for the year ended 31 December 2013.
- Income from Belgian R&D incentives with regard to incurred R&D expenses, which represented €4.3 million of other income for the year ended 31 December 2014 compared to €4.1 million for the year ended 31 December 2013.
- Tax rebates on payroll withholding taxes of R&D personnel in Belgium and The Netherlands, representing €2.4 million of other income for the year ended 31 December 2014 compared to €2.2 million for the year ended 31 December 2013.

Total other income was composed of grant income and other income and increased by €0.4 million, or 2%, from €20.7 million for the year ended 31 December 2014 to €21.0 million for the year ended 31 December 2015. Grant income decreased by €2.6 million, or 45%, from €5.6 million for the year ended 31 December 2014 to €3.1 million for the year ended 31 December 2015. The majority of this grant income was related to grants from a Flemish agency, representing approximately 94% of all reported grant income in both years. In many

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recognized in revenues at the end of August 2015. After the termination of the collaboration with AbbVie, some invoices from Galapagos to AbbVie were waived for an immaterial amount as part of the transition process. There are no outstanding commitments related to this collaboration.

cases these carry clauses which require Galapagos to maintain a presence in the same region for a number of years and invest according to pre-agreed budgets.

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

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

## 6. Operating costs

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

### Research and development expenditure

The following table summarizes research and development expenditure for the years ended 31 December 2015, 2014 and 2013.

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| Personnel costs | € (35,875) | € (31,038) | € (29,385) |
| Subcontracting | (65,883) | (54,293) | (44,760) |
| Disposables and lab fees and premises costs | (18,696) | (16,830) | (15,840) |
| Other operating expenses | (9,260) | (8,949) | (9,395) |
| **Total research and development expenditure** | **€ (129,714)** | **€ (111,110)** | **€ (99,380)** |

R&D expenditure increased by €11.7 million, or 12%, to €111.1 million for the year ended 31 December 2014, from €99.4 million for the year ended 31 December 2013. This increase was principally due to:

- Increased R&D personnel costs of €1.7 million, or 6%, from €29.4 million for the year ended 31 December 2013 to €31.0 million for the year ended 31 December 2014, which was explained by an enlarged workforce, principally on the Belgian site (Mechelen). This was driven to a large extent by the new CF alliance with AbbVie (signed in September 2013), and to a smaller extent by the development project portfolio, predominantly the filgotinib project for RA and CD.
- Increased subcontracting costs of €9.5 million, or 21%, from €44.8 million for the year ended 31 December 2013 to €54.3 million for the year ended 31 December 2014. This cost increase was mainly driven by increased subcontracting costs of €5.7 million for the RA and CD collaboration with AbbVie, reflecting the progress of the filgotinib program. To a lesser extent subcontracting costs increased by €2.9 million for the CF collaboration with AbbVie.
- Intensified use of lab consumables was the main driver of the increase in disposables, lab fees and premises costs of €1.0 million, or 6%, from €15.8 million for the year ended 31 December 2013 to €16.8 million for the year ended 31 December 2014.
- Other operating expenses slightly decreased by €0.4 million, or 5%, from €9.4 million for the year ended 31 December 2013 to €8.9 million for the year ended 31 December 2014.

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

- Increased R&D personnel costs of €4.8 million, or 16%, from €31.0 million for the year ended 31 December 2014 to €35.9 million for the year ended 31 December 2015, which was explained by an enlarged workforce, higher warrant costs and a higher provision[5] for short term and long term management bonus, mainly as a result of the evolution of Galapagos' share price change relative to the Next Biotech Index on Euronext.
- Increased subcontracting costs of €11.6 million, or 21%, from €54.3 million for the year ended 31 December 2014 to €65.9 million for the year ended 31 December 2015. This cost increase was mainly driven by increased subcontracting costs of €8.4 million for the CF collaboration with AbbVie and to a lesser extent by the increase of €4.2 million in subcontracting costs for other partnered and internal programs.
- Intensified use of lab consumables was the main driver of the increase in disposables, lab fees and premises costs of €1.9 million, or 11%, from €16.8 million for the year ended 31 December 2014 to €18.7 million for the year ended 31 December 2015
- Other operating expenses slightly increased by €0.3 million, or 3%, from €8.9 million for the year ended 31 December 2014 to €9.3 million for the year ended 31 December 2015

The table below summarizes the research and development expenditure for the years ended 31 December 2015, 2014 and 2013, broken down by research and development expenses under alliance and own funded research and development expenses.

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| R&D under alliance | € (80,832) | € (76,297) | € (72,783) |
| Galapagos funded R&D | (48,882) | (34,813) | (26,597) |
| **Total R&D expenditure** | **€ (129,714)** | **€ (111,110)** | **€ (99,380)** |

[5] cost

All research and development expenditures are tracked against detailed budgets and allocated by individual project. [6]

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

### General and administrative expenses

The following table summarizes the general and administrative expenses for the years ended 31 December 2015, 2014 and 2013.

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| Personnel costs and directors fees | € (12,739) | € (8,087) | € (7,156) |
| Other operating expenses | (6,388) | (5,788) | (5,197) |
| **Total general and administrative expenses** | **€ (19,127)** | **€ (13,875)** | **€ (12,353)** |

General and administrative expenses amounted to €12.4 million for the year ended 31 December 2013 and increased by €1.5 million, or 12%, to €13.9 million for the year ended 31 December 2014. This increase was principally due to personnel costs, which increased by €0.9 million, or 13%, from €7.2 million for the year ended 31 December 2013 to €8.1 million for the year ended 31 December 2014, resulting from various effects, such as increased costs of share-based payments plans (warrant plans) and change in classification between R&D and general and administrative expenditure for some management functions. In addition, other operating expenses

[6] The table below summarizes the research and development expenditure for the years ended 31 December 2015, 2014 and 2013, broken down by program.

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| RA program on filgotinib | € (30,998) | € (30,437) | € (25,919) |
| IBD program on filgotinib | (4,406) | (3,406) | (2,668) |
| IBD program on GLPG1205 | (5,769) | (6,020) | (4,318) |
| CF program with AbbVie | (25,634) | (14,894) | (2,468) |
| Pulmonary program on GLPG1690 | (4,612) | (4,592) | (2,425) |
| Other | (58,295) | (51,762) | (61,582) |
| **Total R&D expenditure** | **€ (129,714)** | **€ (111,110)** | **€ (99,380)** |

In September 2015 AbbVie decided not to opt-in for the filgotinib program which ended the collaboration agreement with Galapagos but, since a new alliance was signed in December 2015 with Gilead for this program, costs were considered as being part of the alliance category for 2015. R&D expenditure under alliance increased by €3.5 million, or 5%, from €72.8 million for the year ended 31 December 2013 to €76.3 million for the year ended 31 December 2014, primarily due to increased spending on the new CF program with AbbVie, which represented €14.9 million for the year ended 31 December 2014 compared to €2.5 million for the year ended 31 December 2013. To a lesser extent, R&D expenditure increased with regard to the RA and CD collaboration with AbbVie for filgotinib by €5.3 million, from €28.6 million for the year ended 31 December 2013 to €33.8 million for the year ended 31 December 2014. The movements above were partially offset by a decrease in other alliance costs, which explains the increase of the R&D costs under alliance by only 5%, or €3.5 million. Galapagos also increased its investments in its own funded portfolio by €8.2 million, or 31%, from €26.6 million for the year ended 31 December 2013 to €34.8 million for the year ended 31 December 2014.

All filgotinib costs (both costs incurred in the period under alliance (or 'with AbbVie') and costs incurred after AbbVie's opt-out decision) are presented as 'R&D under alliance' (or 'with AbbVie') in the tables above as a new alliance was signed in December 2015. We considered this program to be part of the alliance category for 2015.

increased by €0.6 million, or 11%, from €5.2 million for the year ended 31 December 2013 to €5.8 million for the year ended 31 December 2014, mainly due to higher professional fees.

General and administrative expenses increased by €5.2 million, or 38%, to €19.1 million for the year ended 31 December 2015. This increase was principally due to personnel costs and directors fees, which increased by €4.6 million, or 58%, from €8.1 million for the year ended 31 December 2014 to €12.7 million for the year ended 31 December 2015, resulting from various effects, such as increased costs of share-based payments plans (warrant plans) and increased provision[7] for short and long term management bonus, mainly as a result of the evolution of Galapagos' share price change relative to the Next Biotech Index on Euronext. In addition, other operating expenses increased by €0.6 million, or 10%, from €5.8 million for the year ended 31 December 2014 to €6.4 million for the year ended 31 December 2015, mainly due to higher professional fees.

### Sales and marketing expenses

The following table summarizes the sales and marketing expenses for the years ended 31 December 2015, 2014 and 2013.

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| Personnel costs | € (785) | € (579) | € (994) |
| Other operating expenses | (397) | € (412) | (470) |
| **Total sales and marketing expenses** | **€ (1,182)** | **€ (992)** | **€ (1,464)** |

Sales and marketing expenses decreased by €0.5 million, or 32%, from €1.5 million for the year ended 31 December 2013 to €1.0 million for the year ended 31 December 2014.

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

### Restructuring costs

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| Restructuring costs | € - | € (669) | € (290) |
| **Total restructuring and integration costs** | **€ -** | **€ (669)** | **€ (290)** |

The restructuring and integration costs amounted to €0.7 million for the year ended 31 December 2014 and to €0.3 million for the year ended 31 December 2013 and were entirely related to workforce reductions within certain of the R&D operations.

## 7. Staff costs

The table below describes the evolution of our employees between the years 2015, 2014 and 2013.

| | Year Ended 31 December | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Number of employees on 31 December | 435 | 417 | 810 |
| **Total** | **435** | **417** | **810** |

The average number of employees of the continuing operations during the years 2015, 2014 and 2013 was:

[7] Provision, i.e. liability

| | Year Ended 31 December | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Key Management | 4 | 4 | 4 |
| Laboratory staff | 355 | 353 | 348 |
| Administrative staff | 66 | 64 | 67 |
| **Total** | **425** | **421** | **419** |

The following table illustrates the personnel costs of the continuing operations for the years 2015, 2014 and 2013.

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| Wages and salaries | € (33,676) | € (26,891) | € (26,260) |
| Social security costs | (7,328) | (7,468) | (6,363) |
| Pension costs | (1,456) | (1,454) | (1,260) |
| Other personnel costs | (4,574) | (2,635) | (2,097) |
| **Total personnel costs** | **€ (47,034)** | **€ (38,447)** | **€ (35,979)** |

The other personnel costs mainly relate to costs for warrants granted of €2.9 million (2014: €2.2 million; 2013: €1.8 million). For the costs of warrants granted, see note 30.

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

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

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

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

## 9. Other financial income / expense

The following table summarizes other finance income and expense for the years ended 31 December 2015, 2014 and 2013.

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| **Other financial income:** | | | |
| Interest on bank deposit | € 1,246 | € 1,155 | € 1,179 |
| Effect of discounting long term R&D incentives receivables | 99 | 920 | 409 |
| Currency exchange gain | 636 | 198 | 590 |
| Other finance income | 7 | 17 | 4 |
| **Total other financial income** | **1,987** | **2,291** | **2,182** |
| | | | |
| **Other financial expenses:** | | | |
| Interest expenses | (46) | (110) | (156) |
| Currency exchange loss | (1,310) | (652) | (1,130) |
| Other finance charges | (182) | (105) | (116) |
| **Total other financial expense** | **(1,539)** | **(867)** | **(1,402)** |
| | | | |
| **Total other net financial income** | **€ 448** | **€ 1,424** | **€ 780** |

Other financial income increased slightly by €0.1 million, or 5%, from €2.2 million for the year ended 31 December 2013 to €2.3 million for the year ended 31 December 2014.

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

Other financial expenses decreased by €0.5 million, or 38% from €1.4 million for the year ended 31 December 2013 to €0.9 million for the year ended 31 December 2014, primarily reflecting lower exchange rate losses arising from U.S. dollars. Interest expenses are related to interests paid on financial lease.

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

## 10. Taxes

### Income taxes relating to continuing operations

The following table summarizes the income tax recognized in profit or loss for the years ended 31 December 2015, 2014 and 2013.

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| Current tax | € (215) | € (2,396) | € - |
| Deferred tax | 1,433 | 293 | (676) |
| **Total taxes** | **€ 1,218** | **€ (2,103)** | **€ (676)** |

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

Current tax recorded in 2014 for an amount of €2.4 million related to a tax provision for subsidiaries operating under cost plus transfer pricing arrangements, triggered by a tax audit[8].

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

Deferred tax charges representing €0.7 million for the year ended 31 December 2013 related to the reversal of a deferred tax asset on tax losses carried forward in Croatia. Due to a revised business strategy of the subsidiary in 2013 (transition towards service company), the company would no longer be in a taxable position or even be profitable in the foreseeable future, which explained the reversal of the deferred tax asset.

[8] A dispute is currently ongoing with the French Tax Administration on the transfer pricing principles applied between the French entity and the mother company, and to a smaller extent on part of the calculation of the French R&D tax incentive. The French entity was subject to a tax audit on fiscal years 2008 to 2011. The French tax authorities requested a tax adjustment amounting to €1.9 million in cash and a decrease of the tax losses carried forward of the French entity for €19.5 million. A liability has been booked in 2014 considering this claim and the potential risk, partly under current tax liability and partly as a decrease of the R&D incentives receivables in the balance sheet for €0.6 million.

### Tax liabilities

The below table illustrates the tax liabilities related captions in the balance sheet on 31 December 2015, 2014 and 2013.

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| Current tax payable | € 2,583 | € 2,582 | € 50 |
| **Total tax liabilities** | **€ 2,583** | **€ 2,582** | **€ 50** |

The tax liabilities amounting to €2.6 million on 31 December 2015 and 2014 are primarily related to the recognition of tax liabilities for one of the subsidiaries operating on a cost plus basis for €2.1 million as a consequence of a tax audit[9]. In addition, taxes on gain on the sale of the service division in 2014 are included in the tax liabilities for €0.4 million. The income tax expense in connection with the sale of the service division was only €0.4 million, since the gain is considered as a capital gain under Belgian tax law, which is subject to a tax rate of less than 1%.

Corporation tax is calculated at 34% (2014 and 2013: 34%) - which is the tax rate applied in Belgium-of the estimated assessable profit for the year. The applied tax rate for other territorial jurisdictions is the tax rate that is applicable in these respective territorial jurisdictions on the estimated taxable result of the accounting year.

| | Year Ended 31 December, | | | | |
|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2013 |
| | | | (Euro, in thousands) | | |
| **The tax of the year can be reconciled to the accounting result as follows:** | | | | | |
| Loss before tax from continuing operations | € (119,627) | | € (35,201) | | € (16,135) |
| Income before tax from discontinued operations | | % | 70,748 | % | 4,941 |
| **Income/ loss (-) before tax** | (119,627) | 34 | 35,548 | 34 | (11,194) |
| Income tax debit / credit (-), calculated using the Belgian statutory tax rate on the accounting income / loss (-) before tax (theoretical) | (40,661) | | 12,083 | | (3,805) |
| Tax expenses / income (-) in income statement (effective) from continuing operations | (1,218) | | 2,103 | | 676 |
| Tax expenses / income (-) in income statement (effective) from discontinued operations | - | | 234 | | (3,791) |
| **Tax expenses / income (-) in income statement (effective)** | (1,218) | | 2,337 | | (3,115) |
| **Difference in tax expense / income to explain** | **€ 39,444** | | **€ (9,746)** | | **€ 690** |
| Effect of tax rates in other jurisdictions | € 328 | | € 6 | | € (22) |
| Effect of non taxable revenues | (5,934) | | (41,249) | | (6,817) |
| Effect of consolidation entry without tax impact | 57 | | 12,786 | | (388) |
| Effect of non tax deductible expenses | 1,966 | | 1,459 | | 1,188 |
| Effect of recognition of previously non recognized deferred tax assets | (1,307) | | (293) | | (3,595) |
| Effect of change in tax rates | | | (165) | | (245) |
| Effect of tax losses (utilized) reversed | (597) | | (1,549) | | (499) |
| Effect from under or over provisions in prior periods | 58 | | 2,144 | | (89) |
| Effect of non recognition of deferred tax assets | 45,195 | | 17,688 | | 10,821 |
| Effect of R&D tax credit claims | (322) | | (572) | | (340) |
| Effect of derecognition of previously recognized deferred tax assets | | | - | | 676 |
| **Total explanations** | **€ 39,444** | | **€ (9,746)** | | **€ 690** |

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

The main difference between the theoretical tax and the effective tax for the year 2014 is primarily explained by low capital gain tax (less than 1%) under Belgian tax law, on the gain on sale of the service division (see line non-

[9] A dispute is currently ongoing with the French Tax Administration on the transfer pricing principles applied between the French entity and the mother company, and to a smaller extent on part of the calculation of the French R&D tax incentive. The French entity was subject to a tax audit on fiscal years 2008 to 2011. The French tax authorities requested a tax adjustment amounting to €1.9 million in cash and a decrease of the tax losses carried forward of the French entity for €19.5 million. A liability has been booked in 2014 considering this claim and the potential risk, partly under current tax liability and partly as a decrease of the R&D incentives receivables in the balance sheet for €0.6 million.

taxable revenues and effect of consolidation entries), and by the unrecognized deferred tax assets on tax losses carried forward for which Galapagos conservatively assesses that it is not likely that these will be realized in the foreseeable future.

Non-taxable revenues for the years ended 31 December 2013, 2014 and 2015 related to non-taxable subsidies and tax credits.

## 11. Discontinued operations

The following table summarizes the results from discontinued operations for the years ended 31 December 2014 and 2013.

| | Year Ended 31 December | |
|---|---|---|
| | 2014 | 2013 |
| | (Euro, in thousands, except share and per share data) | |
| Service revenues | € 17,502 | € 61,074 |
| Other income | 669 | 1,902 |
| **Total revenues and other income** | **18,171** | **62,976** |
| Services cost of sales | (11,283) | (41,297) |
| General and administrative expenses | (3,772) | (14,077) |
| Sales and marketing expenses | (255) | (948) |
| Restructuring and integration costs | (38) | (760) |
| Loss on divestment | - | - |
| Gain on sale of service division | 67,508 | - |
| **Operating income** | **70,331** | **5,895** |
| Finance income / expense (-) | 417 | (954) |
| **Income before tax** | **70,748** | **4,941** |
| Income taxes | (234) | 3,791 |
| **Net income from discontinued operations** | **€ 70,514** | **€ 8,732** |
| **Basic and diluted income per share from discontinued operations** | **€ 2.34** | **€ 0.30** |
| Weighted average number of shares (in '000 shares) | 30,108 | 28,787 |

The service division was sold on 1 April 2014. The above table illustrates the results of the discontinued operations included in the consolidated results of operations for the years ended 31 December 2015, 2014 and 2013. For the year ended 31 December 2014, results only relate to the period from 1 January, 2014 through the disposal on 1 April 2014.

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

Cash flows from discontinued operations can be summarized as follows:

| | Year Ended 31 December | |
|---|---|---|
| | 2014 | 2013 |
| | (Euro, in thousands) | |
| Net cash flows generated/ used (-) in operating activities | € (1,722) | € 7,855 |
| Net cash flows generated/ used (-) in investing activities | 122,580 | (4,308) |
| Net cash flows generated/ used (-) in financing activities | - | (34) |
| **Net cash generated** | **€ 120,858** | **€ 3,513** |

## 12. Result per share

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

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| **Income/ loss per share:** | | | |
| **Result for the purpose of basic income / loss (-) per share (thousands €)** | € (118,410) | € 33,211 | € (8,079) |
| **Number of shares (thousands)** | | | |
| Weighted average number of shares for the purpose of basic income / loss per share | 35,700 | 30,108 | 28,787 |
| **Basic income / loss (-) per share (Euros)** | **€ (3.32)** | **€ 1.10** | **€ (0.28)** |
| **Result for the purpose of diluted income/ loss (-) per share (thousands €)** | € (118,410) | € 33,211 | € (8,079) |
| **Number of shares (thousands)** | | | |
| Weighted average number of shares for the purpose of diluted income / loss per share | 35,700 | 30,108 | 28,787 |
| Number of dilutive potential ordinary shares | - | - | - |
| **Diluted income / loss (-) per share (Euros)** | **€ (3.32)** | **€ 1.10** | **€ (0.28)** |

### Income / loss per share

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

## 13. Intangible assets

| | Customer relationships | In process technology | Software & databases | Brands, licenses, patents & know-how | Total |
|---|---|---|---|---|---|
| | | | (Euro, in thousands) | | |
| **Acquisition value** | | | | | |
| **On 1 January, 2013** | **€ 2,055** | **€ 5,561** | **€ 7,232** | **€ 17,783** | **€ 32,629** |
| Additions | | | 545 | | 545 |
| Sales and disposals | | | (35) | | (35) |
| Translation differences | | | (62) | (85) | (147) |
| **On 31 December, 2013** | **2,055** | **5,561** | **7,681** | **17,698** | **32,993** |
| Additions | | | 728 | 15 | 743 |
| Sales and disposals | | | (503) | | (503) |
| Sale of the Service division | (2,055) | | | (16,227) | (18,282) |
| Translation differences | | | 183 | 26 | 209 |
| **On 31 December, 2014** | **-** | **5,561** | **8,088** | **1,512** | **15,161** |
| Additions | | | 565 | | 565 |
| Sales and disposals | | | (1,512) | | (1,512) |
| Reclassifications | | | | | - |
| Translation differences | | | 177 | | 177 |
| **On 31 December, 2015** | **-** | **5,561** | **7,318** | **1,512** | **14,392** |
| | | | | | |
| **Amortization and impairment** | | | | | |
| **On 1 January, 2013** | **810** | **5,561** | **5,811** | **11,022** | **23,205** |
| Amortization | 102 | | 607 | 1,409 | 2,118 |
| Sales and disposals | | | (35) | | (35) |
| Translation differences | | | (62) | (65) | (127) |
| **On 31 December, 2013** | **912** | **5,561** | **6,321** | **12,366** | **25,161** |
| Amortization | 25 | | 748 | 294 | 1,067 |
| Sales and disposals | | | (500) | | (500) |
| Sale of the Service division | (937) | | | (11,853) | (12,790) |
| Reclassifications | | | (666) | 666 | - |
| Translation differences | | | 184 | 24 | 208 |
| **On 31 December, 2014** | **-** | **5,561** | **6,087** | **1,497** | **13,147** |
| Amortization | | | 1,026 | 4 | 1,030 |
| Sales and disposals | | | (1,512) | | (1,512) |
| Reclassifications | | | - | | - |
| Translation differences | | | 177 | | 177 |
| **On 31 December, 2015** | **-** | **5,561** | **5,777** | **1,501** | **12,841** |
| | | | | | |
| **Carrying amount** | | | | | |
| On 31 December, 2013 | 1,143 | - | 1,359 | 5,332 | 7,832 |
| On 31 December, 2014 | - | - | 2,000 | 15 | 2,015 |
| **On 31 December, 2015** | **€ -** | **€ -** | **€ 1,540** | **€ 11** | **€ 1,550** |

The intangible assets decreased by €5.8 million from €7.8 million at 31 December 2013, to €2.0 million at 31 December 2014. This decrease was mainly due to the sale of the service division on 1 April, 2014 by €5.5 million.

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

## 14. Property, plant and equipment

| | Land & building improvements | Installation & machinery | Furniture, fixtures & vehicles | Other tangible assets | Total |
|---|---|---|---|---|---|
| | | | (Euro, in thousands) | | |
| **Acquisition value** | | | | | |
| **On 1 January, 2013** | **€ 13,712** | **€ 47,015** | **€ 4,350** | **€ 2,886** | **€ 67,962** |
| Additions | 265 | 5,460 | 168 | 1,730 | 7,623 |
| Sales and disposals | | (358) | (17) | (644) | (1,019) |
| Other increase | | 102 | | | 102 |
| Reclassifications | | 393 | | (393) | |
| Translation differences | (79) | (360) | (46) | (13) | (498) |
| **On 31 December, 2013** | **13,898** | **52,251** | **4,455** | **3,565** | **74,169** |
| Additions | 117 | 1,155 | 104 | 685 | 2,061 |
| Sales and disposals | (1,733) | (4,549) | (73) | | (6,355) |
| Sale of the Service division | (4,022) | (23,677) | (1,919) | (370) | (29,988) |
| Reclassifications | | 3,543 | 16 | (3,559) | - |
| Translation differences | 26 | 97 | 11 | | 134 |
| **On 31 December, 2014** | **8,286** | **28,820** | **2,594** | **321** | **40,021** |
| Additions | 2,158 | 2,250 | 285 | 1,407 | 6,100 |
| Sales and disposals | (6,395) | (5,041) | (188) | (11) | (11,635) |
| Reclassifications | - | 540 | 3 | (543) | - |
| Translation differences | - | 19 | 1 | (1) | 20 |
| **On 31 December, 2015** | **4,049** | **26,588** | **2,695** | **1,174** | **34,506** |
| **Depreciations and impairment** | | | | | |
| **On 1 January, 2013** | **11,753** | **32,834** | **2,869** | **2,408** | **49,864** |
| Depreciation | 1,028 | 4,399 | 249 | 360 | 6,036 |
| Sales and disposals | | (313) | (5) | (637) | (955) |
| Other increase | 1 | 2 | | | 2 |
| Reclassifications | | | | | |
| Translation differences | (66) | (203) | (27) | (7) | (303) |
| **On 31 December, 2013** | **12,715** | **36,720** | **3,086** | **2,123** | **54,644** |
| Depreciation | 639 | 2,531 | 243 | 168 | 3,581 |
| Sales and disposals | (1,700) | (4,011) | (42) | | (5,753) |
| Sale of the Service division | (3,694) | (17,404) | (1,247) | (299) | (22,644) |
| Reclassifications | | 1,884 | | (1,884) | |
| Translation differences | 24 | 70 | 6 | 2 | 102 |
| **On 31 December, 2014** | **7,984** | **19,790** | **2,046** | **110** | **29,930** |
| Amortization | 164 | 1,873 | 272 | 63 | 2,372 |
| Sales and disposals | (6,395) | (4,996) | (188) | (7) | (11,587) |
| Reclassifications | | 44 | | (44) | - |
| Translation differences | - | 8 | | | 8 |
| **On 31 December, 2015** | **1,753** | **16,718** | **2,130** | **122** | **20,724** |
| **Carrying amount** | | | | | |
| On 31 December, 2013 | 1,183 | 15,532 | 1,368 | 1,441 | 19,525 |
| On 31 December, 2014 | 302 | 9,031 | 547 | 210 | 10,091 |
| **On 31 December, 2015** | **€ 2,296** | **€ 9,870** | **€ 565** | **€ 1,051** | **€ 13,782** |

The property, plant and equipment decreased from €19.5 million at 31 December 2013 to €10.1 million at 31 December 2014. This decrease is mainly the result of the sale of the service division, both on lines 'Sales and disposals' (assets carved out) and 'Sale of the Service division'.

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

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

## 15. Research and Development incentives receivables

The table below illustrates the R&D incentives receivables related captions in the balance sheet at 31 December 2015, 2014 and 2013.

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| Non-current R&D incentives receivables | € 49,384 | € 43,944 | € 39,347 |
| Current R&D incentives receivables | 9,161 | 7,351 | 10,625 |
| **Total R&D incentives receivables** | **€ 58,545** | **€ 51,296** | **€ 49,972** |

Total R&D incentives receivables increased by €1.3 million compared to 31 December 2013. This increase is explained by a new R&D incentives reported in 2014 for €11.9 million (€7.6 million related to French R&D incentives and €4.3 million related to Belgian R&D incentives) less the payment received related to French R&D incentives amounting to €8.6 million. The remaining variance of €1.9 million was explained by the phasing out of the consolidation scope of the service division which contributed to the total current R&D receivables at the end of 2013.

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

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

### Non-current R&D incentives receivables

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

## 16. Restricted cash

| | 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| Non-current restricted cash | € 1,046 | € 306 | € 3,306 |
| Current restricted cash | 6,857 | 10,422 | |
| **Total restricted cash** | **€ 7,903** | **€ 10,728** | **€ 3,306** |

Restricted cash of €3.3 million on 31 December 2013 was related to a €3 million bank guarantee issued in 2013 for the rental of the new premises in France which will expire on 30 June 2015, and €0.3 million rent deposit for premises in Mechelen, Belgium.

Restricted cash increased to €10.7 million for the year ended 31 December 2014. This increase is related to an escrow account containing part of the proceeds from the sale of the service division in 2014. The amounts on the escrow account will be released on 30 June 2015 if no claim is introduced by the buyer, Charles River Laboratories International, Inc. As at 31 December 2014, two claims have been introduced by Charles River Laboratories International, Inc and were fully accrued for on the balance sheet for a total amount of €0.1 million.

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

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

| | 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| Trade receivables | € 1,494 | € 1,340 | € 13,291 |
| Prepayments | 11 | 9 | 2,124 |
| Other receivables | 2,426 | 1,862 | 3,792 |
| **Trade and other receivables** | **3,931** | **3,211** | **19,207** |
| Accrued income | 2,976 | 3,242 | 4,271 |
| Deferred charges | 2,536 | 1,384 | 820 |
| **Other current assets** | **5,512** | **4,625** | **5,091** |
| **Total trade and other receivables & other current assets** | **€ 9,443** | **€ 7,836** | **€ 24,299** |

The movements in 2014 presented in the table above resulted primarily from the sale of the service division.

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

## 18. Cash and cash equivalents

| | 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| Bank balances | € 340,291 | € 187,711 | € 138,172 |
| Cash at hand | 22 | 1 | 4 |
| **Total cash and cash equivalents** | **€ 340,314** | **€ 187,712** | **€ 138,175** |

Galapagos reported a cash position of €187.7 million at the end of December 2014 compared to €138.2 million at year-end 2013. The operating activities reported use of €75.6 million of cash in 2014 while the investing activities brought €120.6 million of cash in-flow mainly due the proceeds from the sale of the service division (€130.8 million) and €4.2 million from the financing activities.

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

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

## 19. Share capital

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

| | 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| **On 1 January** | **€ 157,274** | **€ 154,542** | **€ 139,347** |
| Share capital increase | 47,485 | 2,732 | 16,356 |
| Costs of capital increase | (19,360) | | (1,161) |
| **Share capital on 31 December** | **€ 185,399** | **€ 157,274** | **€ 154,542** |
| | | | |
| Aggregate share capital | € 211,389 | € 163,904 | € 161,171 |
| Costs of capital increase (accumulated) | (25,990) | (6,629) | (6,629) |
| **Share capital on 31 December** | **€ 185,399** | **€ 157,274** | **€ 154,542** |

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, 2013 and 31 December 2015 is as follows:

| Date | Share capital increase new shares (in thousands €) | Share capital increase warrants (in thousands €) | 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 €) |
|---|---|---|---|---|---|
| **1 January, 2013** | | | | **26,771** | **€ 144,815** |
| 5 April, 2013 | | € 1,069 | 198 | | |
| 29 April, 2013 | € 14,590 | | 2,697 | | |
| 1 July, 2013 | | 488 | 90 | | |
| 21 October, 2013 | | 193 | 36 | | |
| 6 December, 2013 | | 16 | 3 | | |
| **31 December, 2013** | | | | **29,794** | **161,171** |
| 10 April, 2014 | | 1,649 | 305 | | |
| 4 July, 2014 | | 982 | 182 | | |
| 25 September, 2014 | | 66 | 12 | | |
| 9 December, 2014 | | 35 | 7 | | |
| **31 December, 2014** | | | | **30,299** | **163,904** |
| 26 March, 2015 | | 3,092 | 571 | | |
| 19 May, 2015 | 40,751 | | 7,532 | | |
| 19 June, 2015 | | 2,659 | 491 | | |
| 25 September, 2015 | | 640 | 118 | | |
| 4 December, 2015 | | 344 | 64 | | |
| **31 December, 2015** | | | | **39,076** | **€ 211,389** |

On 1 January, 2013, the share capital of Galapagos NV amounted to €144,815.6 thousand, represented by 26,770,747 shares. All shares were issued, fully paid up and of the same class.

On 5 April, 2013, warrants were exercised at various exercise prices (with an average exercise price of €5.98 per warrant). The exercise resulted in a share capital increase of €1,069 thousand (plus €113 thousand in issuance premium) and the issuance of 197,581 new shares.[10]

On 29 April, 2013, within the framework of the authorized capital and with cancellation of the preferential subscription rights, the Board of Directors of Galapagos NV decided to increase the share capital by €14,589.9 thousand (plus €39,346.8 thousand in issuance premium) by means of a private placement with institutional investors, resulting in the issuance of 2,696,831 new shares.

On 1 July, 2013, warrants were exercised at various exercise prices (with an average exercise price of €6.48 per warrant). The exercise resulted in a share capital increase of €487.7 thousand (plus €96.5 thousand in issuance premium) and the issuance of 90,143 new shares.[11]

On 21 October, 2013, warrants were exercised at various exercise prices (with an average exercise price of €6.80 per warrant) resulting in a share capital increase of €193.2 thousand (plus €49.6 thousand in issuance premium) and the issuance of 35,719 new shares.[12]

On 6 December, 2013, warrants were exercised at various exercise prices (with an average exercise price of €6.35 per warrant). The exercise resulted in a share capital increase of €16.3 thousand (plus €2.9 thousand in issuance premium) and the issuance of 3,025 new shares.[13]

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

[10] The closing price of the Galapagos share at this date was €18.38.
[11] The closing price of the Galapagos share on 1 July 1, 2013, was €15.67.
[12] The closing price of the Galapagos share at this date was €15.25.
[13] The closing price of the Galapagos share on 6 December, 2013, was €14.14.

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

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

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

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

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

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

On 19 May, 2015, Galapagos completed a global offering of 7,532,499 ordinary shares consisting of a concurrent public offering in the US and private placement in Europe and countries other than the US and Canada. Galapagos offered 5,746,000 ordinary shares through a public offering in the US in the form of American Depositary Shares, or ADSs, at a price of $42.05 per ADS, before underwriting discounts. The ADSs are evidenced by American Depositary Receipts, or ADRs, and each ADS represents the right to receive one ordinary share. The ADSs are listed on the NASDAQ Global Select Market under the symbol "GLPG." Galapagos offered 1,786,499 ordinary shares through a private placement in Europe and countries other than the US and Canada at price of €37.00 per share, before underwriting discounts.

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

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

On 25 September, 2015, warrants were exercised at various exercise prices (with an average exercise price of €10.13 per warrant), resulting in a share capital increase (including issuance premium) of €1,198 thousand and the issuance of 118.260 new ordinary shares. The closing price of the Galapagos share at this date was €44.75.

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

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

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

The below table summarizes the capital increases for the years 2013, 2014 and 2015.

| (thousands of €, except share data) | Number of Shares | Share Capital | Share Premium | Share Capital and Share Premium |
|---|---|---|---|---|
| **On 1 January 2013** | **26,770,747** | **139,347** | **72,876** | **212,223** |
| **5 April 2013 : Exercise of Warrants** | **197,581** | **1,069** | **113** | **1,182** |
| **29 April 2013 : Private placement** | | | | |
| Ordinary shares (fully paid) | 2,696,831 | 14,590 | 39,347 | 53,937 |
| Costs of capital increase | | (1,161) | | - 1,161 |
| **Total private placement** | **2,696,831** | **13,429** | **39,347** | **52,776** |
| **1 July 2013 : Exercise of Warrants** | **90,143** | **488** | **96** | **584** |
| **21 October 2013 : Exercise of Warrants** | **35,719** | **193** | **50** | **243** |
| **6 December 2013 : Exercise of Warrants** | **3,025** | **16** | **3** | **19** |
| **On 1 January 2014** | **29,794,046** | **154,542** | **112,484** | **267,026** |
| **10 April 2014 : Exercise of Warrants** | **304,791** | **1,649** | **732** | **2,381** |
| **4 July 2014 : Exercise of Warrants** | **181,507** | **982** | **880** | **1,862** |
| **25 September 2014 : Exercise of Warrants** | **12,260** | **66** | **64** | **130** |
| **9 December 2014 : Exercise of Warrants** | **6,525** | **35** | **21** | **56** |
| **On 1 January 2015** | **30,299,129** | **157,274** | **114,182** | **271,456** |
| **26 March 2015: Exercise of Warrants** | **571,548** | **3,092** | **2,727** | **5,819** |
| **19 May 2015: Global Offering** | | | | |
| Ordinary shares (fully paid) | 1,786,499 | 9,665 | 56,436 | 66,100 |
| ADSs (fully paid) | 5,746,000 | 31,086 | 181,516 | 212,602 |
| Underwriter discounts and offering expenses (fully paid) | | (19,293) | | (19,293) |
| Offering expenses not yet settled in cash at 31 December 2015 | | (67) | | (67) |
| **Total Global Offering** | **7,532,499** | **21,391** | **237,952** | **259,343** |
| **19 June 2015: Exercise of Warrants** | **491,406** | **2,659** | **1,737** | **4,395** |
| **25 September 2015: Exercise of Warrants** | **118,260** | **640** | **558** | **1,198** |
| **4 December 2015: Exercise of Warrants** | **63,500** | **344** | **247** | **591** |
| **On 31 December 2015** | **39,076,342** | **185,399** | **357,402** | **542,803** |

## Other information

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

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

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

## 20. Other reserves

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

| | 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| **On 1 January** | **€ (220)** | **€ 47** | **€ -** |
| Actuarial gains or losses (-) recognised through OCI | 202 | (267) | 47 |
| **Other reserves on 31 December** | **€ (18)** | **€ (220)** | **€ 47** |

The other reserves amounted to a negative of €18 thousand (2014: €220 thousand; 2013; positive of €47 thousand) and related to the re-measurement of defined benefit obligations booked through OCI in line with IAS19R.

**Derivative financial instruments: currency derivates**

Galapagos does 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 are committed are nil (2014 and 2013: nil).

On 31 December 2015 the fair value of the currency derivatives is nil (2014 and 2013: nil).

Galapagos does not designate its foreign currency denominated debt as a hedge instrument for the purpose of hedging the translation of its foreign operations.

See note 34 for further information on how financial risks are managed.

## 21. Translation differences

| | 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| **On 1 January** | **€ (1,157)** | **€ 170** | **€ 994** |
| Translation differences, arisen from translating foreign activities | 690 | 460 | (824) |
| Translation differences, arisen from the sale of the service division | | (1,787) | |
| **Translation differences on 31 December** | **€ (467)** | **€ (1,157)** | **€ 170** |

Translation differences decreased to a negative of €1.2 million at the end of December 2014 mainly due to the sale of the service division which reported positive translation differences of €2.0 million at the end of December 2013.

Translation differences increased from a negative €1.2 million at the end of December 2014 to a negative of €0.5 million at the end of December 2015 mainly due to the increase of the GBP and USD exchange rates.

## 22. Deferred tax

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| **Recognized deferred tax assets and liabilities** | | | |
| **Assets** | **€ 1,726** | **€ 293** | **€ 4,558** |
| **Liabilities** | **€ -** | **€ -** | **€ (2,192)** |
| Continuing operations | | | |
| Assets | 1,726 | 293 | - |
| Liabilities | - | - | - |
| Discontinued operations | | | |
| Assets | - | - | 4,558 |
| Liabilities | - | - | (2,192) |
| **Deferred tax assets unrecognized** | **€ 145,513** | **€ 104,484** | **€ 105,529** |
| Continuing Operations | 145,513 | 104,484 | 100,160 |
| Discontinued Operations | | - | 5,369 |
| **Deferred taxes in the consolidated statement of operations** | **€ 1,433** | **€ 496** | **€ 3,280** |
| Continuing operations | 1,433 | 293 | (676) |
| Tax benefit arising from previously unrecognized tax assets used to reduce deferred tax expense (+) | 1,433 | 293 | |
| Deferred tax expenses relating to write down of previously recognized deferred tax assets | | - | (676) |
| Discontinued operations | | 203 | 3,956 |
| Deferred tax expenses net relating to origination and reversal of temporary differences | | 203 | 427 |
| Tax benefit arising from previously unrecognized tax assets used to reduce deferred tax expense (+) | | - | 3,529 |
| Deferred tax expenses relating to write down of previously recognized deferred tax assets | | - | - |

The notional interest deduction for an amount of €2.6 million (2014 and 2013: €2.6 million) and the investment deduction of €1 million (2014 and 2013: €1 million) could give rise to deferred tax assets. The amount of notional interest deduction that has been accumulated in the past can be carried forward for maximum seven years, the notional interest deduction of 2012 and following years will not be carried forward according to a change in the Belgian tax legislation. There is no limit in time for the investment deduction.

The consolidated unused tax losses carried forward at 31 December 2015 amounted to €434 million (2014: €315 million; 2013: €329 million), €19.3 million were related to unrecognized tax losses with expiry date between 2018 and 2030.

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

For two subsidiaries operating on a cost plus basis a deferred tax asset was set up for an amount of €1.7 million in 2015 (2014: €0.3 million; 2013: €0 million).

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

## 23. Finance lease liabilities

| | 31 December, | | | 31 December, | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | | | | |
| | Minimum lease payments | | | Present value of minimum lease payments | | |
| **Amounts payable under finance lease** | | | | | | |
| Within one year | € 56 | € 58 | € 238 | € 52 | € 52 | € 226 |
| In the second to fifth years inclusive | 65 | 121 | 237 | 63 | 115 | 167 |
| After five years | | | | | | |
| | **€ 121** | **€ 179** | **€ 475** | **€ 115** | **€ 167** | **€ 393** |
| Less future finance charges | 6 | 12 | 82 | | | |
| **Present value of lease obligation** | **€ 115** | **€ 167** | **€ 393** | | | |
| Less amount due for settlement within 12 months | | | | 52 | 52 | 226 |
| **Amount due for settlement after 12 months** | | | | **€ 63** | **€ 115** | **€ 167** |

| | 31 December, | | | 31 December, | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | | | | |
| | Net book value | | | Acquisition cost | | |
| **Leased assets** | | | | | | |
| Installation & machinery | € 109 | € 161 | € 384 | € 251 | € 295 | € 2,534 |
| **Total leased assets** | **€ 109** | **€ 161** | **€ 384** | **€ 251** | **€ 295** | **€ 2,534** |

Galapagos leases certain of its installation and machinery under finance leases. For the year ended 31 December 2015, the average borrowing rate was 4.30% (2014: 6.27%; 2013: 6.17%). The interest rates were fixed at the date of the contracts. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

## 24. Trade and other liabilities

| | 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| Trade and other payables | € 29,113 | € 29,344 | € 29,365 |
| Other current liabilities | 369 | 663 | |
| Other non-current liabilities | 2,291 | 923 | 2,462 |
| Accrued charges | 490 | 585 | 3,858 |
| Deferred income | 39,806 | 27,026 | 78,979 |
| **Total trade and other liabilities** | **€ 72,068** | **€ 58,541** | **€ 114,664** |
| Included in current liabilities | 69,777 | 57,618 | 112,202 |
| Included in non-current liabilities | 2,291 | 923 | 2,462 |
| **Total trade and other liabilities** | **€ 72,068** | **€ 58,541** | **€ 114,664** |

The trade and other liabilities, amounting to €58.5 million as of 31 December 2014, decreased by €56.1 million compared to the €114.7 million reported as of 31 December 2013.

- The trade and other payables amounting to €29.3 million as of 31 December 2014 remain stable compared to the €29.4 million at 31 December 2013. The accrued charges show a decrease of €3.3 million compared to the ending balance on 31 December 2013 which can be fully explained by the sale of the service division.

- Deferred income amounts to €27.0 million at 31 December 2014, which decreased by €52.0 million compared to 31 December 2013. This decrease can mainly be explained by revenues from non-refundable upfront payments recognized in the income statement for €45.8 million. For the year ended 31 December 2014, €15.0 million revenue was deferred for the filgotinib program for rheumatoid arthritis and Crohn's disease with AbbVie, and €11.4 million was deferred for the CF program with AbbVie. The remainder, being €0.6 million, was mainly composed of discounting effects on non-current R&D incentives receivables and deferred revenues from grants.

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

- The trade and other payables amounting to €29.1 million as of 31 December 2015 remained stable compared to the €29.3 million as of 31 December 2014. Nevertheless, trade payables decreased by €2.7 million compared to the same period last year which fully compensated the increase in other payables by €2.5 million as a result of higher bonus provisions[14].

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

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

## 25. Provisions

| | Post-employment benefits (non-current) | Other provisions (non-current) | Restructuring provision (current) | Other provisions (current) | Total |
|---|---|---|---|---|---|
| | | (Euro, in thousands) | | | |
| **On 1 January, 2013** | **€ 10** | **€ 666** | **€ 176** | **€ -** | **€ 852** |
| Additional provisions | | 15 | | | 15 |
| Provisions utilized amounts | | (8) | (93) | | (101) |
| Reversal of provisions | (2) | | | | (2) |
| Translation differences | (1) | (12) | (3) | | (16) |
| **On 31 December, 2013** | **7** | **660** | **81** | **-** | **747** |
| Additional provisions | 7 | | | 73 | 80 |
| Provisions utilized amounts | | (3) | (50) | | (53) |
| Sale of the service division | | (604) | | | (604) |
| Translation differences | | 4 | 1 | | 5 |
| **On 31 December, 2014** | **14** | **57** | **32** | **73** | **176** |
| Additional provisions | - | - | - | - | - |
| Provisions utilized amounts | (7) | (10) | (35) | (73) | (125) |
| Translation differences | - | - | 4 | - | 4 |
| **On 31 December, 2015** | **€ 8** | **€ 47** | **€ -** | **€ -** | **€ 55** |

The decrease in provisions in 2014 is mainly due to the sale of the service division (€0.6 million).

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

[14] Provision, i.e. liability

## 26. Operating lease obligations

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

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

| Minimum lease payments under operating leases recognized in the income statement for the year | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| Continuing operations | € 4,020 | € 3,676 | € 4,059 |
| Discontinued operations | | 643 | 2,433 |
| **Total minimum lease payments under operating lea** | **€ 4,020** | **€ 4,319** | **€ 6,492** |

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

## 27. Off-balance sheet arrangements

### Contractual obligations and commitments

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

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

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

## 28. Contingent assets and liabilities

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

Following the divestment, Galapagos remains guarantor for a limited transitional period in respect of the lease obligations for certain U.K. premises amounting to £4 million future rent payments. The Buyer will fully indemnify Galapagos against all liabilities arising in connection with the lease obligation. Galapagos evaluates

the risk to be remote. Finally, following common practice, it has given customary representations and warranties which are capped and limited in time. [15]

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

## 29. Retirement benefit plans

### Defined contribution plans

Galapagos operates defined contribution systems for all of its qualifying employees. The assets of the schemes are held separately from those of Galapagos in designated pension plans. For defined contribution systems, Galapagos pays contributions to publicly or privately administered pension or insurance funds. Once the contribution is paid, it does not have any remaining obligation.

The personnel in Belgium participates in a defined contribution plan (extra-legal pension). The Belgian defined contribution pension plans are by law subject to minimum guaranteed rates of return, 3.25% on employer contributions and 3.75% on employee contributions up to 31 December 2015. These rates, which apply as an average over the entire career, could be modified by Royal Decree. Therefore, those plans were basically accounted for as defined contribution plans.

The contributions for those plans that were due by the employer for 2015, 2014 and 2013 amounted to respectively €476.3 thousand, €465.6 thousand and €367.9 million, of which €35.9 thousand was paid after 31 December 2015 (2014: €32.9 thousand; 2013: €33.9 thousand). No contributions were made by the employees.

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

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

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

As at 31 December 2015 no net liability was recognized (2014 and 2013: nil) in the balance sheet as the minimum rates of return to be guaranteed by the employer are closely matched by the rates of return guaranteed by the insurer.

Similar pension schemes apply to the entities in other countries, except in France. The amounts due by the continuing operations to these pension plans in 2015 were €1.5 million in total (2014: €1.5 million; 2013: €1.3 million).

### Defined benefit plans

Galapagos uses two defined benefit plans for the employees of its French entity. The defined benefit plans are not supported by funds.

[15] (since 1 April 2016, the Buyer 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).

The Chemical and Pharmaceutical Industry's collective bargaining agreements require that the French entity pays a retirement allowance depending on the seniority of the employees at the moment they retire. The benefit obligations for these retirement allowances amounted to €1,520.9 thousand for 2015 (2014: €1,622.3 thousand; 2013: €1,207.2 thousand). This decrease compared to 2014 is mainly due to changed actuarial assumptions (increase of discount rate from 1.75% to 2%).

Additionally, there are also seniority premiums paid in France. The provisions for these premiums amounted to €1,172.0 thousand in 2015 (2014: €1,242.9 thousand; 2013: €981.8 thousand).

Total obligation included in the balance sheet related to the defined benefit plans amounts to €2,692.9 thousand for the year ended 31 December 2015 (2014: €2,865.2 thousand; 2013: €2,189.0 thousand).

Actuarial gains and losses are recognized immediately on the balance sheet, with a charge or credit to other comprehensive income (OCI), in accordance with IAS 19R. They are not recycled subsequently. Actuarial gains of €201.5 thousand have been booked through other comprehensive income (OCI) at the end of 2015 (2014: €266.6 thousand of actuarial losses; 2013: €46.6 thousand of actuarial gains).

## Obligations included in the balance sheet

| Obligations included in the balance sheet | Year Ended 31 December, 2015 | 2014 | 2013 |
|---|---|---|---|
| | | (Euro, in thousands) | |
| Present value of funded defined benefit obligation | | | |
| Plan assets | € (1,064) | | |
| Deficit/ surplus | (1,064) | | |
| Present value of unfunded defined benefit obligation | 2,693 | € 2,865 | € 2,189 |
| Reclassification - Belgian contribution plans | 1,064 | | |
| **Liability included in the balance sheet** | **€ 2,693** | **€ 2,865** | **€ 2,189** |

The present value of the gross obligation developed as follows:

| The present value of the gross obligation developed as follows | Year Ended 31 December, 2015 | 2014 | 2013 |
|---|---|---|---|
| | | (Euro, in thousands) | |
| Opening balance | € 2,865 | € 2,189 | € 2,035 |
| Current service cost | 194 | 228 | 228 |
| Interest cost | 50 | 65 | 60 |
| Benefits paid | (44) | (48) | (51) |
| Reclassification - Belgian contribution plans | 1,064 | | |
| Actuarial gains (-) or losses due to experience adjustments | (27) | 82 | (89) |
| Actuarial losses due to experience adjustments related to new financial ass | (99) | 347 | |
| Actuarial gains (-) or losses due to experience adjustments related to new demographic assumptions | (247) | 3 | 5 |
| **Closing balance** | **€ 3,757** | **€ 2,865** | **€ 2,189** |

The fair value of the plan assets developed as follows:

| The fair value of the plan assets developed as follows | Year Ended 31 December, 2015 | 2014 | 2013 |
|---|---|---|---|
| | | (Euro, in thousands) | |
| Opening balance | | | |
| Reclassification - Belgian contribution plans | (1,064) | | |
| **Closing balance** | **€ (1,064)** | **€ -** | **€ -** |

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

| Amounts recognized in profit or loss for defined benefit plans are as follo | Year Ended 31 December, 2015 | 2014 | 2013 |
|---|---|---|---|
| | | (Euro, in thousands) | |
| Current service cost | € 194 | € 228 | € 228 |
| Interest cost | 50 | 65 | 60 |
| Revaluations of net liability / net asset | (171) | 165 | (37) |
| **Total expense** | **€ 73** | **€ 457** | **€ 251** |

Obligation included in the balance sheet reconciles as follows:

| Obligation included in the balance sheet reconciles as follows | Year Ended 31 December, 2015 | 2014 | 2013 |
|---|---|---|---|
| | | (Euro, in thousands) | |
| Opening balance | € 2,865 | € 2,189 | € 2,035 |
| Total expense recognized in the income statement | 73 | 457 | 251 |
| Remeasurement on the net defined benefit liability | (202) | 267 | (47) |
| Benefits paid | (44) | (48) | (51) |
| **Closing balance** | **€ 2,693** | **€ 2,865** | **€ 2,189** |

The most important actuarial assumptions are:

| The most important actuarial assumptions are | Year Ended 31 December, 2015 | 2014 | 2013 |
|---|---|---|---|
| | | (%) | |
| Discount rate | 2.00% | 1.75% | 3.00% |
| Expected salary increase | 2.25% | 2.25% | 2.50% |
| Inflation rate | 1.75% | 1.75% | 2.00% |

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

Breakdown of defined benefit obligation by type of plan participants:

| | Year Ended 31 December, 2015 | 2014 | 2013 |
|---|---|---|---|
| | | (number of participants) | |
| Active plan participants | 254 | 125 | 124 |

Breakdown of defined benefit obligation by type of benefits:

| | Year Ended 31 December, 2015 | 2014 | 2013 |
|---|---|---|---|
| | | (Euro, in thousands) | |
| Retirement and death benefits | 2,585 | 1,622 | 1,207 |
| Other post-employment benefits | 1,172 | 1,243 | 982 |

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

| | Year Ended 31 December, 2015 | 2014 | 2013 |
|---|---|---|---|
| | | (Euro, in thousands) | |
| Equity | 74 | | |
| Debt | 979 | | |
| Cash | 11 | | |

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

| Sensitivity analysis on discount rate : effect on obligation | | Year ended 31 December, 2015 |
|---|---|---|
| | | Obligation (Euro, in thousands) |
| Discount rate | 1.50% | € 2,868 |
| Discount rate | 1.75% | 2,779 |
| Discount rate | 2.00% | 2,693 |
| Discount rate | 2.25% | 2,612 |
| Discount rate | 2.50% | € 2,534 |

| Sensitivity analysis on discount rate : effect on obligation | | Year ended 31 December, 2014 |
|---|---|---|
| | | Obligation (Euro, in thousands) |
| Discount rate | 1.25% | € 3,068 |
| Discount rate | 1.50% | 2,964 |
| Discount rate | 1.75% | 2,865 |
| Discount rate | 2.00% | 2,772 |
| Discount rate | 2.25% | € 2,682 |

| Sensitivity analysis on discount rate : effect on obligation | | Year ended 31 December, 2013 |
|---|---|---|
| | | Obligation (Euro, in thousands) |
| Discount rate | 2.50% | € 2,337 |
| Discount rate | 2.75% | 2,261 |
| Discount rate | 3.00% | 2,189 |
| Discount rate | 3.25% | 2,120 |
| Discount rate | 3.50% | € 2,055 |

## 30. Warrant plans

Presented below is a summary of warrant plans activities for the reported periods. Various warrant plans were approved for the benefit of Galapagos' employees, and for Directors and independent consultants of Galapagos NV. For warrant plans issued prior to 2011, the warrants offered to the employees and independent consultants vest according to the following schedule: 10% of the warrants vest on the date of the grant; an additional 10% vest at the first anniversary of the grant; an additional 20% vest at the second anniversary of the grant; an additional 20% vest at the third anniversary of the grant; and an additional 40% vest at the end of the third calendar year following the grant. The warrants granted under warrant plans created from 2011 up to (and including) Warrant Plan 2015 vest at the end of the third calendar year following the year of the grant, with no intermediate vesting. The warrants granted under Warrant Plan 2015 (B) and Warrant Plan 2015 RMV vest on the third anniversary of the notary deed enacting the acceptance of the warrants. The warrants offered to Directors vest over a period of 36 months at a rate of 1/36th per month. Warrants cannot be exercised before the end of the third calendar year following the year of the grant, except for warrants granted under Warrant Plan 2015 (B) and Warrant Plan 2015 RMV, which become exercisable on the third anniversary of the notary deed enacting the acceptance of the warrants. Pursuant to a resolution adopted at the Extraordinary Shareholders' Meeting held on 23 May, 2011, a provision has been incorporated in the warrant plans, which provides that in the event of a change of control over Galapagos NV, all outstanding warrants vest immediately and will be immediately exercisable.

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

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

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

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

| | Warrants | Weighted average exercise price (€) |
|---|---|---|
| **Outstanding on 1 January, 2013** | **3,347,709** | **€ 9.51** |
| Exercisable on December 31, 2012 | 844,181 | |
| Granted during the period | 677,790 | |
| Forfeited during the year | (71,010) | |
| Exercised during the period | (326,468) | |
| Expired during the year | (945) | |
| **Outstanding on 31 December, 2013** | **3,627,076** | **€ 11.50** |
| Exercisable on 31 December, 2013 | 1,138,438 | |
| Granted during the period | 721,660 | |
| Forfeited during the year | (252,800) | |
| Exercised during the period | (505,083) | |
| Expired during the year | | |
| **Outstanding on 31 December, 2014** | **3,590,853** | **€ 12.06** |
| Exercisable on 31 December, 2014 | 1,355,213 | |
| Granted during the period | 532,053 | |
| Forfeited during the year | (72,500) | |
| Exercised during the period | (1,244,714) | |
| Expired during the year | - | |
| **Outstanding on 31 December, 2015** | **2,805,692** | **€ 16.22** |
| Exercisable on 31 December, 2015 | 720,749 | |

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

## Warrant Plans

| | 2015 30 April | 2014 14 Oct | 2014 25 Jul | 2013 29 Jul | 2013 18 Sep |
|---|---|---|---|---|---|
| Exercise Price | € 28.75 | € 11.93 | € 14.54 | € 19.38 | € 15.18 |
| Current share price | € 46.09 | € 10.95 | € 14.38 | € 17.74 | € 14.87 |
| Fair value on the grant date | € 26.05 | € 4.35 | € 6.14 | € 7.75 | € 6.80 |
| Estimated volatility (%) | 39.2 | 38.03 | 38.76 | 38.76 | 38.76 |
| Time to expiration (years) | 8 | 8 | 8 | 8 | 8 |
| Risk free rate (%) | 0.39 | 0.58 | 0.58 | 1.99 | 1.99 |
| 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 have been accounted for in accordance with International Financial Reporting Standard 2 on Share Based Payments. IFRS 2 takes effect for all warrants offered after 7 November, 2002.

The warrants expense in 2015 amounted to €5,036 thousand (2014: €2,952 thousand; 2013: €2,742 thousand).

The following table provides an overview of the outstanding warrants per category of warrant holders at 31 December 2015, 2014 and 2013.

### Category

| Category | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (in number of warrants) | | |
| Non-executive directors | 115,730 | 199,070 | 192,350 |
| Executive team | 1,376,874 | 1,445,000 | 1,382,500 |
| Other | 1,313,088 | 1,946,783 | 2,052,226 |
| **Total warrants outstanding** | **2,805,692** | **3,590,853** | **3,627,076** |

The outstanding warrants at the end of the accounting period have an average exercise price of €16.22 (2014: €12.06; 2013: €11.50) and a weighted average remaining expected life of 1,469 days (2014: 1,639 days; 2013: 1,628 days).

## 31. Related parties

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

*Trading transactions*
In 2015, 2014 and 2013, Galapagos NV and its affiliates had no trading transactions with parties that are considered as related parties as defined in IAS24.

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

Pursuant to a power of attorney granted by the Shareholders' Meeting held on 28 April, 2015, the Board, upon recommendation of the Nomination and Remuneration Committee, allocated the aggregate annual remuneration for all Directors (other than Dr. Parekh and the CEO) for the exercise of their mandate as a Director of Galapagos NV in 2015, amounting in total to maximum €200,000 (plus expenses) as follows: (a) annual remuneration for each non-executive Director (Dr. Cautreels, Dr. Van Barlingen, Mr. Rowe and Ms. Bosley): €40,000; and (b) additional remuneration for the chairman of the Audit Committee (Dr. Cautreels): €5,000. Dr. Mummery, being appointed as non-executive Director as from 30 September, 2015, received €10,000 as remuneration for the performance of her mandate during the last quarter of 2015. Dr. Parekh, the Chairman of the Board, is compensated through a consultancy agreement only (see remuneration of key management).

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

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

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

In 2015, a total of 116,740 warrants were issued to the Directors, of which 100,000 for the CEO; these warrants were issued by the Board of Directors within the framework of the authorized capital, in accordance with the resolution of the Shareholders' Meeting of 28 April, 2015. In 2014, the total number of warrants issued to Directors was 119,260 (of which 100,000 for the CEO); these warrants were issued by the Board of Directors within the framework of the authorized capital, in accordance with the resolution of the Shareholders' Meeting of 29 April, 2014. The above does not take into consideration the 152,500 warrants offered to the Directors, of which 100,000 to the CEO, under Warrant Plan 2015 (B), as these warrants were offered on December 22, 2015 subject to acceptance of the beneficiaries, and were not yet formally accepted and issued as per 31 December 2015.

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

| | Year Ended 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| **Remuneration of key management personnel:** | | | |
| Thousands of € (except for the number of warrants) | | | |
| Short-term employee benefits *(*)* | € 2,937 | € 1,506 | € 2,450 |
| Post-employment benefits | 144 | 184 | 135 |
| **Total benefits excluding warrants** | **€ 3,081** | **€ 1,690** | **€ 2,585** |
| Number of warrants granted in the year | 175,000 (**) | 330,000 | 265,000 |

(*) includes: salaries, employer social security contributions, other short term benefits.
(**) excludes 240,000 warrants offered to the members of the Executive Committee under Warrant Plan 2015 (B), as these warrants were offered on December 22, 2015 subject to acceptance of the beneficiaries, and were not yet formally accepted and issued as per 31 December 2015.

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

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

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

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

- If the Galapagos share price change is better than or equal to the change in the Next Biotech Index, the deferred bonus will be adjusted by the share price increase/decrease and paid out

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

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

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

The six members of the Executive Committee (including the CEO) who were in function in the course of 2014 were paid an aggregate amount of €1,151.6 thousand in remuneration and received an aggregate amount of €268.6 thousand in bonuses. The aggregate bonus amount was composed of 2 parts: (a) an aggregate bonus of €234 thousand, being 50% of the bonus for performance over 2014 (paid in early January 2015), with the other 50% being deferred for 3 years, (b) an aggregate amount of €34.6 thousand as an exceptional special bonus granted to Mr. Smith in connection with his instrumental role in the divestment of the Group's services division. No performance bonus was awarded for the year 2011, as three out of five of the corporate objectives for 2011 were not achieved. Therefore, no deferred part of the bonus for the year 2011 was paid out in 2014.

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

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

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

### Transactions with non-executive directors

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

In 2015, a total amount of €135 thousand was paid to the independent Directors as Board fees (2014: €145 thousand; 2013: €137 thousand) and €5.7 thousand as expenses (2014: €17 thousand; 2013: €26 thousand). In addition, in 2015, a total amount of €6.3 thousand was paid to a former independent Director as reimbursement of expenses disbursed during the previous financial year (no such payment was made in 2014 nor 2013).

In 2015 an aggregate amount of €40 thousand in Board fees was paid to the Directors who are not independent Directors and who do not represent a shareholder (2014: €20 thousand; 2013: €20 thousand) and €5.9 thousand as expenses (2014: €6 thousand; 2013: nil).

In case a Director attends less than 75% of the meetings of the Board of Directors, the annual compensation set out above shall be reduced pro rata the absence score of such director. This rule did not require implementation in 2015, 2014 or 2013.

Directors who represent a shareholder on the Board of Directors will only receive reimbursement for the expenses they incur for attending meetings of the Board of Directors and no other compensation or fees for their Board membership. There were no such directors in 2015, 2014 or 2013.

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

In 2015, 8,820 warrants were granted to independent Directors (2014: 11,340; 2013: 16,320) and 7,920 warrants were granted to the other non-executive Directors (2014: 7,920; 2013: 7,920). The above does not take into consideration the warrants offered to the Directors under Warrant Plan 2015 (B), as these warrants were offered on 22 December, 2015 subject to acceptance of the beneficiaries, and were not yet formally accepted and issued as per 31 December 2015.

## 32. Consolidated companies as of 31 December 2015

| | | Year Ended 31 December, | | | |
|---|---|---|---|---|---|
| | | 2015 | | 2014 | 2013 |
| Name of the subsidiary | Country | % voting right Galapagos NV (directly or indirectly through subsidiaries) | Change in %voting right previous period (2015 vs 2014) | % voting right Galapagos NV (directly or indirectly through subsidiaries) | % voting right Galapagos NV (directly or indirectly through subsidiaries) |
| **Continuing operations:** | | | | | |
| BioFocus DPI AG | Switzerland | 100% | | 100% | 100% |
| BioFocus DPI LLC | United States | 100% | | 100% | 100% |
| BioFocus, Inc. | United States | 100% | | 100% | 100% |
| Discovery Partners International GmbH | Germany | 100% | | 100% | 100% |
| Galapagos B.V. | The Netherlands | 100% | | 100% | 100% |
| Galapagos NV | Belgium | parent company | | parent company | parent company |
| Fidelta d.o.o. | Croatia | 100% | | 100% | 100% |
| Galapagos SASU | France | 100% | | 100% | 100% |
| Inpharmatica Ltd. | United Kingdom | 100% | | 100% | 100% |
| Xenometrix, Inc. | United States | 100% | | 100% | 100% |
| **Discontinued operations: *** | | | | | |
| Argenta Discovery 2009 Ltd. | United Kingdom | 0% | - | 0% | 100% |
| BioFocus DPI (Holdings) Ltd. | United Kingdom | 0% | - | 0% | 100% |
| BioFocus DPI Ltd. | United Kingdom | 0% | - | 0% | 100% |
| Cangenix Ltd. | United Kingdom | 0% | - | 0% | 100% |

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

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

## 33. Company acquisitions and disposals

### Company disposals: sale of service division

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

| | 1 April, 2014 (Euro, in thousands) |
|---|---|
| Consideration received in cash and cash equivalents | € 137,760 |
| Correction on consideration still to settle | (650) |
| **Total consideration** | **€ 137,111** |

| | 1 April, 2014 (Euro, in thousands) |
|---|---|
| Cash | € 6,115 |
| Trade and other receivables | 18,165 |
| **Current assets** | **24,280** |
| Goodwill | 39,246 |
| Fixed assets | 13,397 |
| Deferred tax assets | 4,588 |
| **Non-current assets** | **57,231** |
| Trade payables | (2,569) |
| Other payables | (5,263) |
| **Current liabilities** | **(7,831)** |
| Provisions | (604) |
| Deferred tax liabilities | (1,996) |
| Other non-current liabilities | (549) |
| **Non-current liabilities** | **(3,149)** |
| **Net assets disposed of** | **€ 70,531** |

| | 1 April, 2014 (Euro, in thousands) |
|---|---|
| Total consideration | € 137,111 |
| Net assets disposed of | (70,531) |
| Effect from Cumulative Translation Adjustments reclassified from equity | 1,787 |
| Costs associated to sale | (858) |
| **Gain on disposal** | **€ 67,508** |

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

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

### Company acquisitions

On 4 January 2013 Galapagos acquired Cangenix Ltd. which is located in Canterbury, UK. Cangenix is a structure-based drug discovery company and has been added to the Argenta service offering. It was formed in 2011 by scientists from the Structural Biology and Biophysics group at Pfizer Sandwich, UK. Recognized as experts in the field, the Cangenix team brings over 70 years of combined experience in the application of protein crystallography and biophysical techniques to drug discovery. Cangenix contributed €1.3 million of revenues for the period between the date of acquisition and 31 December 2013. In the 9 months reference period prior to the date of acquisition, Cangenix reported €0.7 million of revenues. The consideration paid for Cangenix in the course of 2013 amounted to €1.2 million, including €0.1 million of cash and cash equivalents acquired. A deferred consideration of €0.5 million has been recognized on the balance sheet and is payable after two years upon achievement of certain conditions. The goodwill arising on the acquisition of Cangenix Ltd. amounts to €1.6 million.

| Condensed balance sheet Cangenix at acquisition date | 4 January 2013 (Euro, in thousands) |
|---|---|
| Fixed assets | € 100 |
| Work in progress | 7 |
| Debtors and prepayments | 134 |
| Cash | 84 |
| **Total assets** | **325** |
| Equity | 207 |
| Trade payables and advances received | 67 |
| Accrued charges and other liabilities | 51 |
| **Total Equity and liabilities** | **325** |
| Net assets | 207 |
| Goodwill | 1,572 |
| **Total consideration** | **1,779** |
| Deferred consideration | (543) |
| **Cash consideration on acquisition** | **1,236** |
| Cash and cash equivalents acquired | (84) |
| **Cash consideration, net of cash acquired** | **€ 1,152** |

As part of the sale of the services division, Cangenix was sold on 1 April, 2014 and presented under discontinued operations.

## 34. Financial risk management

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

### Financial risk factors

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

Categories of material financial assets and liabilities:

| | 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| **Financial assets** | | | |
| Cash at bank and in hand | € 340,314 | € 187,712 | € 138,175 |
| Restricted cash (current and non-current) | 7,903 | 10,728 | 3,306 |
| Trade receivables | 1,494 | 1,340 | 13,291 |
| R&D incentives receivables (current and non-current) | 58,545 | 51,296 | 49,972 |
| Current financial asset from share subscription agreement | 8,371 | | |
| Other amounts receivable | 2,426 | 1,862 | 3,792 |
| **Total financial assets** | **€ 419,052** | **€ 252,937** | **€ 208,536** |
| | | | |
| **Financial liabilities** | | | |
| Trade payables | € 29,482 | € 30,007 | € 29,365 |
| Other non-current liabilities | 2,291 | 923 | 2,462 |
| Leasing debts | 115 | 167 | 393 |
| Tax payable | 2,583 | 2,582 | 50 |
| **Total financial liabilities** | **€ 34,471** | **€ 33,679** | **€ 32,270** |

## Share subscription agreement with Gilead

Galapagos has been temporarily exposed to financial market and currency risk though its share subscription agreement with Gilead.

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

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

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

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

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

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

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

### Liquidity risk

The consolidated balance sheet shows an amount of €177.3 million as incurred losses at the end of 2015. Management forecasts the liquidity requirements to ensure that there is sufficient cash to meet operational needs. Galapagos has no credit lines. Such forecasting is based on realistic assumptions with regards to milestone and upfront payments to be received, taking into account the 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.

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, a policy of only dealing with creditworthy counterparties has been developed.

Galapagos grants credit to its clients in the framework of its normal business activities. Usually, it requires 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 bad debt allowance for doubtful debtors has been established.

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

| Aging balance of receivables that are due, but that are still considered collectable: | 31 December, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Euro, in thousands) | | |
| 60 - 90 days | € 86 | € 17 | € 1,034 |
| 90 - 120 days | | | |
| more than 120 days | € 17 | € 45 | |

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

### Interest rate risk

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

### Foreign exchange risk

Galapagos is exposed to foreign exchange risk arising from various currency exposures. Its functional currency is euro, but it receives payments from its main business partner AbbVie in U.S. dollar and acquires some consumables and materials in U.S. dollars, Swiss Francs, GB Pounds and Croatian Kuna.

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

In order to further reduce this risk, a netting system was implemented 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, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| **Net book value** | (Euro, in thousands) | | |
| Increase in Euros - US Dollars | € 506 | € 589 | € 521 |
| Increase in Euros - GB Pounds | 164 | 138 | (185) |
| Increase in Euros - CH Francs | 169 | 181 | 163 |
| Increase in Euros - HR Kunas | (50) | 215 | 798 |
| Increase in CH Francs - GB Pounds | | | (1) |
| Increase in HR Kunas - GB Pounds | | | (31) |
| Increase in US Dollars - GB Pounds | € (907) | € (807) | € (708) |

### Capital risk factors

Galapagos manages its capital to safeguard that it will be able to continue as a going concern. At the same time, it wants to ensure the return to its shareholders through the results from its research and development activities.

Galapagos' capital structure consists of cash at bank and in hand and cash equivalents, financial debt (which currently it barely has: as of 31 December 2015, it had no financial debt other than finance leases and advances from Oseo, a French public organization for innovation support, for €0.4 million), and equity attributed to the holders of its equity instruments, such as capital, reserves and results carried forward, as mentioned in the consolidated statement of changes in equity.

Galapagos manages its capital structure and makes the necessary adjustments in the light of changes of economic circumstances, the risk characteristics of underlying assets and the projected cash needs of the current research and development activities.

The adequacy of the capital structure will depend on many factors, including scientific progress in the research and development programs, the magnitude of those programs, the commitments to existing and new clinical CROs, the ability to establish new alliance or collaboration agreements, the capital expenditures, market developments and any future acquisition.

Neither Galapagos NV nor any of its subsidiaries are subject to any externally imposed capital requirements, other than those imposed by generally applicable company law requirements.

## 35. Auditor's remuneration

The Auditor's fees for carrying out his mandate at Group level amounted to €235.0 thousand in 2015 (2014: €80.0 thousand; 2013: €94.4 thousand). The fees for audit-related services executed by the Auditor, in particular other assurance engagements primarily related to the Nasdaq IPO, amounted to €538.4 thousand in 2015 (2014: €117.3 thousand; 2013: €20.9 thousand). Fees for persons related to the Auditor for carrying out an auditor's mandate at Group level amounted to €45.0 thousand in 2015 (2014: €40.8 thousand; 2013: €105.7 thousand). The fees paid in 2015 for non-audit services for the Group by persons related to the auditor for tax and advisory services amounted to €7.9 thousand (2014: €9.8 thousand; 2013: €22.5 thousand). The Audit Committee and the Board of Directors are of the opinion that these non-audit services do not affect the independence of the Auditor in the performance of his audit. The abovementioned additional fees were approved by the Audit Committee.

## 36. Events after balance sheet date

On 16 December 2015, Galapagos entered into a global partnership with Gilead Sciences, Inc. for the development and commercialization of the JAK1-selective inhibitor filgotinib for inflammatory indications.

On 19 January 2016, Galapagos completed the closing of the global collaboration agreement with Gilead Sciences, Inc. in the framework of which Gilead 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% percent of the then outstanding share capital of Galapagos. Galapagos also received a license fee of $300 million. In addition, it is eligible to receive development and regulatory milestone-based payments of up to $755 million and sales-based milestone payments of up to $600 million, with tiered royalties starting at 20% and a profit split in co-promotion territories.

The subsequent increase in the fair value of the derivative financial asset initially recognized upon signing of the subscription agreement with Gilead, resulting from the decrease in the Galapagos share price between January 1, 2016 and January 19, 2016 will result in a positive, non-cash fair value gain of €57.5 million in the financial result of the first quarter of 2016. (see note 3 and 8).

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

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

**Appendix A: Press Release and Quarterly Report relating to the three month period ended 31 March 2016**

Regulated information 28 April 2016, 22.00 CET

# Galapagos kick-starts 2016 with Q1 cash position of €988 M

- **First quarter financial results:**
  - **Group revenues €14.8 M**
  - **Group net profit €35.9 M**
  - **End of first quarter cash €987.6 M, including €9.3 M in restricted cash**
- **Progress in R&D**
  - **Closed transformational deal with Gilead on filgotinib**
  - **Announced expansion of cystic fibrosis portfolio**
  - **Initiated SAPHIRA Phase 2 study with GLPG1837 in CF patients**
- **Guidance reiterated for 2016 cash burn of €100 – 120 M**

**Mechelen, Belgium; 28 April 2016 – Galapagos NV (Euronext & NASDAQ: GLPG) announces its unaudited first quarter results, which are further detailed in an online Q1 2016 report published on the Galapagos website, www.glpg.com.**

"This first quarter we focused on transitioning the filgotinib programs over to Gilead as they prepared for the discussions with regulatory authorities and the roll-out of Phase 3 programs in rheumatoid arthritis and Crohn's disease," said Onno van de Stolpe, CEO. "We also announced encouraging progress in our cystic fibrosis programs with AbbVie, with an expanded portfolio of potentiator and corrector drug candidates to increase our chances of success with a potential triple combination therapy for Class II mutation patients. We initiated a Phase 1 study with corrector GLPG2222, and we started the SAPHIRA Phase 2 program with potentiator GLPG1837 in Class III mutation patients. We announced further progress in our pipeline in April, with the start of the FLORA Phase 2 study with GLPG1690 in idiopathic pulmonary fibrosis and a Phase 1 study with novel human monoclonal antibody MOR106."

"The closing of the transaction with Gilead for filgotinib brought our cash balance to €1.02 billion in January", said Bart Filius, CFO. "We have never been so well capitalized in our history, and so well positioned to execute on our promising pipeline. With our substantial investments in filgotinib, CF, and our other programs, we expect to keep our cash burn for the full year within the range of €100 – 120 million, excluding payments received from Gilead for filgotinib."

**Key figures Q1 2016 (unaudited)**
**(€ millions, except basic income/loss per share)**

| | 31 March 2016 Group Total | 31 March 2015 Group Total |
|---|---|---|
| **Revenues** | **14.8** | **20.0** |
| R&D expenditure | (27.8) | (31.6) |
| G&A and S&M expenses | (4.4) | (3.8) |
| **Operating loss** | **(17.4)** | **(15.3)** |
| **Fair value re-measurement of share subscription agreement[1]** | **57.5** | |
| Other net financial result | (4.1) | (0.4) |
| Taxes | | 1.5 |
| **Net result** | **35.9** | **(14.2)** |
| **Basic income/loss (-) per share (€)** | **0.81** | **(0.47)** |
| **Diluted income/loss (-) per share (€)** | **0.79** | **(0.47)** |
| **Cash, Cash equivalents and Restricted cash** | **987.6[3]** | **171.4[2]** |

*Notes:*
*1) reflects non-cash financial asset adjustment resulting from the Gilead subscription agreement, which offsets the negative €30.6 million non-cash adjustment booked in Q4 2015*
*2) including €10.2 million of restricted cash*
*3) including €9.3 million of restricted cash*

**Q1 Report 2016**
The Galapagos' Q1 Report for 2016 is available at http://www.glpg.com/financial-reports. Printed versions of the report can be requested via ir@glpg.com.

**Conference call and webcast presentation**
Galapagos will conduct a conference call open to the public tomorrow (29 April 2016) at 14:00 Central European Time (CET), which will also be webcast. To participate in the conference call, please call one of the following numbers ten minutes prior to commencement:

**CODE: 6420003**

| | |
|---|---|
| USA: | +1 718 354 1357 |
| UK: | +44 20 7136 2056 |
| Netherlands: | +31 20 716 8295 |
| France: | +33 1 7048 0166 |
| Belgium: | +32 2 620 0138 |

A question and answer session will follow the presentation of the results. Go to www.glpg.com to access the live audio webcast. The archived webcast will also be available for replay shortly after the close of the call.

## About Galapagos

Galapagos (Euronext & NASDAQ: GLPG) is a clinical-stage biotechnology company specialized in the discovery and development of small molecule medicines with novel modes of action. Our maturing pipeline comprises Phase 2, Phase 1, pre-clinical, and discovery programs in cystic fibrosis, inflammation, fibrosis, osteoarthritis and other indications. We have discovered and developed filgotinib: in collaboration with Gilead we aim to bring this JAK1-selective inhibitor for inflammatory indications to patients all over the world. Galapagos is focused on the development and commercialization of novel medicines that will improve people's lives. The Galapagos group, including fee-for-service subsidiary Fidelta, has approximately 440 employees, operating from its Mechelen, Belgium headquarters and facilities in The Netherlands, France, and Croatia. More information at www.glpg.com.

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**Forward-looking statements**

*This release may contain forward-looking statements, including, among other things, statements regarding the guidance from management (including guidance regarding the expected cash burn during financial year 2016), financial results and timing of clinical trials. Galapagos cautions the reader that forward-looking statements are not guarantees of future performance. Forward-looking statements involve known and unknown risks, uncertainties and other factors which might cause the actual results, financial condition and liquidity, performance or achievements of Galapagos, or industry results, to be materially different from any historic or future results, financial conditions and liquidity, performance or achievements expressed or implied by such forward-looking statements. In addition, even if Galapagos' results, performance, financial condition and liquidity, and the development of the industry in which it operates 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 Galapagos' expectations regarding its 2016 revenues and financial results and 2016 operating expenses may be incorrect (including because one or more of its assumptions underlying its revenue or expense expectations may not be realized), Galapagos' expectations regarding its development programs may be incorrect, the inherent uncertainties associated with competitive developments, clinical trial and product development activities and regulatory approval requirements (including that data from Galapagos' ongoing clinical research programs may not support registration or further development of its product candidates due to safety, efficacy or other reasons), Galapagos' reliance on collaborations with third parties, and estimating the commercial potential of its development programs. A further list and description of these risks, uncertainties and other risks can be found in Galapagos' Securities and Exchange Commission (SEC) filings and reports, including in Galapagos' most recent annual report on form 20-F filed with the SEC and other filings and reports filed by Galapagos with the SEC. 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. Galapagos expressly disclaims any obligation to update any such forward-looking statements in this document to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based 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.*

Galápagos

# A kick-start

## Q1 Report 2016

# Contents

## The Galapagos Group



## Financial statements



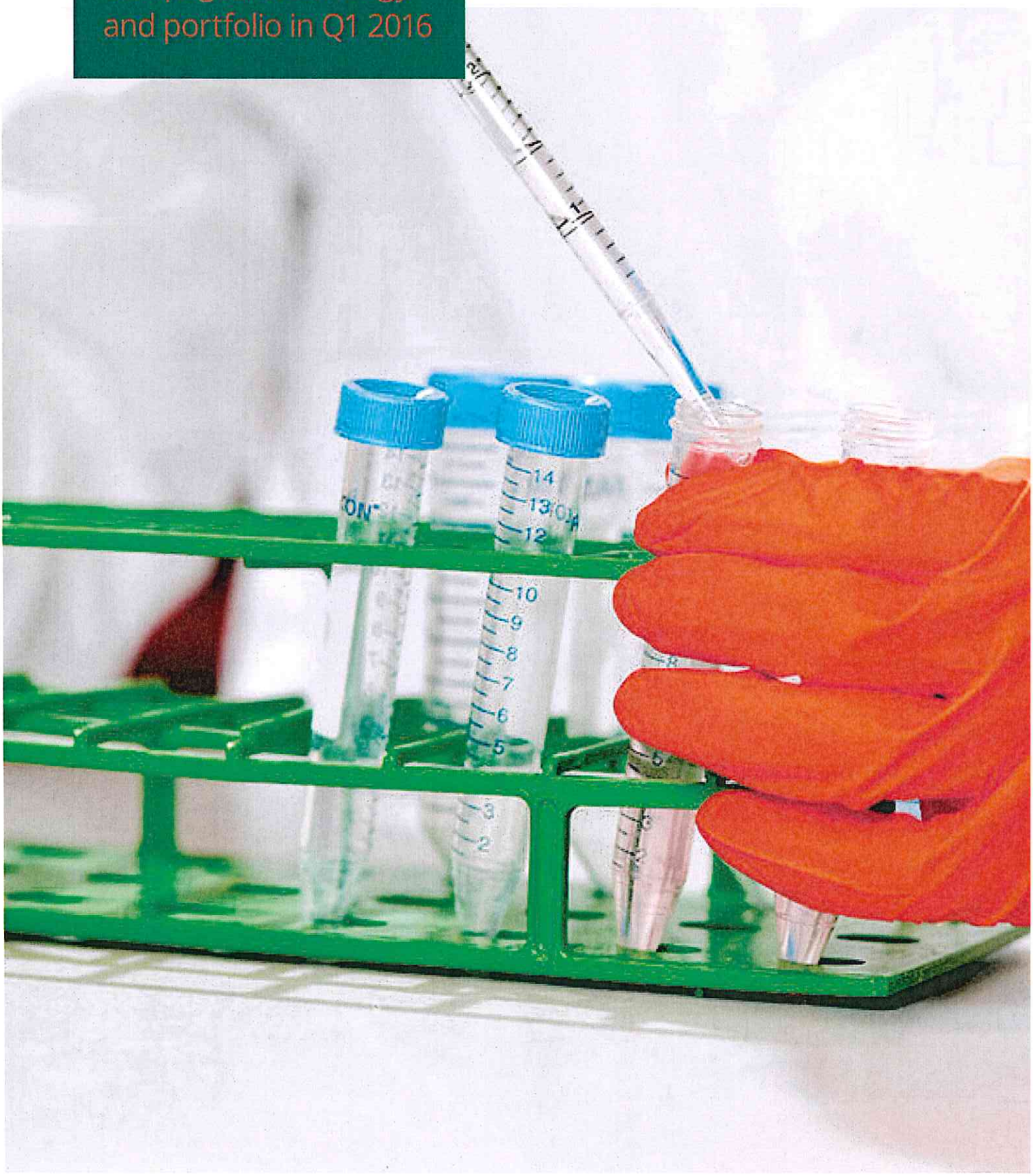
## Report of the statutory auditor



## Other information

# The Galapagos Group

An overview of Galapagos, its strategy and portfolio in Q1 2016



# Letter from the management

Dear Shareholders,

A kick-start: that is how I would describe the first quarter of 2016. The closing of the transaction with Gilead for filgotinib brought our cash balance to €1.0 billion on 21 January.

This substantial cash position provides Galapagos with more degrees of freedom and advantages in a more strategic way. Well-capitalized biotech companies are able to make smart decisions, as you have more options with regard to the portfolio and the fields in which you want to move forward. We have never been so well capitalized in our history, and so well positioned to execute on our promising pipeline.

We focused on transitioning the filgotinib programs over to Gilead, as they prepared for the discussions with regulatory authorities and the roll-out of Phase 3 programs in rheumatoid arthritis and Crohn's disease. Prof Vermeire, the primary investigator for the FITZROY Phase 2 study in Crohn's disease, presented the findings from the first ten weeks at ECCO: filgotinib presents a potential new, oral therapy option for the treatment of Crohn's disease.

We also announced substantial progress in our cystic fibrosis programs with AbbVie, with an expanded portfolio of potentiator and corrector drug candidates to increase our chances of success with a potential triple combination therapy for Class II mutation patients. We initiated a Phase 1 study with corrector GLPG2222, and we started the SAPHIRA Phase 2 program with potentiator GLPG1837 in Class III mutation patients.

We announced further progress in our pipeline in April, with the start of the FLORA Phase 2 study with GLPG1690 in idiopathic pulmonary fibrosis and a Phase 1 study with novel monoclonal antibody MOR106. We continue to invest in our pipeline, as we put our strong cash balance to work in 2016 and beyond.

## Operational overview Q1 2016

### Rheumatoid arthritis (RA)

- Transitioned filgotinib program to new collaboration partner Gilead Sciences, Inc.
- Submitted final dossier to regulatory authorities for End of Phase 2 meetings for RA

### Inflammatory bowel disease (IBD)

- Reported that GLPG1205 did not show efficacy in a Phase 2 Proof-of-Concept study. Galapagos stopped further development of this compound in ulcerative colitis (UC) and is exploring potential other indications for GLPG1205

### Cystic fibrosis (CF)

- Initiated SAPHIRA, a Phase 2 Proof-of-Concept study in CF patients with the G551D or S1251N mutations. Topline results expected in second half of this year
- Initiated a Phase 1 study with GLPG2222, triggering a $10 million advance milestone payment from collaboration partner AbbVie. Topline results expected in first half of this year
- Announced expansion of the CF portfolio to include lead and follow on compounds for each of the three triple combination components: potentiator, early binding (C1) corrector, and late binding (C2) corrector. Multiple Phase 1 study initiations expected this year

## Other/corporate

- Closed the collaboration agreement with Gilead Sciences, Inc., with a $425 million equity investment by Gilead and an upfront payment to Galapagos of $300 million
- Received transparency notices from Johnson & Johnson and Wellington, indicating that both had crossed below the 5% ownership threshold
- Included in the BEL20 index on Euronext Brussels

# Q1 2016 financial result

## Revenues and other income

Our revenues and other income for the first three months of 2016 amounted to €14.8 million, compared to €20.0 million in the same period of 2015. Revenues (€10.1 million vs €14.8 million last year) were lower due to a decrease in revenue recognition of upfront payments made by AbbVie for the filgotinib and CF programs. Other income (€4.7 million vs €5.2 million last year) decreased in the first three months of 2016, driven mainly by lower income recognized from grants in Belgium.

## Results

We realized a net profit of €35.9 million for the first three months of 2016, compared to a net loss of €14.2 million in the first three months of 2015. This evolution was primarily driven by €57.5 million fair value gain from the re-measurement of the financial asset triggered by the recent Share Subscription Agreement with Gilead.

We reported an operating loss amounting to €17.4 million for the first three months of 2016, compared to an operating loss of €15.3 million for the same period last year.

Our R&D expenses in the first three months of 2016 were €27.8 million, compared to €31.6 million for the same period in 2015. This planned decrease was mainly due to lower outsourcing costs for our filgotinib program since Phase 3 development is expected to start later this year.

Our G&A and S&M expenses were €4.4 million in the first three months of 2016, compared to €3.8 million in the first three months of 2015. This increase mainly resulted from higher costs recognized in relation to the warrant plans as a result of the increase of our share price in the past year.

Financial results were primarily driven by the fair value re-measurement of the Share Subscription Agreement, which is explained under the next caption below. Other financial expenses in the first three months of 2016 amounted to €4.8 million, compared to €1.2 million in 2015 and was primarily attributable to €4.5 million of unrealized exchange loss on our cash position in USD due to the fluctuation of the USD exchange rate in the first quarter of 2016.

Finally, income taxes of €1.5 million in the first three months of 2015 reflected the setup of an additional deferred tax asset. We had a total of €1.7 million deferred tax assets on the balance sheet for two subsidiaries at the end of the first three months of 2015 and 2016.

## Fair value re-measurement of Share Subscription Agreement

On 16 December 2015, Gilead and Galapagos 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 this agreement, we recognized in December 2015 a short term financial asset (derivative) and an offsetting deferred income of €39 million upon signing of the Share Subscription Agreement with Gilead as required under IAS 39. This financial asset initially reflected the share premium that Gilead committed to pay above our closing

share price on the day of entering into the Share Subscription Agreement. Under IAS 39 the fair value of the financial asset was re-measured at year-end and again upon closing 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 adjustment of €30.6 million in the financial results of 2015.

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 adjustment of €57.5 million in the financial result of the first quarter 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 financial asset expired on the effective date of the Share Subscription Agreement.

## Liquid assets position

Cash, cash equivalents and restricted cash totaled €987.6 million on 31 March 2016.

A net increase of €638.0 million in cash and cash equivalents was recorded during the first three months of 2016, compared to a decrease of €26.4 million during the same period last year. Net cash flows from financing activities were generated for €392.0 million through the share subscription by Gilead. Furthermore, a net cash inflow from operating activities was realized for €251.5 million in the first three months of 2016 resulting from the license fee of $300 million (€275.6 million) received from Gilead and an operating cash burn of €24.0 million. Finally, €1.0 million was used in investing activities and €4.5 million unrealized negative exchange rate differences were generated on cash and cash equivalents.

Restricted cash amounted to €7.9 million at the end of December 2015, and increased to €9.3 million at the end of March 2016. The increase relates to €1.4 million cash received from warrant exercises that remained on a blocked account until 1 April 2016 when the notary deed formally establishing the capital increase was enacted.

Finally, our balance sheet holds an unconditional and unrestricted receivable from the French government (*Crédit d'Impôt Recherche*[1]) now amounting to €35.8 million, payable in yearly tranches from 2016 to 2020. Our balance sheet also holds a receivable from the Belgian Government for R&D incentives now amounting to €26.2 million, payable in yearly tranches from 2016 to 2026.

# Outlook 2016

The first quarter of 2016 put Galapagos into a great position to start its transition into an integrated biopharmaceutical company. The full year 2016 promises to be an exciting execution year, with topline results expected from GLPG1837 in the SAPHIRA Phase 2 program, topline results with GLPG2222, GLPG2451, and GLPG1972 in Phase 1, and with expected starts of Phase 3 programs with filgotinib in RA and Crohn's disease.

Based on the forecast for the remainder of the year, management retains 2016 guidance for operational cash burn, excluding payments received from our partner Gilead for filgotinib: €100 - €120 million.

We thank you again for your support of Galapagos. We aim to discover and develop more novel medications, bring our programs into patients to investigate their potential, bring the successful therapies to the market, and improve people's lives.

**Onno van de Stolpe**
CEO

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

# At a glance

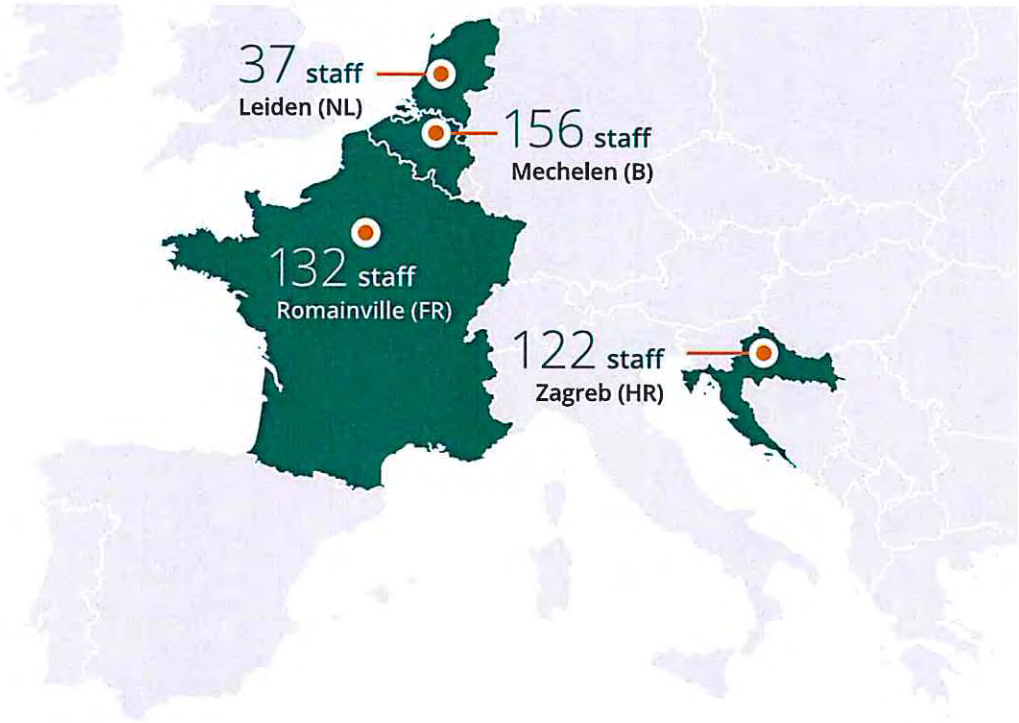
## Key figures (IFRS) Galapagos Group (unaudited)

| (in € thousands, if not stated otherwise) | 31/03/2016 | 31/03/2015 |
|---|---|---|
| **Results** | | |
| Revenues and other income | 14,817 | 20,022 |
| R&D expenditure | (27,818) | (31,570) |
| S, G&A expenses | (4,394) | (3,784) |
| Personnel expenses (including share-based compensation) | (11,251) | (9,357) |
| Capital expenditure | 1,065 | 477 |
| Depreciation and amortization of (in)tangible assets | (964) | (708) |
| Operating loss | (17,395) | (15.331) |
| Net financial results | 53,345 | (364) |
| Taxes | - | 1,468 |
| Net income / loss (–) | 35,950 | (14,227) |
| **Galapagos share** | | |
| Number of shares issued on 31 March | 45,837,043 | 30,870,677 |
| Basic income / loss (–) per share (in €) | 0.81 | (0.47) |
| Diluted income / loss (–) per share (in €) | 0.79 | (0.47) |
| Share price on 31 March (in €) | 36.99 | 22.07 |
| **Personnel data** | | |
| Total Group employees on 31 March (Number) | 447 | 420 |

## Balance sheet

| (thousands of €, if not stated otherwise) | 31/03/2016 | 31/12/2015 |
|---|---|---|
| Total assets | 1,079,287 | 442,514 |
| Cash, cash equivalents and restricted cash | 987,646 | 348,216 |
| Total liabilities | 350,741 | 77,515 |
| Stockholders' equity | 728,545 | 364,999 |
| Equity ratio (in %) | 68% | 82% |

Employees per site as of 31 March 2016



# Risk factors

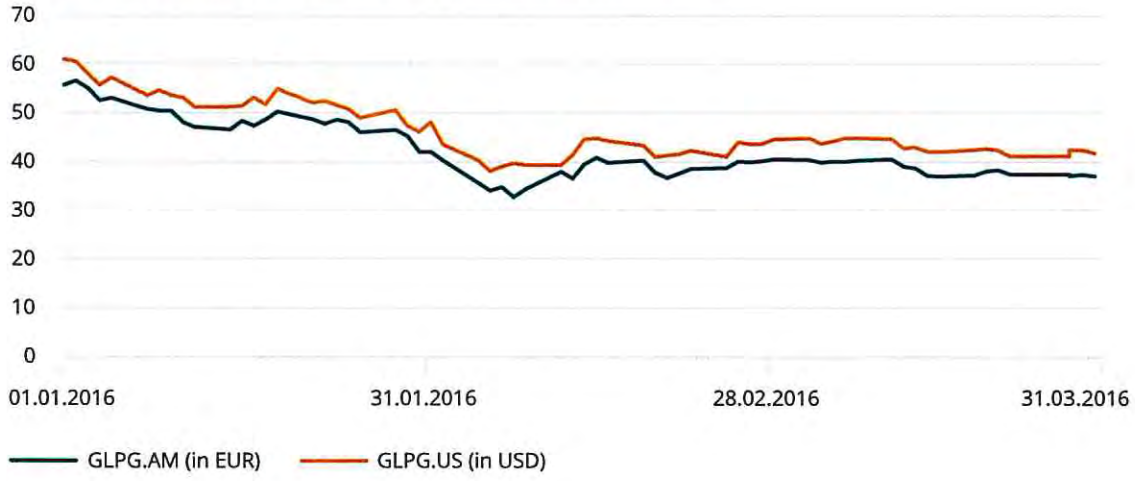
We refer to the description of risk factors in the 2015 Annual Report, pp. 53-59, as supplemented by the description of risk factors in the annual report on Form 20-F filed with the U.S. Securities and Exchange Commission, pp. 5-45. In summary, the principal risks and uncertainties faced by us relate to: our financial position and need for additional capital; product development, regulatory approval and commercialization; our reliance on third parties; our competitive position; our intellectual property; our organization, structure and operation (including but not limited to certain risks related to our status as a U.S. publicly listed company following the public offering of shares (in the form of ADSs) and listing on NASDAQ in May 2015) and market risks relating to our shares and ADSs.

We also face a risk related to the accounting treatment under IFRS for the Share Subscription Agreement for the Gilead transaction. We refer to the note on significant judgement applied in that respect included in the 2015 Annual Report. After careful analysis of the contract and the applicable IFRS literature, management has judged that it was appropriate to account for this transaction as a derivative financial asset with variances in fair value through the income statement between entering into the transaction (16 December 2015) and the date of closing the transaction (19 January 2016). Our statutory auditor has audited this significant transaction and agreed with the position taken by management. In the framework of the preparation of the listing prospectus for the shares issued following this transaction, the FSMA reviewed the draft prospectus and our annual accounts for the year ended 31 December 2015 including the accounting for the Share Subscription Agreement under IFRS. The FSMA concluded that, taking into account the complexity of the questions and the lack of specific authoritative literature, it should first seek the advice from the European Securities and Markets Authority via its European Enforcers Coordination Sessions (EECS) forum, a forum in which all EU National Enforcers of financial information meet to exchange views and discuss experiences of enforcement of IFRS to arrange for consistent application of IFRS in judgmental areas across the jurisdictions. On the date of this report, no advice from EECS has been received yet. It is currently uncertain whether the European supervisory authorities will require a change in the way the share subscription part of the Gilead transaction was accounted for in our audited financial statements for the year ended 31 December 2015 and our unaudited interim financial statements for Q1 2016 included in this report. The final decision would not affect our cash position or cash flows.

We also refer to the description of the Group's financial risk management given in the 2015 Annual Report, pp. 131-134, which remains valid.

# The Galapagos share

## Performance of the Galapagos share on Euronext and NASDAQ



# Disclaimer and other 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. 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. In case of inconsistency between the Dutch and the English versions, the Dutch version shall prevail. Galapagos is responsible for the translation and conformity between the Dutch and English versions.

This report is available to the public free of charge and upon request:

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A digital version of this report 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.

## Listings

Euronext Amsterdam and Brussels: GLPG
NASDAQ: GLPG

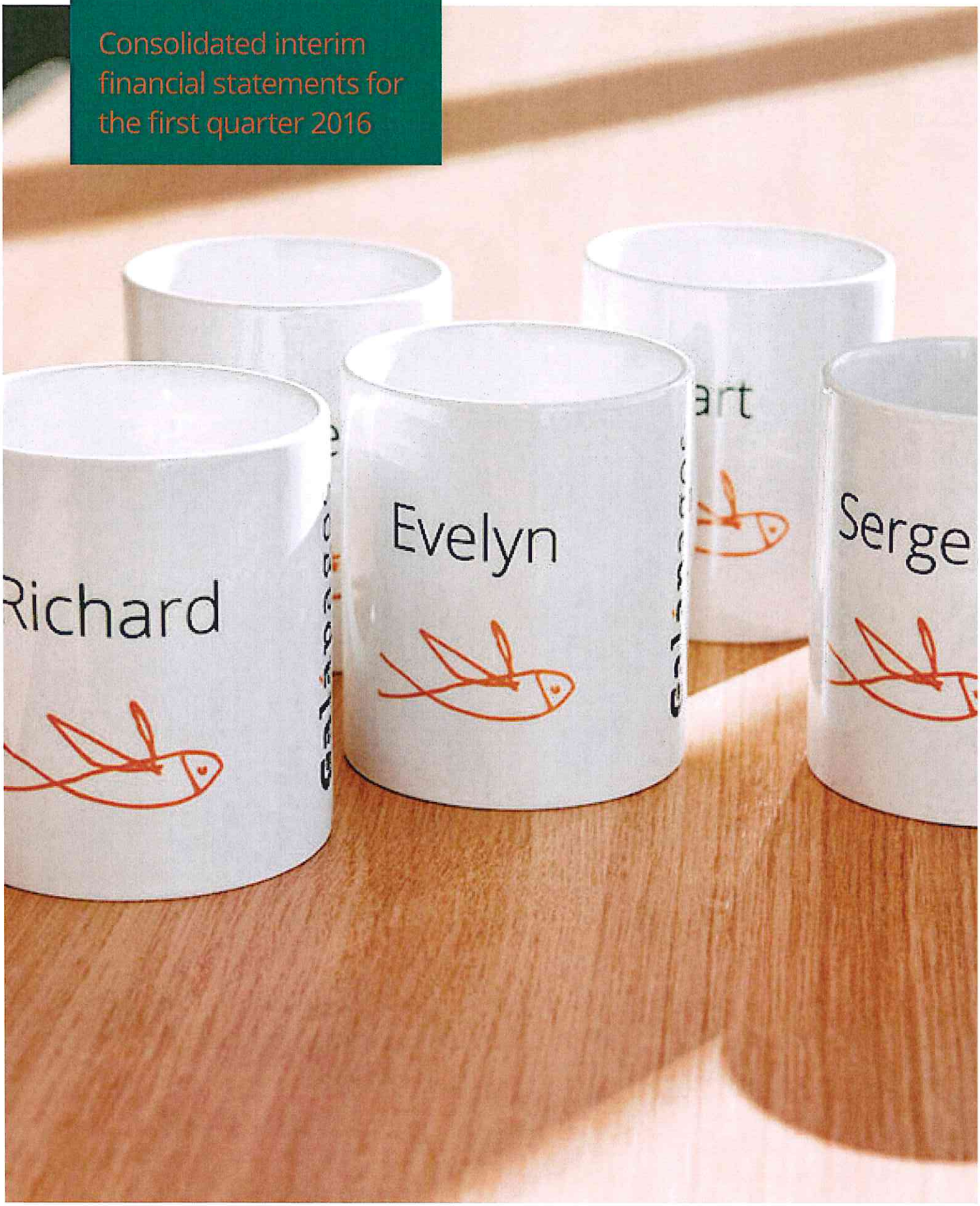
## Forward-looking statements

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 2016", guidance from management regarding the expected operational use of cash during financial year 2016, statements regarding the development of a potential triple combination therapy for Class II cystic fibrosis patients and the possible activity and clinical utility of such 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 and Crohn's disease, (ii) with GLPG2222 and GLPG2451 in cystic fibrosis, (iii) with GLPG1837 in Class III cystic fibrosis patients, (iv) with GLPG1690 in IPF, (v) with GLPG1972 in osteoarthritis, and (vi) with MOR106. We caution the reader that forward-looking statements are not guarantees of future performance. Forward-looking statements may involve known and unknown risks, uncertainties and other factors which might cause our actual results, financial condition and liquidity, performance or achievements, or the development of the industry in which we operate, to be materially different from any historic or future results, financial conditions, performance or achievements expressed or implied by such forward-looking statements. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with such forward-looking statements, they may not be predictive of results

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

# Financial statements

## Consolidated interim financial statements for the first quarter 2016



# Consolidated interim financial statements

## Consolidated statements of income and comprehensive income (unaudited)

### Consolidated Income Statement

| | Three months ended 31 March | |
|---|---|---|
| (thousands of €, except share and per share data) | 2016 | 2015 |
| Revenues | 10,121 | 14,798 |
| Other income | 4,696 | 5,225 |
| **Total revenues and other income** | **14,817** | **20,022** |
| | | |
| Research and development expenditure | (27,818) | (31,570) |
| General and administrative expenses | (3,972) | (3,602) |
| Sales and marketing expenses | (422) | (182) |
| **Operating loss** | **(17,395)** | **(15,331)** |
| | | |
| Fair value re-measurement of Share Subscription Agreement | 57,479 | - |
| Other financial income | 626 | 841 |
| Other financial expenses | (4,761) | (1,205) |
| | | |
| **Profit / loss (–) before tax** | **35,950** | **(15,695)** |
| | | |
| Income taxes | - | 1,468 |
| | | |
| **Net income / loss (–)** | **35,950** | **(14,227)** |
| **Net income / loss (–) attributable to:** | | |
| Owners of the parent | 35,950 | (14,227) |
| **Basic income / loss (–) per share** | **0.81** | **(0.47)** |
| **Diluted income / loss (–) per share** | **0.79** | **(0.47)** |
| Weighted average number of shares – Basic (in thousands of shares) | 44,425 | 30,331 |
| Weighted average number of shares – Diluted (in thousands of shares) | 45,492 | 30,331 |

# Consolidated statements of comprehensive income

| | Three months ended 31 March | |
|---|---|---|
| (thousands of €) | 2016 | 2015 |
| **Net income / loss (–)** | 35,950 | (14,227) |
| **Items that may be reclassified subsequently to profit or loss:** | | |
| Translation differences, arisen from translating foreign activities | (382) | 979 |
| **Other comprehensive income, net of income tax** | (382) | (13,248) |
| | | |
| **Total comprehensive income attributable to:** | | |
| Owners of the parent | 35,567 | (13,248) |

# Consolidated statements of financial position
(unaudited)

| (thousands of €) | As at 31 March 2016 | As at 31 December 2015 |
|---|---|---|
| **Assets** | | |
| Intangible assets | 1,382 | 1,550 |
| Property, plant and equipment | 14,110 | 13,782 |
| Deferred tax assets | 1,726 | 1,726 |
| Non-current R&D incentives receivables | 52,803 | 49,384 |
| Non-current restricted cash | 1,046 | 1,046 |
| Other non-current assets | 557 | 557 |
| **Non-currents assets** | 71,624 | 68,044 |
| Inventories | 347 | 325 |
| Trade and other receivables | 5,914 | 3,931 |
| Current R&D incentives receivables | 9,161 | 9,161 |
| Cash and cash equivalents | 978,334 | 340,314 |
| Current restricted cash | 8,266 | 6,857 |
| Current financial asset from Share Subscription Agreement | - | 8,371 |
| Other current assets | 5,640 | 5,512 |
| **Current assets** | 1,007,664 | 374,470 |
| **Total assets** | 1,079,287 | 442,514 |
| **Equity and liabilities** | | |
| Share capital | 221,779 | 185,399 |
| Share premium account | 647,098 | 357,402 |
| Other reserves | (18) | (18) |
| Translation differences | (849) | (467) |
| Accumulated losses | (139,465) | (177,317) |
| **Total equity** | 728,545 | 364,999 |
| Pension liabilities | 2,754 | 2,693 |
| Provisions | 56 | 55 |
| Finance lease liabilities | 50 | 63 |
| Other non-current liabilities | 894 | 2,291 |
| Non-current deferred income | 242,251 | - |
| **Non-current liabilities** | 246,006 | 5,103 |

| (thousands of €) | As at 31 March 2016 | As at 31 December 2015 |
|---|---|---|
| Finance lease liabilities | 52 | 52 |
| Trade and other payables | 24,223 | 29,482 |
| Advance from customer | 8,783 | |
| Current tax payable | 2,579 | 2,583 |
| Accrued charges | 616 | 490 |
| Deferred income | 68,483 | 39,806 |
| **Current liabilities** | **104,736** | **72,412** |
| **Total liabilities** | **350,741** | **77,515** |
| **Total equity and liabilities** | **1,079,287** | **442,514** |

# Consolidated cash flow statements
(unaudited)

| | Three months ended 31 March | |
|---|---|---|
| (thousands of €) | 2016 | 2015 |
| **Cash and cash equivalents at beginning of year** | **340,314** | **187,712** |
| Net income / loss (–) | 35,950 | (14,227) |
| **Adjustments for:** | | |
| Tax income (–) / expenses | – | (1,468) |
| Other net financial expense | 4,134 | 364 |
| Fair value re-measurement of Share Subscription Agreement | (57,479) | – |
| Depreciation of property, plant and equipment | 755 | 476 |
| Amortization of intangible fixed assets | 209 | 232 |
| Net realized loss on foreign exchange transactions | (724) | (41) |
| Share-based compensation | 1,902 | 492 |
| Increase in pension liabilities | 61 | 73 |
| Gain on sale of fixed assets | (13) | – |
| **Operating cash flows before movements in working capital** | **(15,206)** | **(14,099)** |
| Increase in inventories | (23) | (31) |
| Increase in receivables | (5,209) | (4,116) |
| Increase / decrease (–) in payables | 928 | (2,114) |
| Increase / decrease (–) in deferred income | 270,926 | (12,584) |
| **Cash generated / used (–) in operations** | **251,416** | **(32,944)** |
| Interest paid | (13) | (15) |
| Interest received | 144 | 228 |
| **Net cash flows generated / used (–) in operating activities** | **251,547** | **(32,731)** |
| Purchase of property, plant and equipment | (1,024) | (432) |
| Purchase of and expenditure in intangible fixed assets | (41) | (45) |
| Proceeds from disposal of property, plant and equipment | 16 | 43 |
| Proceeds from disposal of intangible fixed assets | – | 182 |
| Decrease in restricted cash | – | 568 |

| (thousands of €) | Three months ended 31 March 2016 | 2015 |
|---|---|---|
| **Net cash flows generated / used (–) in investing activities** | **(1,050)** | **316** |
| Repayment of obligations under finance leases and other debts | (17) | (5) |
| Proceeds from capital and share premium increases, net of issue costs | 392,044 | – |
| Proceeds from capital and share premium increases from exercise of warrants | – | 5,819 |
| **Net cash flows generated in financing activities** | **392,027** | **5,814** |
| **Effect of exchange rate differences on cash and cash equivalents** | **(4,505)** | **151** |
| **Increase / decrease (–) in cash and cash equivalents** | **638,020** | **(26,450)** |
| **Cash and cash equivalents at end of reporting period** | **978,334** | **161,262** |

# Consolidated statements of changes in equity
(unaudited)

| (thousands of €) | Share capital | Share premium account | Translation differences | Other reserves | Accumul. losses | Total |
|---|---|---|---|---|---|---|
| **On 1 January 2015** | **157,274** | **114,182** | **(1,157)** | **(220)** | **(63,944)** | **206,135** |
| Net loss | | | | | (14,227) | (14,227) |
| Other comprehensive income | | | 979 | - | | 979 |
| **Total comprehensive income** | | | **979** | **-** | **(14,227)** | **(13,248)** |
| Share-based compensation | | | | | 492 | 492 |
| Exercise of warrants | 3,092 | 2,727 | | | | 5,819 |
| **On 31 March 2015** | **160,366** | **116,909** | **(178)** | **(220)** | **(77,679)** | **199,199** |
| | | | | | | |
| **On 1 January 2016** | **185,399** | **357,402** | **(467)** | **(18)** | **(177,317)** | **364,999** |
| Net income | | | | | 35,950 | 35,950 |
| Other comprehensive income | | | (382) | - | | (382) |
| **Total comprehensive income** | | | **(382)** | **-** | **35,950** | **35,567** |
| Share-based compensation | | | | | 1,902 | 1,902 |
| Issue of new shares | 36,575 | 289,696 | | | | 326,271 |
| Share issue costs | (195) | | | | | (195) |
| **On 31 March 2016** | **221,779** | **647,098** | **(849)** | **(18)** | **(139,465)** | **728,545** |

# Notes

## Basis of preparation

These condensed interim financial statements have been prepared in accordance with IAS 34 *'Interim Financial Reporting'* as adopted by the European Union. The condensed interim financial statements do not contain all information required for an annual report and should therefore be read in conjunction with Galapagos' Annual Report 2015.

The condensed interim financial statements were subject to a limited review by the Statutory Auditor, but have not been audited.

## Details of the unaudited interim results

### Revenues and other income

#### Revenues

The following table summarizes our revenues for the three months ended 31 March 2016 and 2015.

| | Three months ended 31 March | |
|---|---|---|
| (thousands of €) | 2016 | 2015 |
| Recognition of non-refundable upfront payments | 4,843 | 12,423 |
| Milestone payments and costs reimbursments | 3,950 | 1,211 |
| Other revenues | 1,327 | 1,164 |
| **Total Revenues** | **10,121** | **14,798** |

Revenues (€10.1 million vs €14.8 million last year) were lower due to a decrease in revenue recognition of upfront payments, which was only partially compensated by higher costs reimbursements.

The following table summarizes the upfront payments recognition for the three months ended 31 March 2016 and 2015.

| Agreement | Upfront received | Upfront received | Date of receipt | Revenue recognized, three months ended 31 March 2016 | Revenue recognized, three months ended 31 March 2015 | Outstanding balance in deferred income as at 31 March 2016 |
|---|---|---|---|---|---|---|
| | (thousands of $) | (thousands of €) | | | (thousands of €) | |
| AbbVie Collaboration Agreement for CF | 45,000 | 34,001 | September 2013 | | 4,914 | |
| AbbVie Collaboration Agreement for RA and CD (filgotinib) | 150,000 | 111,582 | February 2012 | | 6,022 | |
| First Amendment to AbbVie Collaboration Agreement for RA and CD (filgotinib) | 20,000 | 15,619 | March 2013 | | 1,488 | |
| Gilead Collaboration Agreement for filgotinib | 300,000 | 275,558 | January 2016 | 4,243 | | 271,315 |
| Gilead Share Subscription Agreement | N.A. | 39.003(*) | January 2016 | 600 | | 38,403 |
| **Total recognition of non-refundable upfront payments** | | | | **4,843** | **12,423** | **309,718** |

(*) deferred income of €39 million booked upon signing of the Share Subscription Agreement with Gilead as required under IAS 39.

Revenue recognized in 2015 from upfront non-refundable payments related to the CF collaboration agreement with AbbVie signed in September 2013 and the contract signed with AbbVie in February 2012 for our filgotinib program (including the extension signed in March 2013). Those upfront payments were fully recognized into revenues by the end of August 2015.

In September 2015 AbbVie decided not to opt in, which ended the collaboration agreement regarding our filgotinib program and consequently the period of our involvement. There are no outstanding commitments for us regarding this terminated collaboration for our filgotinib program.

On 16 December 2015, we entered into a global partnership with Gilead Sciences, Inc. for the development and commercialization of the JAK1-selective inhibitor filgotinib for inflammatory indications. On 19 January 2016, we completed the closing of the global collaboration agreement with Gilead, in the framework of which Gilead 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% percent of the then outstanding share capital of Galapagos. We also received a license fee of $300 million. In addition, we are eligible for payments of up to $755 million in development and regulatory milestones and $600 million in sales milestones, with tiered royalties starting at 20% and a profit split in co-promotion territories. Finally, we agreed on a 20-80 cost split for development costs of the licensed product, i.e. we will support 20% of all development costs. As we do not expect to have a statutory taxable base in the foreseeable future, we did not recognize any additional deferred tax asset following the signing of this new collaboration.

The global partnership with Gilead foresees continuous involvement from us since we will perform certain R&D activities in the development phase of the filgotinib program and therefore management assessed that the upfront payment of $300 million (or €276 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 Q1 2016, €4.2 million revenues have been recognised regarding this upfront payment.

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. We refer to the note below for further detail. The deferred income will be recognized in function of the costs incurred for this program, applying the percentage of completion method, along with the upfront payment. In Q1 2016, €0.6 million revenues were recognized in the income statement.

### Other income

The following table summarizes our other income for the three months ended 31 March 2016 and 2015.

| | Three months ended 31 March | |
|---|---|---|
| (thousands of €) | 2016 | 2015 |
| Grant income | 594 | 1,121 |
| Other income | 4,102 | 4,104 |
| **Total other income** | **4,696** | **5,225** |

Other income (€4.7 million vs €5.2 million last year) decreased in the first three months of 2016, driven mainly by lower income recognized from grants in Belgium.

## Results

We realized a net profit of €35.9 million for the first three months of 2016, compared to a net loss of €14.2 million in the first three months of 2015.

Our R&D expenses in the first three months of 2016 were €27.8 million, compared to €31.6 million in 2015. This planned decrease was mainly due to lower outsourcing costs for our filgotinib program since Phase 3 development is expected to start later this year.

Our G&A and S&M expenses were €4.4 million in the first three months of 2016, compared to €3.8 million in the first three months of 2015. This increase mainly resulted from higher costs recognized in relation to the warrant plans as a result of the increase of our share price in the past year.

Financial results were primarily driven by the fair value re-measurement of the Share Subscription Agreement, which is explained under the next caption below. Other financial expenses in the first three months of 2016 amounted to €4.8 million compared to €1.2 million in 2015 and was primarily attributable to €4.5 million of unrealized exchange loss on our cash position in USD due to the fluctuation of the USD exchange rate in the first quarter of 2016.

Finally, income taxes of €1.5 million in the first three months of 2015 reflected the setup of an additional deferred tax asset. We had a total of €1.7 million deferred tax assets on the balance sheet for two subsidiaries at the end of the first three months of 2015 and 2016.

## Fair value re-measurement of Share Subscription Agreement

On 16 December 2015, Gilead and Galapagos 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 this agreement, we recognized in December 2015 a short term financial asset (derivative) and an offsetting deferred income of €39 million upon signing of the Share Subscription Agreement with Gilead as required under IAS 39. This financial asset initially reflected the share premium that Gilead committed to pay above our closing share price on the day of entering into the Share Subscription Agreement. Under IAS 39 the fair value of the

financial asset was 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 adjustment fair value charge of €30.6 million in the financial results of 2015.

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 the first quarter 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: €30.6 million fair value loss reported in the year 2015 and €57.5 million fair value gain reported in the first quarter of 2016, together a net fair value gain of €26.8 million. This financial asset expired on the effective date of the Share Subscription Agreement.

## Segment information

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

| | Segment information for the three months ended 31 March 2016 | | | |
|---|---|---|---|---|
| (thousands of €) | R&D | Fee-For-Services | Inter-segment elimination | Group |
| External revenue | 8,840 | 1,281 | - | 10,121 |
| Internal revenue | - | 1,310 | (1,310) | - |
| Other income | 4,636 | 60 | - | 4,696 |
| **Revenues & other income** | **13,476** | **2,651** | **(1,310)** | **14,817** |
| | | | | |
| **Segment result** | **(14,624)** | **(869)** | **-** | **(15,493)** |
| Unallocated expenses[1] | | - | - | (1,902) |
| **Operating loss** | | - | - | **(17,395)** |
| Financial (expenses) / income | | - | - | 53,345 |
| **Result before tax** | | - | - | **35,950** |
| Incomes taxes | | - | - | - |
| **Net income / loss (-)** | | - | - | **35,950** |

(1) Unallocated expenses consist mainly of expenses for warrant plans under IFRS 2.

| | Segment information for the three months ended 31 March 2015 | | | |
|---|---|---|---|---|
| (thousands of €) | R&D | Fee-For-Services | Inter-segment elimination | Group |
| External revenue | 13,694 | 1,104 | - | 14,798 |
| Internal revenue | - | 1,271 | (1,271) | - |
| Other income | 5,088 | 137 | - | 5,225 |
| **Revenues & other income** | **18,782** | **2,512** | **(1,271)** | **20,022** |
| | | | | |
| **Segment result** | **(14,069)** | **(894)** | **-** | **(14,963)** |
| Unallocated expenses[1] | | - | - | (368) |
| **Operating loss** | | **-** | **-** | **(15,331)** |
| Financial (expenses) / income | | - | - | (364) |
| **Result before tax** | | **-** | **-** | **(15,695)** |
| Incomes taxes | | - | - | 1,468 |
| **Net income / loss (-)** | | **-** | **-** | **(14,227)** |

(1) Unallocated expenses consist of €492 thousand of expenses for warrant plans under IFRS 2 and €124 thousand of positive adjustment on depreciation charges reported by Fee-For-Services reflecting the expected useful lifetime of certain fixed assets following the purchase accounting of the acquisition of Fidelta in 2010.

The basis of accounting for any transactions between reportable segments is consistent with the valuation rules and with transactions with third parties.

## Liquid assets position

Cash, cash equivalents and restricted cash totaled €987.6 million on 31 March 2016.

A net increase of €638.0 million in cash and cash equivalents was recorded during the first three months of 2016, compared to a decrease of €26.4 million during the same period last year. Net cash flows from financing activities were generated for €392.0 million through the share subscription by Gilead. Furthermore, a net cash inflow from operating activities was realized for €251.5 million in the first three months of 2016 resulting from the license fee of $300 million (€275.6 million) received from Gilead and an operating cash burn of €24.0 million. Finally, €1.0 million was used in investing activities and €4.5 million unrealized negative exchange rate differences were generated on cash and cash equivalents.

Restricted cash amounted to €7.9 million at the end of December 2015, and increased to €9.3 million at the end of March 2016. The increase related to €1.4 million cash received from warrant exercises that remained on a blocked account until 1 April 2016 when the notary deed formally establishing the capital increase was enacted.

Restricted cash on 31 March 2016 was composed of (1) €1.4 million advances on capital increase through the exercise of warrants, (2) €0.3 million and €0.7 million bank guarantees on real estate lease obligations in Belgium and in the Netherlands respectively, and (3) €6.9 million escrow account containing part of the proceeds from the sale of the service division in 2014 for which the release will be possible after final agreement between the parties on the exposure regarding one outstanding claim. An amount of €0.3 million was accrued in March 2015 based on a preliminary estimate of the exposure.

Cash and cash equivalents amounted to €978.3 million at the end of March 2016 and comprised 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 may allow short term deposits with an original maturity exceeding 3 months while monitoring all liquidity aspects. Cash and cash equivalents comprised €347.8 million of term deposits with an original maturity longer than 3 months but which are available upon 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 €85.0 million and was aimed at meeting short-term cash commitments, while reducing the counterparty risk of investment.

| | As at 31 March | As at 31 December |
|---|---|---|
| (thousands of €) | 2016 | 2015 |
| Cash at banks | 545,507 | 240,292 |
| Term deposits | 347,830 | 100,000 |
| Money market funds | 84,996 | - |
| Cash on hand | 2 | 22 |
| **Total cash and cash equivalents** | **978,334** | **340,314** |

On 31 March 2016, our cash and cash equivalents included $113 million held in USD which could generate unrealized exchange gain or loss in our financial results in accordance with the fluctuation of the EUR/USD exchange rate as our functional currency is EUR. We expect to use this cash held in USD to settle our future payables in USD which will be primarily linked our global collaboration with Gilead for the development of filgotinib.

Furthermore, our balance sheet held an unconditional and unrestricted receivable from the French government (*Crédit d'Impôt Recherche*[2]) amounting to €35.8 million as of 31 March, 2016, payable in yearly tranches from 2016 to 2020. Our balance sheet also holds a receivable from the Belgian Government for R&D incentives amounting to €26.2 million as of 31 March, 2016, payable in yearly tranches from 2016 until 2026.

Finally, our balance sheet includes an advance payment of $10 million (€8.8 million) received from AbbVie regarding the CF program as pre-payment of a development milestone that both parties would include in an amended and restated Collaboration Agreement.

## Capital increase

On 19 January 2016, Gilead made a $425 million equity investment in Galapagos NV by subscribing to 6,760,701 new ordinary shares at a price of €58 per share, including issuance premium.

Galapagos received €392.1 million of gross proceeds, decreased by €0.2 million of expenses, of which €0.01 million has been paid at 31 March 2016 and €0.19 million remained to be settled in cash. The total net cash proceeds from the share subscription by Gilead after remaining settlements are expected to amount to €391.9 million.

The €65.9 million current financial asset from the Share Subscription Agreement reflecting the premium that Gilead paid compared to the closing price of our shares on 19 January 2016 were derecognized via the share premium account.

On 31 March 2016, Galapagos NV's share capital was represented by 45,837,043 shares. All shares were issued, fully paid up and of the same class.

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

| (thousands of €, except share data) | Number of shares | Share capital | Share premium | Share capital and Share premium |
|---|---|---|---|---|
| **On 1 January 2016** | **39,076,342** | **185,399** | **357,402** | **542,801** |
| **19 January 2016: share subscription by Gilead** | | | | |
| Ordinary shares (fully paid) | 6,760,701 | 36,575 | 355,546 | 392,121 |
| Derecognition of financial asset from Share Subscription Agreement | | | (65,850) | (65,850) |
| Capital increase expenses (fully paid) | | (10) | | (10) |
| Capital increase expenses not yet settled in cash at 31 March 2016 | | (185) | | (185) |
| **Total share subscription by Gilead** | **6,760,701** | **36,380** | **289,696** | **326,076** |
| **On 31 March 2016** | **45,837,043** | **221,779** | **647,098** | **868,877** |

# Contingencies and commitments

## Contractual obligations and commitments

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

On 31 March 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 | 29,271 | 3,902 | 6,755 | 5,458 | 13,156 |
| Purchase commitments | 32,765 | 31,472 | 1,293 | - | - |
| **Total contractual obligations & commitments** | **62,036** | **35,374** | **8,048** | **5,458** | **13,156** |

## Contingent liabilities and assets

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

Following the divestment, we remain guarantor for a limited transitional period in respect of the lease obligations for certain U.K. premises amounting to £4 million future rent payments. The Buyer will fully indemnify us against all liabilities arising in connection with the lease obligation. We evaluated the risk to be remote. Finally, following common practice, we have given representations and warranties which are capped and limited in time (since 1 April 2016, the Buyer 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 the subsidiaries sued for wrongful termination and sought damages of €1.1 million. We believe that the amount of damages claimed is unrealistically high. In 2014, the court requested an external advisor to evaluate the exact amount of damages. Considering the defense elements provided and the recent judgment in the court in our favor, our Board and management evaluated the risk to be remote to possible, but not likely. Accordingly, it was decided not to record any provision in 2016, as the exposure was considered to be limited.

## Significant accounting policies

There were no significant changes in accounting policies applied by us in these condensed consolidated interim financial statements compared to those used in the most recent annual financial statements of 2015, except for the adoption of new standards and interpretations described below.

### New standards and interpretations applicable for the annual period beginning on 1 January 2016

- Improvements to IFRS (2012-2014) (applicable for annual periods beginning on or after 1 January 2016)
- Amendments to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (applicable for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 1 Presentation of Financial Statements – Disclosure Initiative (applicable for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 16 and IAS 38 Property, Plant and Equipment and Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization (applicable for annual periods beginning on or after 1 January 2016)
- Amendment to IAS 27 Separate Financial Statements – Equity Method (applicable for annual periods beginning on or after 1 January 2016)

The nature and the effect of these changes were taken into consideration, but the above amendments did not affect the interim condensed consolidated financial statements. We have not early adopted any other standard, interpretation, or amendment that has been issued but is not yet effective.

### Critical judgments in applying accounting policies

We refer to the description of critical judgments in applying accounting policies in the 2015 Annual Report, pp. 94-95: Share subscription agreement with Gilead – classification as derivative financial asset or equity instrument.

In the framework of the preparation of the listing prospectus for the shares issued following the Gilead transaction, the FSMA reviewed the draft prospectus and our annual accounts for the year ended 31 December 2015 including the accounting for the Share Subscription Agreement under IFRS. The FSMA concluded that, taking into account the complexity of the questions and the lack of specific authoritative literature, it should first seek the advice from the European Securities and Markets Authority via its European Enforcers Coordination Sessions (EECS) forum. On the date of this report, no advice from EECS has been received yet. We refer to the Risk factors in this report for further detail.

### Seasonality

The impact of seasonality or cyclicality on our operations is not regarded as applicable to the unaudited interim condensed consolidated financial statements.

## Events after the end of the reporting period

On 1 April 2016, 131,695 warrants were exercised at various exercise prices (with an average exercise price of €10.70 per warrant) of which 60,470 warrants were exercised by key management personnel, resulting in a share capital increase (including issuance premium) of €1,409 thousand and the issuance of 131,695 new ordinary shares. The closing price of the Galapagos share at this date was €36.64. The cash regarding this transaction was received from the warrant holders on 31 March 2016 and was booked as restricted cash.

### Approval of interim financial statements

The interim financial statements were approved by the Board of Directors on 26 April 2016.

# Report of the statutory auditor

## Report on review of the consolidated interim financial information for the three-month period ended 31 March 2016

### To the board of directors

In the context of our appointment as the company's statutory auditor, we report to you on the consolidated interim financial information. This consolidated interim financial information comprises the consolidated statement of financial position as at 31 March 2016, the consolidated statement of income and comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the period of three months then ended, as well as selective notes.

## Report on the consolidated interim financial information

We have reviewed the consolidated interim financial information of Galapagos NV ("the company") and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standard IAS 34 – *Interim Financial Reporting* as adopted by the European Union.

The consolidated condensed statement of financial position shows total assets of 1,079,287 (000) EUR and the consolidated condensed income statement shows a consolidated profit for the period then ended of 35,950 (000) EUR.

The board of directors of the company is responsible for the preparation and fair presentation of the consolidated interim financial information in accordance with IAS 34 – *Interim Financial Reporting* as adopted by the European Union. Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

### Scope of review

We conducted our review of the consolidated interim financial information in accordance with International Standard on Review Engagements (ISRE) 2410 – *Review of interim financial information performed by the independent auditor of the entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit performed in accordance with the International Standards on Auditing (ISA) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the consolidated interim financial information.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial information of Galapagos NV has not been prepared, in all material respects, in accordance with IAS 34 – *Interim Financial Reporting* as adopted by the European Union.

Diegem, 26 April 2016
**The statutory auditor**

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

# Glossary of terms

## ACR

American College of Rheumatology

## ACR20 (ACR 20/50/70)

American College of Rheumatology 20% response rate signifies a 20% or greater improvement in the number of swollen and tender joints as well as a 20% or greater improvement in three out of five other disease-activity measures. ACR 50 and ACR70 reflect the same, for 50% and 70% response rates, respectively

## ADR

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

## Atherogenic index

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

## Attrition rate

The historical success rate for drug discovery and development, based on publicly known development paths. Statistically seen, investment in at least 12 target-based programs is required to ensure that at least one of these will reach a Phase 3 study. Most new drug R&D programs are discontinued before reaching Phase 3 because they are not successful enough to be approved

## BID dosing

Twice daily dosing (*bis in die*)

## Bioavailability

Assessment of the amount of (candidate) drug that reaches a body's systemic circulation after (oral) administration

## Biomarker

Substance used as an indicator of a biological process, particularly to determine whether a candidate drug has a (desired) biological effect

## Black & Scholes model

A mathematical description of financial markets and derivative investment instruments that is widely used in the pricing of European options and warrants

## Candidate drug

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

## 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 cystic fibrosis

## CIR

*Crédit d'Impôt Recherche*, or research credit. Under the CIR, the French government refunds up to 30% of the annual investment in French R&D operations, over a period of three years. Galapagos benefits from the CIR through its operations in Romainville, just outside Paris

## Class II mutation

A genetic mutation in cystic fibrosis resulting in errors in CFTR folding, transport of functional CFTR to the cell membrane, and CFTR channel opening, whereby chloride ion flow at the cell surface in the membrane of affected organs is impacted negatively. More than 90% of cystic fibrosis patients are carriers of the Class II mutation. It is believed that a potentiator and multiple correctors will be needed to address the CFTR malfunction of Class II mutation patients.

## Class III mutation

A genetic mutation in cystic fibrosis resulting in errors in CFTR channel opening, whereby chloride ion flow at the cell surface in the membrane of affected organs is impacted negatively. Approximately 4% of cystic fibrosis patients are carriers of the Class III mutation. It is believed that a potentiator is needed to address the malfunction of Class III mutation patients.

## Clinical Proof of Concept (PoC)

Point in the drug development process where the candidate drug shows efficacy in a therapeutic setting

## Compound

A chemical substance, often a small molecule with drug-like properties

## Contract research organization

Organization which provides drug discovery and development services

## Corrector drug

Drug that restores the correct protein formation in cystic fibrosis patients. In most CF patients, a potentiator and corrector drug are needed in combination to restore the channel function of the CFTR. Galapagos and AbbVie are planning to combine a potentiator with two correctors to treat CF patients with the most prevalent mutation of CFTR

## Crohn's disease (CD)

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

## CRP

C-reactive protein is a protein found in the blood, the levels of which rise in response to inflammation

## Cystic fibrosis (CF)

A life-threatening genetic disease that affects approximately 80,000 people worldwide. Although the disease affects the entire body, difficulty breathing is the most serious symptom as a result of clogging of the airways due to mucus build-up and frequent lung infections

## DAS28

DAS28 is an RA Disease Activity Score based on a calculation that uses tender and swollen joint counts of 28 defined joints, the physician's global health assessment and a serum marker for inflammation, such as C-reactive protein

## Development

All activities required to bring a new drug to the market. This includes pre-clinical and clinical development research, chemical and pharmaceutical development and regulatory filings of drug candidates

## Discovery

Process by which new medicines are discovered and/or designed. At Galapagos, this is the department that oversees target and drug discovery research through to nomination of pre-clinical candidates

## Disease-modifying

Addresses the cause of disease and modifying the disease progression, not just the symptoms of the disease

## Dose-range finding study

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

## Drug development

See: Development

## Drug discovery

See: Discovery

## Efficacy

Effectiveness for intended use

## EMA

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

## FDA

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

## Fee-for-service

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

## FIH

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

## Filgotinib

Formerly known as GLPG0634. Small molecule selective JAK1 inhibitor which showed excellent efficacy and safety in rheumatoid arthritis and Crohn's disease patients in Phase 2 trials. Filgotinib is partnered with Gilead. Galapagos and Gilead expect to start Phase 3 trials with filgotinib in RA and Crohn's disease in the course of 2016

## FSMA

The Belgian market authority: Financial Services and Markets Authority, or *Autoriteit voor Financiële Diensten en Markten*

## FTE

Full-time equivalent; a way to measure a worker's involvement in a project. For example, an FTE of 1.0 means that the equivalent work of one full-time worker was used on the project

## GLPG0634

Molecule number nowadays known as filgotinib

## GLPG1205

Novel mode-of-action medicine, fully owned by Galapagos. GLPG1205 did not meet the primary endpoint in a Phase 2 proof-of-concept study in ulcerative colitis in 2016. Galapagos is exploring other possible indications for GLPG1205

## GLPG1690

A novel drug targeting autotaxin, with potential applications in idiopathic pulmonary fibrosis. Fully proprietary to Galapagos. A Phase 2 proof-of-concept study in IPF has been initiated

## GLPG1837

A potentiator drug currently in Phase 2 in Class III cystic fibrosis mutation patients

## GLPG1972

A novel mode-of-action drug that is part of the osteoarthritis alliance with Servier. GLPG1972 entered Phase 1 in November 2015

## GLPG2222

A corrector drug currently in Phase 1

## IBD

Inflammatory Bowel Disease. This is a general term for an autoimmune disease affecting the bowel, including Crohn's disease and ulcerative colitis. Crohn's disease affects the small and large intestine, while ulcerative colitis affects the large intestine. Both diseases involve inflammation of the intestinal wall, leading to pain, bleeding, and ultimately in some cases surgical removal of part of the bowel

## IPF

Idiopathic pulmonary fibrosis. A chronic and ultimately fatal disease characterized by a progressive decline in lung function. Pulmonary fibrosis involves scarring of lung tissue and is the cause of shortness of breath. Fibrosis is usually associated with a poor prognosis. The term "idiopathic" is used because the cause of pulmonary fibrosis is still unknown

## Inflammatory diseases

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

## In-/out-licensing

Receiving/granting permission from/to another company or institution to use a brand name, patent, or other proprietary right, in exchange for a fee and/or royalty

## Intellectual property

Creations of the mind that have commercial value and are protected by patents, trademarks or copyrights

## Intersegment

Occurring between the different operations of a company

## Investigational New Drug (IND) application

United States Federal law requires a pharmaceutical company to obtain an exemption to ship an experimental drug across state lines, usually to clinical investigators, before a marketing application for the drug has been approved. The IND is the means by which the sponsor technically obtains this exemption, allowing them to perform clinical studies

## JAK

Janus kinases (JAK) are critical components of signaling mechanisms utilized by a number of cytokines and growth factors, including those that are elevated in rheumatoid arthritis

## Milestone

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

## MTX

Methotrexate

## Molecule collections

Chemical libraries, usually consisting of drug-like small molecules that are designed to interact with to specific target classes. These collections can be screened against a target to generate initial "hits" in a drug discovery program

## MOR106

A novel mode-of-action antibody that is being developed in inflammatory diseases and part of the alliance with MorphoSys. MOR106 has entered Phase 1 in Q1 2016

## NDA

New Drug Application

## Oral dosing

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

## Osteoarthritis

The most common form of arthritis, usually occurring after middle age, marked by chronic breakdown of cartilage in the joints leading to pain, stiffness, and swelling

## Outsourcing

Contracting work to a third party

## Pharmacokinetics (PK)

Study of what a body does to a drug; the fate of a substance delivered to a body. This includes absorption, distribution to the tissues, metabolism and excretion. These processes determine the blood concentration of the drug and its metabolite(s) as a function of time from dosing

## Phase 1

First stage of clinical testing of a potential new treatment designed to assess the safety and tolerability, pharmacokinetics of a drug, usually performed in a small number of healthy human volunteers

## Phase 2

Second stage of clinical testing, usually performed in 20-300 patients, in order to determine efficacy, tolerability and the most effective dose to use

## Phase 3

Large clinical trials, usually conducted in 300-3000 patients to gain a definitive understanding of the efficacy and tolerability of the candidate treatment by comparing it to the "gold standard" treatment; serves as the principal basis for regulatory approval

## Placebo-controlled

A clinical study can only show statistical significance when the effect of a candidate drug is measured against that of a placebo, a substance having no pharmacological effect but administered as a control in testing experimentally or clinically the efficacy of a biologically active preparation

## Potentiator drug

Drug that restores the CFTR ion channel opening in cystic fibrosis patients. In most CF patients, a potentiator and corrector drug are needed in combination to restore the genetic defect causing CF. Galapagos and AbbVie are planning to combine a potentiator with two correctors to treat CF patients with the most prevalent mutation of CFTR

## Pre-clinical

Stage of drug research development, undertaken prior to the administration of the drug to humans. Consists of *in vitro* and *in vivo* screening, pharmacokinetics, toxicology, and chemical upscaling

## Pre-clinical candidate (PCC)

A new molecule and potential drug that meets chemical and biological criteria to begin the development process

## Rheumatoid arthritis (RA)

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

## R&D operations

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

## Screening

Method usually applied at the beginning of a drug discovery campaign, where a target is tested in a biochemical assay against a series of small molecules or antibodies to obtain an initial set of "hits" that show activity against the target. These hits are then further tested or optimized

## Service operations

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

## Target

Protein that has been shown to be involved in a disease process and forms the basis of therapeutic intervention or drug discovery

## Target discovery

Identification and validation of proteins that have been shown to play a role in a disease process

## Technology access fee

License payment made in return for access to specific technology (e.g. compound or virus collections)

## TNF

Tumor necrosis factor

## Ulcerative colitis (UC)

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

# Financial calendar

## 29 July 2016

First Half 2016 Results

## 28 October 2016

Third Quarter 2016 Results

## 3 March 2017

Full Year 2016 Results

**Financial year**
The financial year starts on 1 January and ends on 31 December.

**Auditor**
Deloitte Bedrijfsrevisoren B.V. o.v.v.e. CVBA, represented by Gert Vanhees
Berkenlaan 8b
1831 Diegem, Belgium

# Colophon

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

**Photography**
Felix Kalkman

Copy deadline: 28 April 2016

This Q1 Report 2016 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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**Appendix B: Press Release**

Regulated information 29 April 2016, 7.00 CET

# Galapagos and AbbVie expand their cystic fibrosis collaboration

- Strong commitment from Galapagos and AbbVie to accelerate development of a triple combination therapy
- Expanded portfolio shows promise for breakthrough therapy
- Milestones increased from $350 to $600 million
- Patient trials expected to start in 2017

Mechelen, Belgium; 29 April 2016: Galapagos NV (Euronext & NASDAQ: GLPG) and AbbVie (NYSE: ABBV) announce that the companies have expanded their agreement in cystic fibrosis (CF) to reflect the successful expansion of their CF portfolio. Companies have agreed to increase the potential milestones to Galapagos for Phase 1 and 2 achievements, bringing the remaining total milestones in the CF alliance up to approximately $600 million, from $350 million. Other key collaboration terms remain in place: tiered royalty payments on net sales, ranging from mid-teens to twenty percent. Galapagos retains commercial rights to China and South Korea, and has an option to co-promote in Belgium, Netherlands, and Luxembourg.

Galapagos and AbbVie aim to develop a triple CFTR combination therapy to address 90% of patients with CF. In order to bring a more effective therapy to patients, the companies have developed multiple candidates and backups for each of the three components of a potential triple combination. Triple combinations of CF compounds in the portfolio have consistently shown restoration of healthy activity levels in *in vitro* assays with human bronchial epithelial (HBE) cells of patients with the F508del mutation. These combinations result in a statistically significant increase in chloride transport over Orkambi[1] in HBE cells with the homozygous F508del mutation. It is expected that a triple combination therapy from this collaboration will be tested in patients having the F508del mutation in 2017.

"Galapagos and AbbVie are committed to accelerate the development of a potential triple combination therapy," said Onno van de Stolpe, CEO of Galapagos. "The compounds in our CF franchise show exciting results *in vitro*, and our strong partnership with AbbVie is focused on getting these combinations into patient trials as soon as possible."

"Within a short time, AbbVie and Galapagos have been able to create an expanded portfolio of candidate CF drugs which, in combination, may offer patients new therapy options. We look forward to working rapidly with Galapagos to bring these candidate drugs through the clinic in the coming years," said Jim Sullivan, Vice President, Discovery, AbbVie.

## About the Galapagos-AbbVie collaboration in cystic fibrosis

In September 2013 Galapagos and AbbVie entered into a global collaboration agreement focused on the discovery and worldwide development and commercialization of potentiator and corrector molecules for the treatment of CF. Under the terms of the agreement, AbbVie made an upfront payment of $45 million to Galapagos. Upon successful completion by Galapagos of clinical development through to completion of Phase 2, AbbVie will be responsible for Phase 3, with

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

financial contribution by Galapagos. Galapagos has earned $20 million in milestone payments to date and is eligible to receive up to approximately $600 million in total additional payments for developmental and regulatory milestones, sales milestones upon the achievement of minimum annual net sales thresholds and additional tiered royalty payments on net sales, ranging from mid-teens to 20%. Galapagos has commercial rights to China and South Korea, and has an option to co-promote in Belgium, Netherlands, and Luxembourg.

## About cystic fibrosis (CF)

CF is a rare, life-threatening, genetic disease that affects approximately 80,000 patients worldwide and approximately 30,000 patients in the United States. CF is a chronic disease that affects the lungs and digestive system. CF patients, with significantly impaired quality of life, have an average lifespan approximately 50% shorter than the population average, with the median age of death at 40. There currently is no cure for CF. CF patients require lifelong treatment with multiple daily medications, frequent hospitalizations and ultimately lung transplant, which is life-extending but not curative. CF is caused by a mutation in the gene for the CFTR protein, which results in abnormal transport of chloride across cell membranes. Transport of chloride is required for effective hydration of epithelial surfaces in many organs of the body. Normal CFTR channel moves chloride ions to outside of the cell. Mutant CFTR channel does not move chloride ions, causing sticky mucous to build up on the outside of the cell. CFTR dysfunction results in dehydration of dependent epithelial surfaces, leading to damage of the affected tissues and subsequent disease, such as lung disease, malabsorption in the intestinal tract and pancreatic insufficiency.

## About Galapagos

Galapagos (Euronext & NASDAQ: GLPG) is a clinical-stage biotechnology company specialized in the discovery and development of small molecule medicines with novel modes of action. Our pipeline comprises a maturing pipeline of Phase 2, Phase 1, pre-clinical, and discovery programs in cystic fibrosis, inflammation, fibrosis, osteoarthritis and other indications. We have discovered and developed filgotinib: in collaboration with Gilead we aim to bring this JAK1-selective inhibitor for inflammatory indications to patients all over the world. Galapagos is focused on the development and commercialization of novel medicines that will improve people's lives. The Galapagos group, including fee-for-service subsidiary Fidelta, has approximately 440 employees, operating from its Mechelen, Belgium headquarters and facilities in The Netherlands, France, and Croatia. More information at www.glpg.com.

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## Forward-looking statements

*This release may contain forward-looking statements, including statements regarding any anticipated milestone payments or royalty payments, the anticipated timing of clinical studies, the potential activity of its candidate cystic fibrosis drugs and of a potential triple combination including these compounds for cystic fibrosis. Galapagos cautions the reader that*

*forward-looking statements are not guarantees of future performance. Forward-looking statements involve known and unknown risks, uncertainties and other factors which might cause the actual results, financial condition and liquidity, performance or achievements of Galapagos, or industry results, to be materially different from any historic or future results, financial conditions and liquidity, performance or achievements expressed or implied by such forward-looking statements. In addition, even if Galapagos' results, performance, financial condition and liquidity, and the development of the industry in which it operates 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 the inherent uncertainties associated with competitive developments, clinical trial and product development activities and regulatory approval requirements (including that data from Galapagos' ongoing clinical research programs in cystic fibrosis may not support registration or further development of their correctors and potentiators due to safety, efficacy or other reasons), Galapagos' reliance on collaborations with third parties (including the performance by AbbVie under the Galapagos-AbbVie Collaboration Agreement), and estimating the commercial potential of its product candidates. A further list and description of these risks, uncertainties and other risks can be found in Galapagos' Securities and Exchange Commission (SEC) filings and reports, including in Galapagos' most recent annual report on Form 20-F filed with the SEC and subsequent filings and reports filed by Galapagos with the SEC. 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. Galapagos expressly disclaims any obligation to update any such forward-looking statements in this document to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based 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.*

**Appendix C: Press Release**

Regulated information 9 May 2016, 22.00 CET

# Galapagos starts Phase 1 study with potentiator GLPG2451 for CF

*Galapagos earns $10 million milestone payment from AbbVie*

**Mechelen, Belgium; 9 May 2016: Galapagos NV (Euronext & NASDAQ: GLPG) announces the start of a Phase 1 study with potentiator GLPG2451 for cystic fibrosis (CF). Following GLPG1837, GLPG2451 is the second potentiator compound in Galapagos' extended CF-portfolio to enter clinical trials.**

Galapagos is conducting a randomized, double-blind, placebo-controlled study over a range of doses of GLPG2451 in healthy volunteers in Belgium and the Netherlands and expects topline results in Q4 2016. The start of this Phase 1 study triggers a $10 million milestone payment from AbbVie under the recently expanded global collaboration agreement.

Galapagos and AbbVie aim to develop a triple CFTR combination therapy to address 90% of patients with CF. In order to bring a more effective therapy to patients, the companies have developed multiple candidates and backups for each of the three components of a potential triple combination. GLPG2451 is the second potentiator and the third compound in the portfolio to enter the clinic.

## Potentiator series

GLPG2451 is the second potentiator candidate to enter clincial evaluation. Galapagos is recruiting for the SAPHIRA exploratory Phase 2 program with the first potentiator, GLPG1837, in patients with G551D and S1251N mutations. Results from the SAPHIRA program are expected in the second half of 2016.

## Early binding (C1) corrector series

Dosing to humans of GLPG2222, the first early binding corrector in Galapagos' portfolio, started in January 2016. Galapagos is conducting a randomized, double-blind, placebo-controlled study over a range of doses of GLPG2222 in healthy volunteers in Belgium and expects topline results in Q2 2016. Earlier this year, Galapagos announced selection of preclinical candidate GLPG2851, an additional early binding corrector.

## Late binding (C2) corrector series

Galapagos announced selection of the first late binding corrector GLPG2665 last year and selection of an additional late binding corrector in the same series, GLPG2737, this year. Galapagos expects to enter Phase 1 with one of these late binding correctors in healthy volunteers in the second half of 2016.

More information about the Galapagos-AbbVie collaboration in cystic fibrosis: www.glpg.com/alliances

More information about cystic fibrosis: www.glpg.com/rd-cystic-fibrosis

## About Galapagos

Galapagos (Euronext & NASDAQ: GLPG) is a clinical-stage biotechnology company specialized in the discovery and development of small molecule medicines with novel modes of action. Our maturing pipeline comprises Phase 2, Phase 1, pre-clinical and discovery studies in cystic fibrosis,

inflammation, fibrosis, osteoarthritis and other indications. We have discovered and developed filgotinib: in collaboration with Gilead we aim to bring this JAK1-selective inhibitor for inflammatory indications to patients all over the world. Galapagos is focused on the development and commercialization of novel medicines that will improve people's lives. The Galapagos group, including fee-for-service subsidiary Fidelta, has approximately 400 employees, operating from its Mechelen, Belgium headquarters and facilities in The Netherlands, France, and Croatia. More information at www.glpg.com.

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**Forward-looking statements**

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