

Remuneration Policy

Our remuneration policy

The objective of the remuneration policy of Galapagos NV ("Galapagos") is to attract, motivate and retain the diverse qualified and expert individuals that we need in order to achieve our strategic and operational objectives. Our further goals are to be competitive in the appropriate market by benchmarking against relevant peer groups, incentivize performance at the highest possible level, allow for differential rewards according to individual performance, not to discriminate on any grounds other than performance and to reinforce an open, fair, consistent and equitable culture. In light of the remuneration policy, the structure of the remuneration package for the executive committee is designed to balance short-term operational performance with the long-term objective of creating sustainable value, while taking into account the interests of all stakeholders.

The nomination and remuneration committee also develops Galapagos' global remuneration framework, which applies to all employees. The nomination and remuneration committee has taken into account the remuneration of the employees when preparing this policy.

This remuneration policy applies as from 1 January 2022, subject to its approval by the shareholders' meeting of 26 April 2022. If this remuneration policy is approved by the shareholders' meeting, but the shift from a two-tier governance structure to a one-tier governance structure is not approved by the above-mentioned shareholders' meeting, then the rules described in this remuneration policy for members of the board of directors would apply to members of the supervisory board, and the rules described in this remuneration policy for members of the executive committee would apply to members of the management board. In the event that the nomination and remuneration committee would be split into two separate committees, the nomination committee will take up the nomination responsibilities of the committee and the remuneration committee will take up the remuneration responsibilities of the committee.

Determination of remuneration of directors and executive committee members of Galapagos

The remuneration for members of the board of directors and of the executive committee (including the CEO) is determined by the board of directors on the basis of proposals from the nomination and remuneration committee. It is subject to the approval of the shareholders' meeting where required, and takes into account the feedback received from shareholders. It also takes into account relevant benchmarks with appropriate peer companies and, for the members of the executive committee, also the group's performance rating system. For the benchmarking exercise, the nomination and remuneration committee works with reputable external advisors. The peer group that is taken into consideration consists of publicly listed peer companies in the U.S. and Europe in the biopharmaceutical industry with a comparable market capitalization. Further details on the identity of the external advisor(s) are included in our remuneration report for that year.

The group's performance rating system assesses the performance of individual employees and managers over the calendar year against a set of objectives determined at the start of the year, resulting in a rating between 1 (unacceptable performance) and 5 (outstanding performance). In addition, the achievement of pre-determined annual corporate objectives is also taken into account to determine remuneration increases and bonuses. This also applies to the members of the executive committee (including the CEO).

The nomination and remuneration committee is composed exclusively of non-executive board members and a majority of its members qualify as independent directors. This helps prevent the occurrence of conflicts of interest regarding the setting up, amendments and implementation of the remuneration policy in relation to the executive committee members of Galapagos. The CEO and the other members of the executive committee are not invited to take part in any discussions of the nomination and remuneration committee related to their own individual remuneration. Regarding the remuneration of the non-executive board members, all decisions are adopted by the shareholders' meeting.

Remuneration policy for directors

The remuneration of the non-executive directors consists of a fixed annual cash amount, irrespective of the number of board meetings that are held during the year. The remuneration of the non-executive directors does not contain a variable part. The annual board fees are paid in quarterly installments at the end of each calendar quarter.

As Galapagos does not own treasury shares and has not been authorized by its shareholders to acquire treasury shares, it is currently unable to grant shares directly to the non-executive directors as part of their remuneration in accordance with provision 7.6 of the 2020 Code. However, as from the financial year 2020, the non-executive directors have received an additional cash compensation equal to the amount of their fixed annual cash remuneration (not taking into account fees for committee membership and chairmanship) subject to the commitment by each non-executive director to use the net portion (after taxation) of such cash remuneration to purchase shares of Galapagos in the open market within a set period of time after receipt of such cash remuneration. The shares that each non-executive director so acquires are to be held until at least one year after the non-executive director leaves the board and at least three years after the time of acquisition.

Since 1 January 2020, Galapagos has no longer granted any subscription rights to non-executive directors.

Effective from 1 April 2022, Galapagos has appointed a new CEO. It is also proposed that the CEO will be appointed as member and chairman of the board of directors of Galapagos. The CEO will only be remunerated for the performance of its executive functions as CEO and will not be entitled to any additional remuneration for his mandate of member and chairman of the board of directors.

Remuneration policy for executive committee members

The remuneration of the CEO and of the other members of the executive committee consists of short-term and long-term remuneration. The short-term remuneration includes a fixed part, i.e. a base annual remuneration in cash, and a variable part, i.e. a cash bonus. The long-term incentives include the grant of subscription rights and restricted stock units. In accordance with the rules of the Belgian Companies Code, the grant of all variable remuneration is dependent on the achievement of certain criteria and at least 50% of the variable remuneration consists of long-term incentives. The vesting scheme of the restricted stock units takes into account the requirement that at least one fourth of the variable remuneration is determined on the basis of objective criteria measured over at least two years and at least one fourth of the variable remuneration is determined on the basis of objective criteria measured over at least three years.

Short-term remuneration

Fixed remuneration

The fixed annual remuneration in cash of the members of the executive committee is determined by the board upon the recommendation of the nomination and remuneration committee. External benchmarking exercises are conducted to ensure the remuneration remains competitive and in line with market practice for our peer group.

Variable remuneration – general rules

Variable remuneration is merit-driven and based on our performance rating system that is based on individual performance (including exceptional deliverables) in combination with our overall performance, compared to individual and corporate objectives that are established annually. The corporate objectives and the CEO's objectives are established annually by the board of directors upon recommendation of the nomination and remuneration committee, and the objectives of the other members of the executive committee are established annually by the CEO and are in relation to the corporate objectives set by the board. These objectives are designed to be challenging to achieve.

The corporate objectives include elements of research progress, clinical trial progression, cash position, corporate development and commercial development; all of which are considered to be of equal importance. Our ambition is to become a fully integrated biopharmaceutical company focused on the development and commercialization of novel medicines in areas of unmet medical needs to improve the lives of people suffering from serious diseases. In order to achieve this long term goal, we want to ensure we keep innovation in our research efforts while also making sound progress in our clinical trials each year and maintaining a healthy cash position. In addition, our corporate development goals aim to foster the growth of Galapagos and the creation of value for all shareholders. Finally, our commercial development goal is intended to bring us closer to becoming a fully integrated biopharmaceutical company that can (subject to having obtained governmental approvals) bring novel medicines to market.

The level of achievement of the objectives for the CEO is assessed at the end of each year by the nomination and remuneration committee and discussed and finally established by the board of directors. The level of achievement of the objectives of the other members of the executive committee is assessed by the CEO at the end of the year, discussed by the nomination and remuneration committee and finally established by the board of directors.

Cash bonus

The CEO's cash bonus can be maximum 75% of the fixed part of his annual remuneration of the year for which the bonus is awarded. The aggregate cash bonuses of the other members of the executive committee can be maximum 50% of the total amount of the fixed part of their aggregate annual remuneration of the year for which the bonus is awarded.

The level of the achieved bonus is established annually by the board of directors upon recommendation of the nomination and remuneration committee (with respect to the other members of the executive committee, such recommendation is based on proposals from the CEO).

Long-term incentives

Restricted stock units

Each RSU represents the right to receive one Galapagos share or a payment in cash of an amount equivalent to the volume-weighted average price of the Galapagos share on Euronext Brussels over the 30-calendar day period preceding the relevant vesting date, in accordance with the terms and conditions of the relevant RSU program.

There are two restricted stock unit (RSU) programs:

1. the Annual Long-Term Incentive Plan, under which the grants are intended to be made every year, subject to a decision of the board of directors. This plan is intended to provide a long-term incentive to certain of our employees and executive committee members; and
2. the RSU Retention Plan. This plan was introduced following the Gilead transaction. It is aimed at retaining a specific set of our employees and executive committee members whose retention is deemed so important for the future performance of Galapagos that an additional incentive is desired. The beneficiaries are nominated by the nomination and remuneration committee and the board approves the list of beneficiaries. The four-year vesting period is designed to be aligned with long-term shareholder interests.

In 2019, a third plan was issued, the RSU 2019.I Plan. Grants under this plan were made in 2019 only, in accordance with the then applicable remuneration policy (as included in the annual report relating to financial year 2018 under the header "Information on the remuneration policy for the next two years"). No new grants under this plan will be made.

In general, the RSU plans are intended to provide certain members of the executive committee and certain employees of Galapagos the opportunity to receive Restricted Stock Units as an incentive. Their purpose is to retain and encourage participants to contribute to the performance of Galapagos and its affiliates by aligning their financial interests with those of the shareholders.

The detailed terms and conditions of such RSU plans are to be determined in the respective plans. The main characteristics of these plans are as follows:

1. the RSUs are offered for no consideration
2. four-year vesting period, with 25% vesting each year, except for the RSUs granted under the RSU 2019.I Plan and, solely for beneficiaries who are executive committee members, the Annual Long-Term Incentive Plan, that will all vest at the same time three years after the offer date;
3. payout will be in cash or shares, at Galapagos' discretion, it being understood that in respect of members of the executive committee, any vesting prior to the third anniversary of the offer date will always give rise to a payment in cash rather than a delivery of shares as an incentive; and
4. in case of termination of service before the vesting date, forfeiture rules apply.

Under the Annual Long-Term Incentive Plan, the CEO is eligible to receive RSUs up to the equivalent of 75% of the fixed part of his annual remuneration, and the other members of the executive committee are eligible to receive RSUs up to the equivalent of 50% of the total amount of the fixed part of their aggregate annual remuneration, as an equity-based long-term bonus.

Subscription rights

Galapagos grants subscription rights (formerly called warrants) to the members of the executive committee as part of subscription right plans for the benefit of our staff.

The detailed terms and conditions of such subscription right plans are to be determined in the respective plans. The main characteristics of these plans are as follows:

1. The subscription rights are offered for no consideration;
2. The subscription rights typically have a lifetime of eight years and a vesting period of three years after the year of grant; and
3. Good and bad leaver provisions apply in case of termination prior to the end of the vesting period.

The exercise price of the subscription rights is determined by the board but amounts to at least (i) the average of the price of the Galapagos share on Euronext during the last thirty days preceding the date of the subscription right offer or (ii) the closing price of the Galapagos share on Euronext on the last trading day preceding the date of the subscription right offer.

Exceptional bonus schemes

Exceptional special bonuses, outside the scope of the regular bonus schemes, can be considered by the board upon recommendation of the nomination and remuneration committee in the event of and for exceptional achievements. They may take the form of a payment in cash and/or a grant of RSUs.

Sign-on remuneration

Sign-on remuneration can be granted to members of the executive committee when recruiting externally to attract, motivate and retain talented individuals. The provision of sign-on remuneration is decided on a case-by-case basis by the board of directors, upon recommendation of the nomination and remuneration committee.

Benefits in kind

In addition, the CEO and/or the other members of the executive committee enjoy a number of benefits such as a retirement plan, insurance programs (covering life insurance, disability, travel insurance and health), company cars, travel expenses and the provision of tax advisory services. The aforementioned retirement plan is set up as a defined contribution type and is in line with market practice in Belgium.

Main contractual terms and conditions of employment of members of executive committee

Since 1 January 2020, all members of the executive committee have provided their services under management agreements for an indefinite period of time with Galapagos, subject to Belgian law, with a notice period of nine months for the CEO and six months for the other members of the executive committee. The agreements do not provide for any other severance payments. In the event of termination, Galapagos may enter into non-competition undertakings with the CEO and the other members of the executive committee providing for non-competition indemnities. Galapagos also entered into undertakings with the CEO and the other members of the executive committee providing that in case their contract with the group is terminated as a result of a change of control of Galapagos, they would be entitled to the immediate vesting of subscription rights and a severance compensation of (i) 12 months' base salary for the CEO and (ii) 9 months' base salary for the other members of the executive committee.

Reclaim of variable remuneration

The RSU plans and subscription right plans contain bad leaver provisions that can result in forfeiture of any unvested RSU and/or subscription right grants in case the beneficiary leaves Galapagos prior to the relevant vesting

date. In respect of grants made before financial year 2020, no other provisions entitling Galapagos to reclaim variable remuneration were in place.

However, in respect of grants made as from financial year 2020, contractual provisions have applied to ensure that Galapagos has the right to have each executive committee member forfeit any unvested RSUs, deferred portion of previous cash bonus or unvested subscription rights in the event of a restatement of the financial statements that has a material negative effect on Galapagos or a material breach of our Code of Business Conduct and Ethics.

Minimum share ownership

Since 1 January financial year 2020, the board has set a minimum threshold of shares to be held at any time by the CEO equal to the number of shares equivalent to one year of the CEO's fixed remuneration and by the other members of the executive committee to the number of shares equivalent to six months' of the relevant executive committee member's fixed remuneration. The threshold will be re-calculated on an annual basis. To determine the equivalent number of shares for a given calendar year, the closing price of the Galapagos share on Euronext Amsterdam of the last trading day of the preceding calendar year and the fixed remuneration granted for such preceding calendar year will be taken into account. Thresholds need to be reached within four years. Such deadlines started to run from 1 January 2020 for executive committee members already in office. For members of the executive committee appointed after that date, such as the new CEO, the deadlines start to run from the date of the appointment.

Deviations from this policy

In exceptional circumstances, the board of directors may decide to deviate from any items of this policy if necessary to serve the long-term interests and sustainability of Galapagos. Any such deviation must be discussed at the nomination and remuneration committee, which will provide a substantiated recommendation to the board of directors. Any deviation from this policy will be described and explained in Galapagos' remuneration report.