

# A transition and execution year for Galapagos

Annual Report 2014



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# The Galapagos Group

An overview of Galapagos, its strategy and portfolio in 2014

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In 2014, Galapagos made the transition from a hybrid service and pipeline company into a clinical stage R&D biotech that develops drugs with novel modes of action for high unmet medical needs.

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**Onno van de Stolpe**  
CEO of Galapagos



## Letter from the CEO

Dear shareholder,

We present our 2014 Annual Report, the first online version, to you. The 2014 Annual Report is our response to market requests to offer more information about our strategy, the markets we operate in, and the potential differentiation of our products, in addition to the financials and a report on corporate governance matters. We hope you find this new format helpful, and we look forward to receiving your feedback.

The year 2014 was a transition and execution year for Galapagos. With the sale of BioFocus and Argenta to Charles River Laboratories in April 2014, Galapagos made the transition from a hybrid service and pipeline company into a clinical stage R&D biotech that develops drugs with novel modes of action for high unmet medical needs. Our priority is to execute on our current clinical programs, and use our unique target discovery platform to deliver new innovative programs in the future.

In 2014 we greatly expanded our clinical activities, and our pipeline grew to three Phase 2 and two Phase 1 programs. Galapagos completed recruitment for the global DARWIN Phase 2b program with filgotinib in rheumatoid arthritis; we expect to report topline results for 12 weeks of treatment in DARWIN 1 (mid-April) and DARWIN 2 (early-May). Our cystic fibrosis program entered the clinic, and we are close to candidate nomination for our third molecule to complement our triple combination therapy for the main cystic fibrosis mutation. In addition to filgotinib and cystic fibrosis, the Company has '1205 (ulcerative colitis) and '1690 (idiopathic pulmonary fibrosis) in clinical development and 25 programs in discovery stage.

### 2014: Strong progress in R&D

#### In the field of inflammation:

- Completed recruitment of Phase 2b DARWIN program with filgotinib in patients with moderate to severe RA who do not respond well to methotrexate (MTX). DARWIN 1: dose-range finding in 599 patients on background treatment with MTX DARWIN 2: dose-range finding in 287 patients without MTX. Both studies are

placebo controlled for the first 12 weeks, plus 12 more weeks' treatment for longer term safety data. DARWIN 3: long term extension study

- 98% of eligible patients (434 patients as of end of February 2015) enrolled in DARWIN 3
- Presented a clean drug-drug interaction profile with filgotinib
- Continued enrollment in 180-patient Phase 2 Crohn's study with filgotinib
- Reported lack of efficacy in Proof of Concept study with GLPG0974 in ulcerative colitis
- Disclosed novel target GPR84 and positive Phase 1 data for GLPG1205, prepared for Phase 2 study in ulcerative colitis with GLPG1205, which initiated in early 2015
- Nominated pre-clinical candidate antibody MOR106 in inflammation in alliance with MorphoSys

#### In cystic fibrosis:

- Reported restoration of up to 60% healthy CFTR function in pre-clinical evaluations of Galapagos triple combination therapy compounds for Class II mutation
- Initiated Phase 1 study with potentiator GLPG1837, topline results expected Q3 2015
- Nominated corrector GLPG2222 as a pre-clinical candidate, Phase 1 start expected before end 2015

#### In osteoarthritis:

- Delivered pre-clinical candidate GLPG1972 in the alliance with Servier, Phase 1 start expected before end 2015

#### In pulmonary disease:

- Initiated Phase 1 study with GLPG1690, reported positive topline results in Q1 2015

#### Grants for research:

- Flemish agency for Innovation by Science and Technology (IWT) grants: €2.9 million for cystic fibrosis and €2.3 million for fibrosis

### 2014: Largest year end cash balance in Company history

Galapagos exceeded guidance for full year revenues in 2014, achieving €108 million including €18 million in services revenues from the first quarter. Galapagos is well-positioned to create significant value from its R&D assets, with nearly €200 million in cash on the balance sheet, the largest year end cash position ever for Galapagos.



## THE GALAPAGOS GROUP

### Revenues

Galapagos' revenues and other income for 2014 amounted to €108.2 million, which includes €18.2 million of revenues and other income from discontinued service operations, sold to Charles River Laboratories on 1 April 2014. Revenues from continuing operations of €90.0 million represent a decrease of 7% compared to 2013, reflecting lower recognition of deferred revenues from upfront payments, as a result of the longer duration of the filgotinib program. Income from milestones, grants and R&D incentives was in line with 2013.

### Result

The Group realized a net profit in 2014 of €33.2 million, or €1.10 income per share, compared to a net loss of €8.1 million, or €0.28 loss per share in 2013.

Net loss from continuing operations amounted to €37.3 million. Operating expenses from continuing operations at €126.6 million were 11.6% (€13.2 million) higher than in 2013. This increase is principally the result of higher investments in the development of our mid-stage product candidates filgotinib, GLPG1205, and GLPG1690, and increased spending to accelerate the cystic fibrosis program with AbbVie. This planned increase was driven by the maturing R&D pipeline and the resulting costs of clinical trials.

### Cash position

Cash, cash equivalents and restricted cash totaled €198.4 million on 31 December 2014, which is the highest year-end cash balance Galapagos has ever reported. Restricted cash of €10.7 million includes a bank guarantee on real estate lease obligations and an escrow account connected to the sale of the service operations. €10.4 million of this restricted cash is expected to be released by mid-2015. Net cash proceeds from the sale of the service operations amounted to €130.8 million. In addition, Galapagos' balance sheet holds R&D incentives receivables from the French and Belgian governments amounting to €51.3 million, of which €7.4 million will be collected in 2015.

### Outlook 2015

The Phase 2b clinical program for filgotinib in RA is expected to deliver the 12-week topline efficacy and safety data for DARWIN 1 by mid-April 2015, with 12 week topline results for DARWIN 2 in early May 2015. 24-week results from both studies are expected in July. The 10-week results from filgotinib in Crohn's disease (FITZROY trial) are expected in the second half of 2015. Subsequent to DARWIN 24-week

results becoming available, a licensing decision by AbbVie is expected.

In cystic fibrosis, Galapagos expects to nominate a second corrector in the first half of 2015. Galapagos will report topline Phase 1 results with GLPG1837 and initiate a Phase 2 study in Class III cystic fibrosis patients in the second half of 2015.

Galapagos expects to make significant progress in both partnered and non-partnered R&D programs as the pipeline continues to mature across a broad range of therapeutic areas, resulting in multiple additional clinical and pre-clinical stage programs by end 2015.

Galapagos expects an operational use of cash of €110 - 130 million during 2015, excluding milestone payments and a potential \$200 million license fee from our partner AbbVie for filgotinib. Excluding income from a potential license of filgotinib by AbbVie, Galapagos has a runway until the end of 2016.

We appreciate your support as shareholder in 2014. Today, Galapagos is at a key point in its development, with the first of 4 readouts from the DARWIN program expected in 2015. We aim to deliver the most clinical research results in Galapagos' history in 2015.

Regards,

**Onno van de Stolpe**  
CEO



## At a glance

### Key figures (IFRS) Galapagos Group

(thousands of €, if not stated otherwise)	12/31/2014	12/31/2013	12/31/2012
<b>Results<sup>1</sup></b>			
Revenues and other income	90,021	96,572	92,226
Services cost of sales			(5,584)
R&D expenditure	(111,110)	(99,380)	(80,259)
S, G&A expenses	(14,867)	(13,817)	(13,404)
Restructuring and integration costs	(669)	(290)	(2,506)
Personnel expenses (including share-based compensation)	(38,447)	(35,979)	(37,979)
Capital expenditure	2,804	8,168	6,841
Depreciation and amortization of (in)tangible assets	(3,765)	(4,105)	(4,629)
EBIT	(36,624)	(16,915)	(9,526)
EBITDA	(32,859)	(12,810)	(4,897)
Net loss from continuing operations	(37,303)	(16,811)	(7,435)
Net income from discontinued operations	70,514	8,732	1,714
Net income / loss (-)	33,211	(8,079)	(5,721)
<b>Balance sheet</b>			
Total assets	270,467	287,374	235,329
Cash, cash equivalents and restricted cash	198,440	141,481	94,647
Total liabilities	64,332	120,237	116,882
Stockholders' equity	206,135	167,137	118,447
Equity ratio (in %)	76%	58%	50%
<b>Galapagos share</b>			
Number of shares issued on 31 December	30,299,129	29,794,046	26,770,747
Basic and diluted income / loss (-) per share (in €)	1.10	(0.28)	(0.22)
Dividend (in €)			
Share price on 31 December (in €)	15.49	15.30	15.81
<b>Personnel data</b>			
Total Group employees on 31 December (number)	417	810 <sup>2</sup>	796 <sup>2</sup>

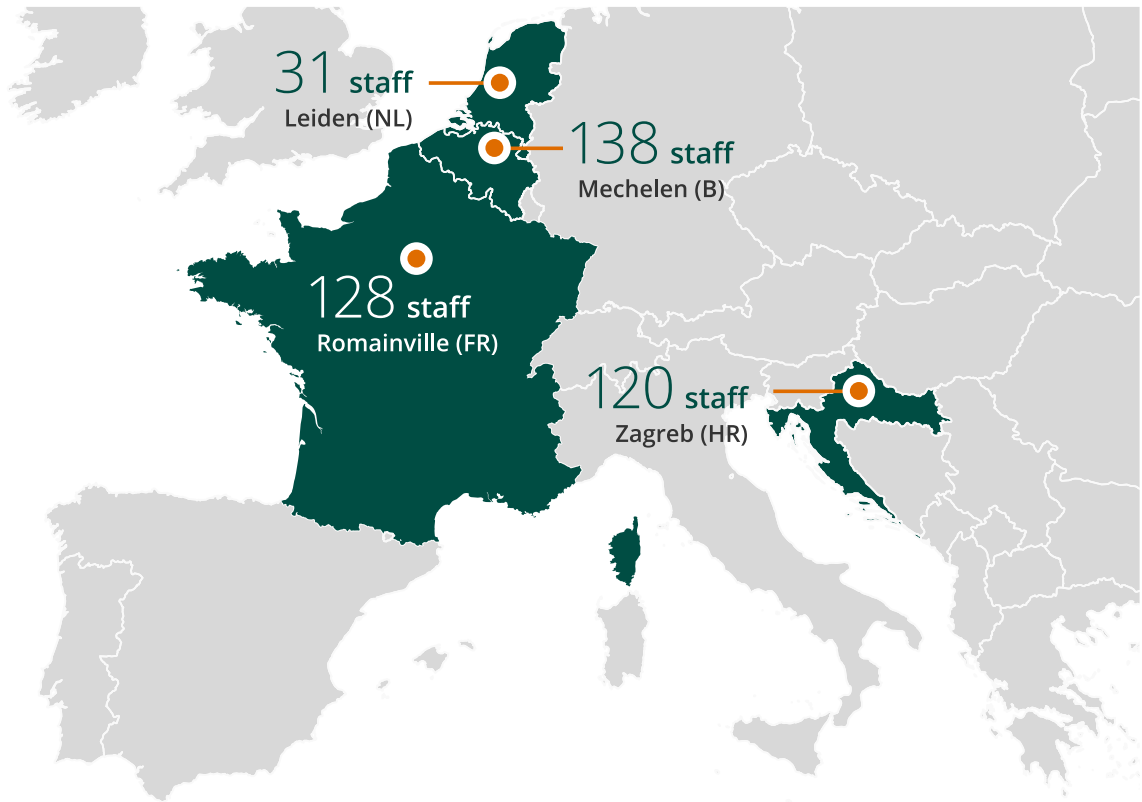
<sup>1</sup> Service activities (sold to Charles River on 1 April 2014) for the years 2014, 2013 and 2012 are shown on the line item "Net income from discontinued operations". All other line items consist of amounts from continuing operations, except for line item "Net income / loss (-)", which includes both continuing and discontinued operations.

<sup>2</sup> Includes employees from the sold service division.



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Employees per site



Number of employees



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



## Strategy

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

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

Key elements of Galapagos' strategy include:

- **Rapidly advance the development of filgotinib with AbbVie, in rheumatoid arthritis (RA) and Crohn's disease (CD)**

Based on the favorable safety and efficacy profile demonstrated in our Phase 2a clinical trials, filgotinib may be a promising candidate for the treatment of RA and other autoimmune diseases like CD. Topline results from DARWIN, Galapagos' two ongoing Phase 2b trials, after 12 weeks of treatment with filgotinib in subjects with RA, are expected in April 2015. The final results from these studies after 24 weeks of treatment are expected in July 2015. Pending a successful outcome of these trials, a global Phase 3 clinical program in RA is expected to be initiated in the first half of 2016. In parallel, Galapagos is evaluating filgotinib for the treatment of CD. Results from 10 weeks of treatment in FITZROY, our 180 patient, 20-week trial of filgotinib in subjects with CD, are expected in the second half of 2015. Pending a successful outcome of the FITZROY trial, a global Phase 3 clinical program in CD is expected. Filgotinib is being developed under an exclusive collaboration agreement with AbbVie, under which agreement Galapagos expects a licensing decision by AbbVie in the second half of 2015.

- **Collaborate with AbbVie to develop a cystic fibrosis (CF) franchise of oral therapies composed of novel potentiators and correctors**

Galapagos is developing a novel potentiator therapy, called GLPG1837, for CF patients that have the Class III

(G551D) mutation of the CFTR gene, the same mutation which is targeted by the only approved therapy for CF, Kalydeco, marketed by Vertex. However, the most common mutation in the CFTR gene, the Class II (F508del) mutation, is present in approximately 90% of the CF population and is not addressed by Kalydeco. In order to address the unmet need in patients with Class II mutations, a combination of novel potentiator and corrector molecules ultimately may be required. To that aim, Galapagos plans to develop a triple combination therapy, composed of GLPG1837 and two novel corrector molecules. In December 2014, Galapagos initiated a Phase 1 trial for GLPG1837 in healthy volunteers. Topline results from this trial are expected in the third quarter of 2015. Pending a successful outcome from this trial, Galapagos intends to initiate a Phase 2a trial with GLPG1837 in Class III patients (G551D) in the second half of 2015. For the triple combination therapy, Galapagos expects to combine GLPG1837 with a novel corrector, GLPG2222, and an additional novel corrector for which Galapagos expects to initiate pre-clinical development in the first half of 2015. By the middle of 2015 Galapagos expects to have all three components of this therapy in development. In addition, Galapagos has preliminary pre-clinical data which suggests that Galapagos candidate drugs in combination with mRNA translation agents potentially can restore clinically meaningful CFTR function in Class I mutation patients. Galapagos entered into an exclusive collaboration agreement with AbbVie to discover, develop and commercialize these and other novel CF modulators.

- **Advance our Phase 2a clinical trial of GLPG1205 in UC**

In December 2014, Galapagos started ORIGIN, a 60-patient, 12-week Phase 2a clinical trial of GLPG1205, an inhibitor of GPR84, a protein which is frequently overexpressed in inflammatory diseases. Galapagos expects topline data from this trial in the first half of 2016. Pre-clinical data demonstrated promising activity in an animal model, and Phase 1 data in human volunteers demonstrated a favorable safety, tolerability and pharmacodynamics, or PD, profile. GPR84 antagonists such as GLPG1205 present a novel mode of action for treatment of inflammatory diseases. Up-regulation of GPR84 on inflammatory leukocytes is found in diseases such as IBD and neuro-inflammatory





## THE GALAPAGOS GROUP

disease, such as multiple sclerosis. GLPG1205 is fully proprietary to Galapagos, and management intends to develop this drug through Phase 2 independently.

### ■ Prepare for Phase 2a clinical trial of GLPG1690 in IPF

In Q1 2015 Galapagos reported positive topline results of GLPG1690, an autotaxin inhibitor, in healthy volunteers. The molecule demonstrated favorable safety and tolerability, as well as a strong pharmacodynamic signal implying target engagement. Galapagos is currently preparing a Phase 2 study in idiopathic pulmonary fibrosis (IPF), to be filed for approval before the end of 2015. IPF is a chronic and ultimately fatal disease characterized by a progressive decline in lung function.

### ■ Maximize and capture the value of Galapagos' target discovery platform by becoming a fully integrated biotechnology company

Galapagos' platform has yielded several new mode-of-action therapies across more than 15 therapeutic areas, demonstrating the potential of our technology platform. In addition to the current clinical programs, targeting inflammation, CF and pulmonary disease, Galapagos currently has 25 different target-based discovery programs advancing toward clinical development with novel modes of action. The most mature pre-clinical program is in osteoarthritis where management expects to enter a Phase 1 trial in 2015. Galapagos intends to continue to advance more clinical candidates in various therapeutic areas independently. Galapagos 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.

## Overview of statutory results of Galapagos NV

This overview only concerns the [non-consolidated statutory results of Galapagos NV](#). These results are part of the consolidated results as discussed in the [Letter from the CEO](#).

Galapagos NV's operating income in 2014 amounted to €172.7 million compared to €152.0 million in 2013. This increase is mainly due to increased turnover (i.e. R&D revenues) which contributed €14.7 million more to operating income than in the previous year. In addition, income from internally generated intangible assets – being capitalized R&D expenses – increased as well with €3.9 million compared to 2013. The other operating income amounts to €15.3 million, including €5.2 million in grants recognized for R&D projects, €3.3 million in recharges to subsidiaries and €4.3 million recognized in tax incentives for investments in intangible fixed assets.

The operating costs of 2014 amounted to €197.6 million compared to €167.7 million in 2013. Material purchases increased slightly from €3.4 million in 2013 to €3.7 million in 2014. Services and other goods increased substantially to €96.7 million compared to €78.8 million in 2013, mainly as a result of increased subcontracting for our pre-clinical studies and clinical trials, driven by the maturing pipeline of our R&D projects.

Personnel costs in 2014 amounted to €13.7 million compared to €12.1 million in 2013. The number of employees at Galapagos NV at the end of 2014 amounted to 132.

Depreciation increased to €76.8 million in 2014, compared to €66.8 million in 2013. This is due to amortization booked on the internally generated intangible assets capitalized in 2011, 2012, 2013 and 2014.

Galapagos NV's 2014 financial income increased significantly to €108.1 million compared to €1.9 million in 2013 and can be explained by a capital gain of €105.9 million realized in connection with the sale of the service division to Charles River Laboratories International, Inc. on 1 April 2014. Financial costs amounted to €1.1 million compared to €1.6 million in 2013, which was mainly due to realized exchange rate losses on the AbbVie payments received in 2013 (\$20 million for GLPG0634 in RA and \$45 million for cystic fibrosis).

Extraordinary costs amount to €19.7 million in 2014, compared to €1.0 million in 2013, of which €13.5 million was related to the extraordinary write-off of capitalized R&D costs with regard to alliances which ended or programs which were placed on hold.



Tax expenses recorded in 2014 amount to €0.4 million and relate to capital gain taxes related to the sale of the service division.

Galapagos NV capitalizes its incurred R&D expenses to the extent that the costs capitalized do not exceed a prudent estimate of their value in use or their future economic benefits for the entity. The ability to recover the capitalized amounts takes into account assumptions (i.e. future peak sales, market share, sales price, attrition rates regarding the successful completion of the different R&D phases) which have a highly judgmental nature and depend on the outcome of uncertain factors which are beyond the control of the entity (i.e. test results). The achievement of these assumptions is critical and may impact the recoverability of the amounts capitalized. Capitalized R&D expenses amount to €129.5 million compared to €119.8 million last year.

Investments in fixed assets in 2014 totalled €1.3 million, excluding the internally generated assets. They consist mainly of new lab equipment, as well as investments in intangible assets, being software development. Galapagos NV's cash position at the end of 2014 amounted to €194.0 million.

The non-consolidated annual accounts of Galapagos NV which we submit for your approval were prepared in accordance with Belgian accounting rules as well as with the legal and regulatory requirements. They show a positive result. The financial year 2014 closed with a profit of €62.0 million compared to a loss of €16.4 million in 2013. The recorded net profit in 2014 can entirely be explained by a substantial gain on the sale of the service division as mentioned above. Overall, the result of Galapagos NV is largely affected by the fact that, as from financial year 2010, Galapagos NV capitalizes some of its R&D expenses and revenues that are eligible for such capitalization under Belgian GAAP. This capitalization positively impacted the net result of Galapagos NV by €12.1 million in 2014, compared to a positive impact of €5.4 million in 2013. The non-consolidated annual accounts of Galapagos NV show accumulated losses of €69.8 million as at 31 December 2014; we refer to the [Going Concern Statement](#) for justification for the application of the valuation rules under the going concern assumption.

In 2014, neither Galapagos NV nor its affiliates made direct or active use of financial instruments such as hedging.

## Going concern statement

To date, Galapagos has incurred significant operating losses, which is reflected in the balance sheet showing €63.9 million accumulated losses as at 31 December 2014. However, despite net losses in previous years, Galapagos realized a consolidated net income of €33.2 million for the year ended 31 December 2014, owing to the sale of the service division. The Board has examined the financial statements and accounting policies. Based on conservative assumptions which exclude income from a potential \$250 million license of filgotinib by AbbVie, Galapagos believes that its existing cash and cash equivalents of €187.7 million for the year ended 31 December 2014 will enable Galapagos to fund its operating expenses and capital expenditure requirements at least through end of 2016. The Board is also of the opinion that additional financing could be obtained, if required. Taking this into account, as well as the favourable outlook of developments of Galapagos' drug discovery and development activities, the Board is of the opinion that it can submit the financial statements on a going concern basis. Whilst Galapagos' cash position is sufficient for Galapagos' immediate and midterm needs, the Board points out that if the R&D activities continue to go well, Galapagos may seek additional funding to support the continuing development of its products or to be able to execute other business opportunities.



## Risk management

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

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

The internal control system is designed to ensure:

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

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

- business performance measures; operational and net profitability
- financial strength in the long run, represented by revenue growth and a solid balance sheet
- liquidity in the short run; cash
- scientific risks and opportunities
- dependence on our alliance partners
- compliance with relevant rules and regulations
- reputation

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

The financial risks of Galapagos are managed centrally. The finance department of Galapagos coordinates the access to national and international financial markets and considers and manages continuously the financial risks concerning the activities of the Group. These relate to the credit risk, liquidity risk and currency risk. There are no other important risks, such as or interest rate risk, because the Group has nearly no financial debt and has a strong cash position. The Group does not buy or trade financial instruments for speculative purposes. For further reference on financial risk management, see [note 38](#) of the notes to the consolidated financial statements. We also refer to the "Risk factors" section of the annual report for additional details on general risk factors.



## The Galapagos share

Galapagos (ticker: GLPG) is listed on Euronext Amsterdam and Brussels since its IPO in May 2005. Galapagos forms part of the BelMid index on Euronext Brussels and was included in the Amsterdam Midcap (AMx) Index on Euronext Amsterdam on 23 March 2015.

### The Galapagos share in 2014

Share price in €



In 2014, average daily trading on Euronext was 68,751 shares and €1.0 million trading value. These levels were similar to those of 2013. GLPYY is a company-sponsored level 1 ADR traded over the counter in the United States since 2008. In 2014, a daily average of 1,898 ADRs were traded over the counter.

### Galapagos vs Next Biotech Index in 2014



### Investor relations activities

Galapagos presented at 20 conferences in 2014 and did a number of broker-organized and self-organized roadshows in the US and Europe. Galapagos presented Full Year results 2014 and its Annual R&D Update via webcasts. The main topics of discussion with investors included the filgotinib DARWIN Phase 2b program and agreement with AbbVie, developments in our cystic fibrosis programs, and Galapagos' cash position going forward.



## Subsequent events

On 12 March 2015, Janssen Pharmaceutica NV and Galapagos NV terminated their research alliance and option agreements to develop and commercialize compounds for the treatment of inflammation initially focusing on RA. All rights to the candidate drugs developed under these agreements are returned to Galapagos.

## Disclaimer and other information

This document, Galapagos' Annual Financial Report 2014, contains all required information as per the Belgian Companies Code.

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 "the Group" or "Galapagos" include Galapagos NV together with its subsidiaries.

According to Belgian law, Galapagos must publish its Annual Financial Report in Dutch. Galapagos also provides an English translation. In case of differences in interpretation, the Dutch version will take precedence. Galapagos is responsible for the translation and conformity between the Dutch and English versions.

This document, including the statutory results of Galapagos NV, is available to the public free of charge and upon request:

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An electronic version of the Annual Financial Report 2014, including the statutory results of Galapagos NV, is available on the website of Galapagos, [www.glpg.com](http://www.glpg.com).

Galapagos will use reasonable efforts to ensure the accuracy of the electronic version, but does not assume responsibility if inaccuracies or inconsistencies with the printed document arise as a result of any electronic transmission. Therefore, Galapagos considers only the printed version of the Annual Financial Report 2014 to be legally valid. Other information on the website of Galapagos or on other websites does not form a part of this Annual Financial Report.

## Forward-looking statements

The Annual Financial Report 2014 may contain forward-looking statements, including, without limitation, statements containing the words "believes," "anticipates," "expects," "intends," "plans," "seeks," "estimates," "may," "will," "could," "stands to," and "continues," as well as similar expressions. Such forward-looking statements may involve known and unknown risks, uncertainties and other factors which might cause the actual results, financial condition, performance or achievements of Galapagos, or industry results, to be materially different from any historic or future results, financial conditions, performance or achievements expressed or implied by such forward-looking statements. 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, unless required by law or regulation.



## R&D

Research &  
Development

“

I get very passionate about my work, and I believe in what I do. I like having the freedom to create, improvise and do new exciting research. My job challenges me every day in different ways.

---

**Dr Christel Menet**

Director Medicinal Chemistry



## The Galapagos pipeline

Program	Disc.	Pre-Cl.	Ph 1	Ph 2	Partner	Status
RA	JAK1	filgotinib			AbbVie	Ph 2b results Q3 '15
IBD	JAK1	filgotinib			AbbVie	Ph 2 results H2 '15
IBD	GPR84	GLPG1205				Ph 2a results H1 '16
CF	CFTR	potentiator GLPG1837		}		Ph 2a results Q3 '15
CF	CFTR	corrector 1 GLPG2222			AbbVie	Ph 1 results H1 '16
CF	CFTR	corrector 2				Lead selection H1 '15
IPF	autotaxin	GLPG1690				Ph 2a start H1 '16

- Partnered
- Galapagos owned

## Novel, 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
- enables us to rapidly analyze all of the drugable genome and select pharmaceutically tractable protein targets directly by their ability to regulate key disease biology

Galapagos' product candidates in Phase 2 clinical development, filgotinib and GLPG1205, both act on targets whose role in the specific disease were discovered

by Galapagos using its discovery platform and are 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 clinical trials. GLPG1205 acts as a GPR84 inhibitor which has shown activity in an inflammatory bowel disease animal model and is currently being tested in a Phase 2 ulcerative colitis trial.

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



## RESEARCH & DEVELOPMENT

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 utilizing high throughput screening technology to screen these protein targets efficiently in human 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 using the discovery platform, of which 16 have novel modes of action. Of these, 10 have entered the clinic, of which seven 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 25 different discovery programs which are advancing toward clinical development. In addition to

additional targets and molecules in RA, IBD, and CF programs, Galapagos is exploring new modes of action in osteoarthritis, metabolic diseases, fibrosis and immune inflammation.

## Filgotinib program in rheumatoid arthritis

### The RA market 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 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 methotrexate 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 on average from 6-12 weeks to take effect, rheumatologists may also couple them with over-the-counter pain medications or non-steroidal anti-inflammatory drugs, or NSAIDs, to treat the pain and inflammation. Despite their serious shortcomings, DMARDs are still considered first-line therapies.



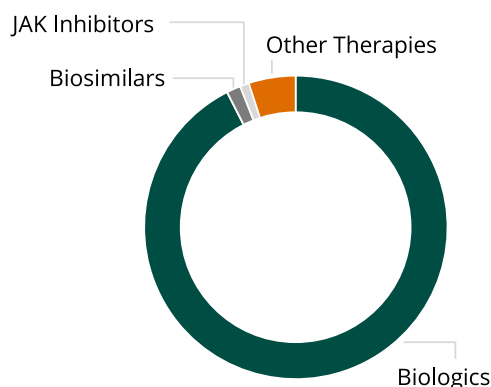


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The development of monoclonal antibodies and biologics represented a significant advance in RA treatment. Biologic therapies involve the use of antibodies or other proteins produced by living organisms to treat disease. In some people with arthritis, the 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. A prospective cohort study of RA patients from a UK national register of new anti-TNF treatments showed that, within 15 months of treatment, 12% cycle to a second anti-TNF due to inefficacy, and 15% cycle to a second anti-TNF due to toxicity. Ultimately, 30% of patients need an alternative to anti-TNF treatment. 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 contraindicated, the oral agent JAK inhibitors and biologics with distinct mechanisms are in development.

### 2013 RA Worldwide Market: \$15.6B



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.

However, despite the prevalence of biologics in the treatment of RA, there continues to be a considerable unmet need with regard to efficacy, including sustained efficacy, safety, and convenience of use with these existing first line treatments.

### The potential of JAK inhibitors

The family of JAKs is composed of four tyrosine kinases, JAK1, JAK2, JAK3 and Tyk2 that are involved in the JAK signaling pathway, which regulates normal hematopoiesis, or blood making, inflammation and immune function. Dysregulation of the JAK signaling pathway has been associated with a number of diseases, including RA, psoriasis and other chronic inflammatory diseases. Accordingly, the JAK family has long been an area of interest for drug developers working in these areas.

A growing body of clinical data suggests that the level of selectivity of a JAK therapeutic is highly correlated to its efficacy and safety profile. For example, JAK1 is known to interact with the other JAKs, among others, to transduce cytokine-driven pro-inflammatory signaling, which leads to inflammation in human tissues. Therefore, inhibition of JAK1 is believed to be of therapeutic benefit for a range of inflammatory conditions as well as for other diseases driven by JAK-mediated signal transduction. In contrast, inhibition of the other three kinases (JAK2, JAK3, and TYK2) may not



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be required for the anti-inflammatory effect, whereas their inhibition may contribute to side effects. For example, inhibition of JAK2 has been linked to anemia, and inhibition of JAK3 to immunosuppression. Non-selective JAK inhibitors have been shown to increase LDL cholesterol. Therefore, the desired efficacy and safety profile of any JAK inhibitor may be directly linked to the selectivity of the product.

In November 2012, Xeljanz was approved by the FDA as the first and only JAK inhibitor for RA approved for commercial sale in the United States. Xeljanz is intended for the treatment of adult patients with RA who have had an inadequate response to, or who are intolerant of, methotrexate. Xeljanz is a small molecule suitable for oral administration and has strong binding affinity for JAK3 and JAK1, and weaker affinity for JAK2. The safety and effectiveness of Xeljanz were evaluated in seven clinical trials in adult patients with moderately to severely active RA. In all of the trials, patients treated with Xeljanz experienced improvement in clinical response and physical functioning compared to patients treated with placebo. However, the use of Xeljanz has been associated with a range of side effects, including anemia (reduced hemoglobin levels) and elevations in both liver enzyme and lipid levels. For example, in controlled clinical trials for Xeljanz, dose-related elevations in lipid parameters (total cholesterol, LDL cholesterol, HDL cholesterol, triglycerides) were observed at one month of exposure, including a 15% increase in LDL cholesterol in the Xeljanz 5 mg twice daily arm, the approved dosage in the United States. Xeljanz was not approved in Europe. Accordingly, there continues to be a significant unmet medical need in RA and other inflammatory diseases for an orally administered approach with a more favorable side effect profile.

### Galapagos' filgotinib program for RA

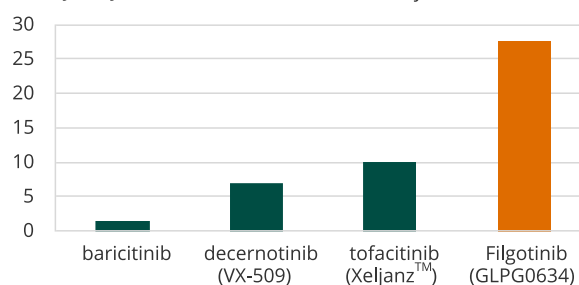
Due to its high selectivity for JAK1, filgotinib may have the potential to offer an improved side effect profile and improved efficacy in RA patients as compared to other JAK inhibitors which are less selective for JAK1. Filgotinib is currently being evaluated in three ongoing Phase 2b trials, which are referred to collectively as DARWIN, in patients with moderate to severe RA who have an inadequate response to methotrexate (MTX) a common first line treatment for RA. Galapagos expects topline results from 12 weeks of treatment in the DARWIN trials (DARWIN 1 and 2) in April 2015 and final results from 24 weeks of treatment in July 2015. In addition,

Galapagos is conducting DARWIN 3, a long-term follow-up trial that allows patients to remain on filgotinib treatment. Of the patients who have completed DARWIN 1 and DARWIN 2, 98% of eligible patients has elected to participate in the DARWIN 3 follow-up trial.

In an in-house human whole blood assay, Galapagos demonstrated that filgotinib was more selective for JAK1 than any other known compound that is either approved for sale or in clinical development, with a 30-fold selectivity for JAK1 over JAK2. Galapagos anticipates that the high selectivity of filgotinib for JAK1 may allow for efficacy equal to or better than that of other approved RA therapies, with an improved safety profile due to less selectivity for JAK2 and JAK3.

### Selectivity of JAK Inhibitors in RA

Ratio JAK1/JAK2 in Human Whole Blood Assay



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

Through the extensive DARWIN clinical programs, Galapagos aims to demonstrate the following clinical and product benefits of filgotinib for the treatment of RA:

- **Safety:** That filgotinib will be well tolerated, will show absence of treatment-induced anemia, will show no increase of LDL/HDL balance and will result in an overall lower infection rate as compared to other approved RA therapies.
- **Efficacy:** That filgotinib will enable rapid onset of action with durable efficacy equal to or better than approved biologics and approaches such as anti-TNFs.
- **Convenience:** That filgotinib will enable oral, once-daily dosing.



- Combination with other therapies: That filgotinib will be able to be safely combined with other therapies commonly prescribed to RA patients, due to its lack of drug-drug interactions.

Filgotinib is currently being evaluated in three ongoing Phase 2b trials in patients with moderate to severe RA and who have demonstrated an inadequate response to MTX. DARWIN 1 and DARWIN 2 are dose finding trials. DARWIN 3 is a long-term follow-up trial that allows patients to roll-over from DARWIN 1 and 2 trials and remain on treatment. These global Phase 2b trials are fully recruited. Topline results after 12 weeks of treatment in the DARWIN studies are expected in April 2015 and final results after 24 weeks of treatment for these studies are expected in July 2015.

Galapagos has an exclusive collaboration agreement with AbbVie to develop and commercialize filgotinib. Under this agreement, Galapagos is responsible for the advancement of three Phase 2 trials in RA and CD. If AbbVie determines that the first two of these trials (DARWIN 1 and 2) meet certain specified criteria, AbbVie will be deemed to have in-licensed the compound. If the specified criteria are not met, AbbVie has the opportunity to elect to in-license the compound following our delivery of the final data package from these trials. Should AbbVie in-license these programs, AbbVie will assume sole responsibility for Phase 3 clinical development, global manufacturing and commercialization of filgotinib. Galapagos retains an option to exercise certain co-promotion rights in the Netherlands, Belgium and Luxembourg, and Galapagos will be entitled to potential future regulatory and commercial milestone payments and royalties on global commercial sales across all approved indications for this compound, if any.

## Galapagos research in inflammatory bowel disease (IBD)

Galapagos is also researching inflammatory bowel disease (IBD): filgotinib in Crohn's disease (CD) and GLPG1205 in Phase 2 addressing a novel target in ulcerative colitis (UC). IBD is a group of inflammatory conditions in the colon and small intestine including CD and UC.

### 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 as a result of 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. To date, there are no oral therapies approved for CD.

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 potential of JAK inhibitors for the treatment of CD

As with RA, dysregulation of the JAK-STAT signaling pathway has been associated with CD. Accordingly, drugs with high selectivity for JAK1 and less selectivity for JAK2 and JAK3 could 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. 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.

Filgotinib is currently in Phase 2 clinical development for CD and has shown favorable activity in pre-clinical models for IBD. Galapagos expects to complete recruitment for FITZROY, our Phase 2 trial in CD with filgotinib, in 2015. Galapagos expects topline results from 10 weeks of treatment in the CD trial in the second half of 2015, followed by the 20 weeks data in Q1 2016. Filgotinib is being developed under an exclusive collaboration agreement with AbbVie, under which Galapagos expects a licensing decision by AbbVie in the second half of 2015.

## UC and limitations of current treatments

UC is an IBD causing chronic inflammation of the lining of the colon and rectum. Unlike CD, UC involves damaging inflammation of only the colon and rectum. The disease often presents in young adulthood. In patients with moderate to severe UC the symptoms include frequent loose bloody stools, anemia, abdominal pain, fever, and weight loss.

Although the introduction of anti-TNF biologics has improved the treatment of some patients, only 33% of patients will achieve long-term remission, and many patients lose their response to treatment over time. The medical need for improved efficacy is high and likely could be achieved by a new mechanism of action.

The ultimate aim in the treatment of UC is to change the natural course of the disease by slowing down or halting its progression, thus avoiding surgery or hospitalization. The current standard treatment for mild-to-moderate UC is 5-aminosalicylates, or 5-ASA. Given either orally or rectally, these drugs work to decrease inflammation in the lining of

the intestines. For patients who do not respond to 5-ASA, other treatment options include corticosteroids, immunomodulators, biological therapies, such as anti-TNF agents, and cyclosporin. Surgery may be necessary for patients with refractory UC. The global market for UC therapies was approximately \$4.2 billion in 2012, and is estimated to grow to \$6.7 billion in 2022, driven primarily by use of biological therapies, according to a September 2014 GlobalData PharmaPoint report.

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

## Galapagos' clinical program for GLPG1205 for UC

GLPG1205 is a selective inhibitor of GPR84, a novel target for inflammatory disorders. GPR84 is a protein involved in the regulation of macrophages, monocytes, and neutrophils in the human immune system and is overexpressed in inflammatory disease patients. GPR84 antagonists such as GLPG1205 present a novel mode of action for the treatment of inflammatory diseases. GLPG1205 targets diseases associated with up-regulation of GPR84 on inflammatory leukocytes, such as IBD and neuro-inflammatory disease, i.e., multiple sclerosis, through once-daily oral dosing. Galapagos identified GPR84 as playing a key role in inflammation, using its target discovery platform and determined in a pre-clinical IBD model that GLPG1205 prevents colitis disease progression. GLPG1205 is fully proprietary, where Galapagos retains all development and commercial rights.

Galapagos initiated ORIGIN, a 60-patient 12-week Phase 2a clinical trial of GLPG1205 in UC and the first patients received treatment in early 2015. The Phase 2a clinical trial is a multi-center, randomized, double-blind, placebo-controlled, exploratory proof-of-concept trial with two parallel 12 weeks of treatment groups in subjects with moderate to severe UC.



## Galapagos programs in cystic fibrosis

### The unmet need in CF

CF is an area of significant unmet medical need for which Galapagos is developing a three-product combination therapy.

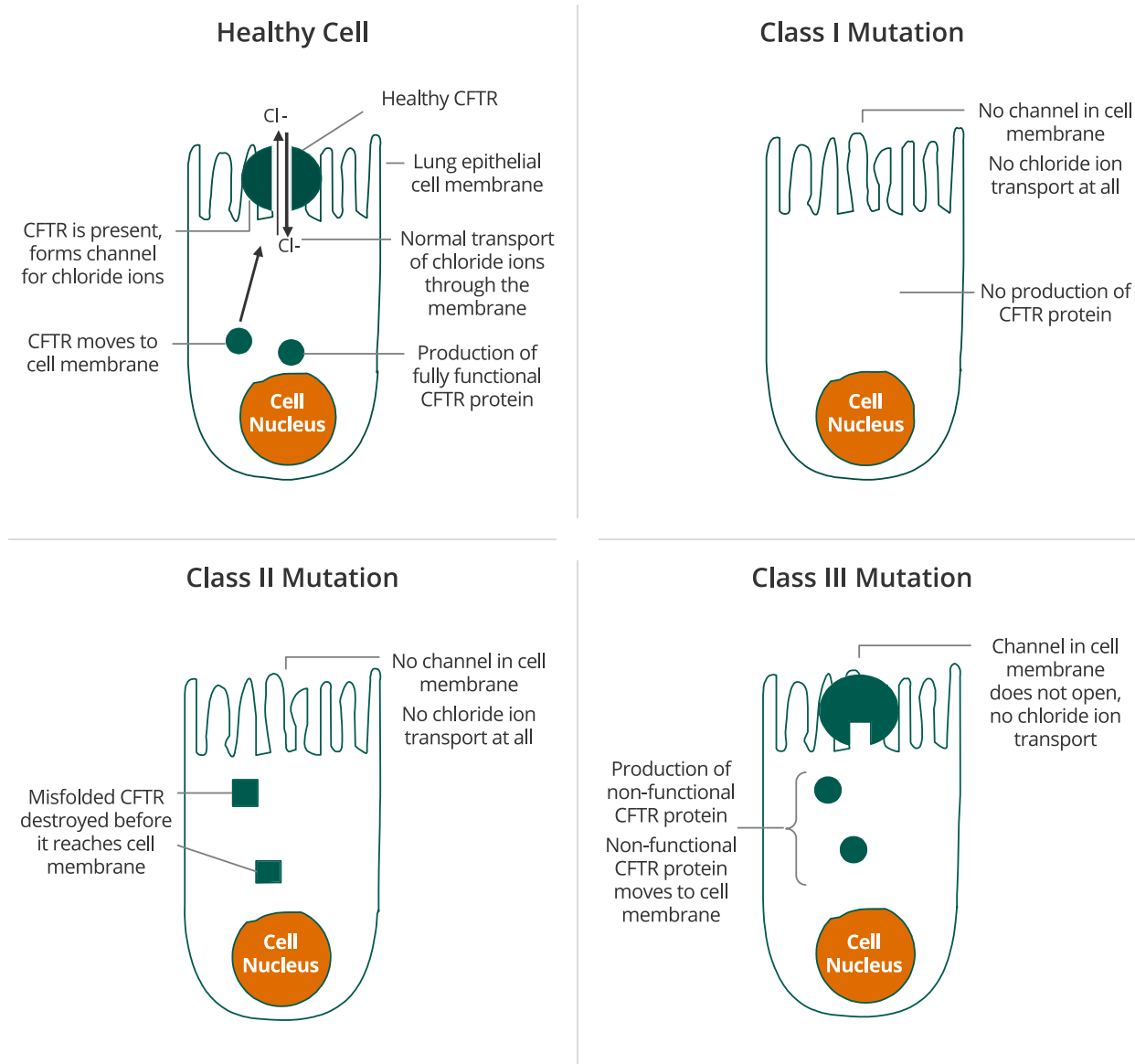
CF is a rare, life-threatening, genetic disease that affects approximately 80,000 patients worldwide. CF is a chronic disease that affects the lungs and digestive system. CF patients, with significantly impaired quality of life, have an average lifespan approximately 50% shorter than the population average, with the median age of death at 37. There currently is no cure for CF. CF patients require lifelong treatment with multiple daily medications, frequent hospitalizations and ultimately lung transplant, which is life-extending but not curative. In the United States, a CF patient on average incurs approximately \$50,000 per year, or \$1,350,000 over his or her lifetime, in outpatient expenses alone and substantial additional costs for frequent hospitalizations. Kalydeco, the only approved therapy for the underlying cause of CF, adds approximately \$300,000 of additional costs per year.

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.

Individuals who carry two copies of a defective CFTR gene, referred to as homozygous, are typically affected by CF and show symptoms of the disease. Individuals who carry one copy of a defective CFTR gene are called carriers. Carriers are typically unaffected by CF and show no symptoms of the disease. Individuals who carry one copy each of two different defective CFTR genes are referred to as heterozygous. They are typically affected by CF and show symptoms of the disease. Today, the majority of CF patients are diagnosed at birth through newborn screening and approximately 92% of diagnosed patients have been genotyped. There are more than 1,900 known mutations in the CFTR gene. Mutations in the CFTR gene can be classified into six classes according to the mode by which they disrupt the synthesis, traffic and function of CFTR, as described in the diagram below.



## CF Mutations



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

The two most prevalent mutations in the CFTR gene are Class II and Class III, including the F508del mutation and the G551D mutation, respectively. In Class II patients, insufficient CFTR reaches the membrane, about 50% of the patients have the F508del mutation on both alleles, the so-called homozygotes. For clinical trials, these patients form a homogenous group. The other 50% of the patients, have the F508del mutation on one allele only and carry another mutation on the second allele, they are called the heterozygotes. Also this other

mutation impairs the correct processing of CFTR. As the group is less homogenous, clinical trials have proven to be more difficult. The F508del mutation is sometimes called a “processing” mutation because it results in a defect in the CFTR protein in which the CFTR protein does not reach the surface of cells in sufficient quantities. The G551D mutation, a Class III mutation, is sometimes called a “gating” mutation because it results in a defect in the CFTR protein in which the defective CFTR protein reaches the surface of a cell but does not efficiently transport chloride ions across the cell membrane. Most therapeutic approaches under development



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for CF target the defects caused by one or both of these mutations. Given the prevalence of the F508del mutation, a compound that corrects the effect of the F508del mutation can, beside for patients with Class II mutations only, also be used for combination therapy approaches in heterozygous patients with Class I and Class III mutations.

### The potential of CFTR modulators (potentiators and correctors) for the treatment of CF

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

Kalydeco, marketed by Vertex, is currently the only approved therapy to address the cause of CF. Kalydeco is an orally-administered CFTR potentiator for the treatment of patients two years of age and older with CF who have the Class III (G551D) gating mutation in their CFTR gene. Kalydeco is designed to keep the CFTR protein channels on the cell surface open longer in order to increase the flow of salt and water into and out of the cell. However, this treatment is limited to the subset of patients who suffer from the Class III and other gating mutations of the CFTR gene. Class III mutations occur in only a small percentage of patients with CF (3%).

In contrast, the Class II F508del mutation affects close to 90% of all CF patients. In these patients, CFTR is not expressed at the cell surface and cannot be potentiated by drugs like Kalydeco (that can only function if CFTR is already present in the cell membrane). Small molecule corrector approaches aim to transport the non-functional Class II CFTR protein to the cell membrane. Other companies currently developing small molecule correctors include Vertex, Pfizer, Flatley Laboratories, Genzyme, Targeted Genetics and Bayer. To date, however, there are no approved corrector molecules on the market.

The Class I mutations affect approximately 7% of all CF patients. This mutation shortens the length of the CFTR protein and leads to complete loss of CFTR function. To date, there are no approved molecules on the market to treat this mutation.

Lumacaftor (VX-809), which is being developed by Vertex, is a small molecule corrector being studied in patients with two copies (homozygous) of the Class II (F508del) mutation in their CFTR gene for use in combination with Kalydeco. In June 2014, Vertex announced that its two Phase 3 clinical trials of lumacaftor, when used in combination with Kalydeco in CF patients homozygous for the Class II (F508del) mutation, showed statistically significant improvement in the trial's primary endpoint of improved lung function, compared to placebo. Vertex also showed statistically significant reductions in pulmonary exacerbations in the pooled analysis of both studies. Other signs of clinical improvement were either limited or not statistically different from placebo.

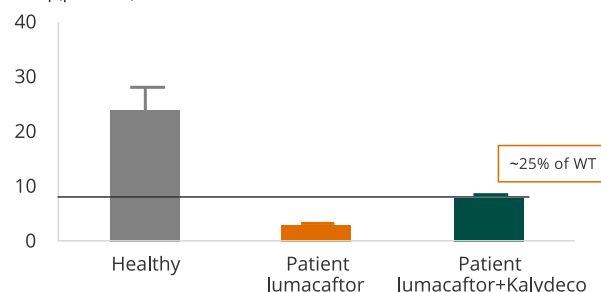
Despite the approval of Kalydeco and the pending approval of Kalydeco/lumacaftor combinations, there is need for better therapies with improved pulmonary function. Though many pediatric patients have normal lung function at the time of diagnosis, physicians generally believe that earlier treatments can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

Galapagos believes that restoration of CFTR function in cellular assays may be predictive of clinical outcomes. Specifically, review of Vertex patient and cellular data has shown strong correlation as reflected in the diagram below.

### F508del – Homozygous for F508del

Treated with: lumacaftor + Kalydeco

$\Delta I_{eq}$  ( $\mu A/cm^2$ )



In the case of patients with F508del mutation, the administration of Kalydeco and lumacaftor combination resulted in approximately 20% restoration of normal, or wild-type, CFTR. The clinical outcome reflected in Vertex's Phase 3



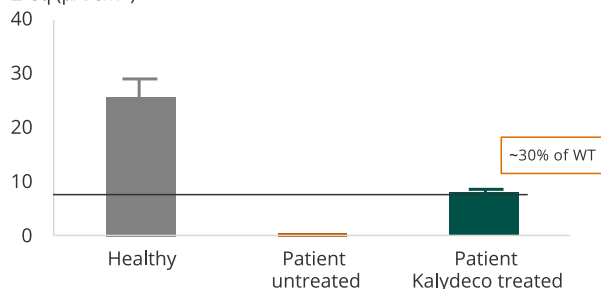
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trial and primary endpoint was that 46% of patients showed an FEV1 improvement of greater than or equal to 5%. Forced expiratory volume (FEV1) levels are a measurement of the volume of air that can be forcibly blown out in one second after full inspiration.

### G551D – Heterozygous G551D with F508del

Treated with: Kalydeco

$\Delta I_{eq}$  ( $\mu A/cm^2$ )



Further, as reflected in the diagram above, for patients with G551D mutation, the administration of Kalydeco resulted in approximately 30% restoration of wild-type CFTR. The clinical outcome reflected in Vertex' Phase 3 trial and primary endpoint was that 75% of patients showed an FEV1 improvement of greater than or equal to 5%.

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

### Galapagos' programs in CF

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

Galapagos' CF modulators may 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 for chronic use, including pediatric application
- no adverse interactions with drugs commonly taken by CF patients, including antibiotics and anti-inflammatory drugs
- effective in homo- & heterozygous patients

Galapagos may be 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 2008 with a broad discovery platform containing highly relevant disease assays starting from cells from CF patients
- collaborative partnership with AbbVie, which is an expert in combination therapies and committed to the CF field

### Galapagos novel modulator combinations for treating CF

Galapagos is developing novel oral corrector-potentiator combinations for the treatment of CF patients with the Class II F508del mutation, including both homozygous and heterozygous patients. The aim is to develop multiple correctors and multiple potentiators for patients with this mutation, and Galapagos has been successful in identifying multiple candidates in each focus area thus far.

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%. A potentiator/corrector combination restoring more than 50% of healthy function CFTR may have a substantially positive impact on the quality of life of Class II patients and may reverse disease.

Galapagos has identified multiple series of novel corrector molecules that enhance the restoration of CFTR in combination with novel potentiator GLPG1837. Based on pre-clinical data, potentiator GLPG1837 may have the potential to offer a superior efficacy and safety profile compared to Kalydeco, important for Class III positioning, but also



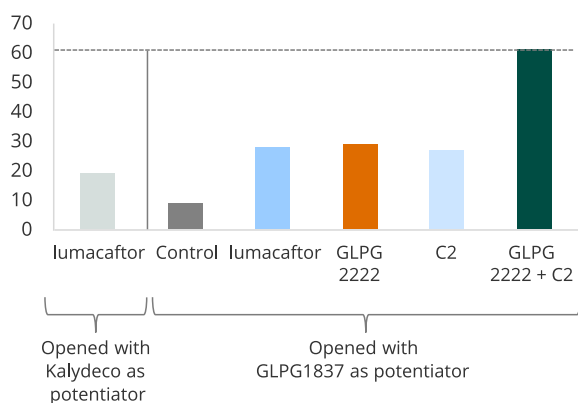


important for forming the potentiator component of superior combination therapies for Class II mutation patients as well. As reflected below, Galapagos' triple combination therapy of GLPG1837 plus corrector candidate GLPG2222 plus other molecules from our other corrector series show up to 60% restoration of wild-type CFTR function in pre-clinical tests, compared to the 20% demonstrated by the Kalydeco/lumacaftor combination. In addition, Galapagos' triple combination therapy could offer the ability to combine with antibiotics and other therapies often prescribed to CF patients, and these molecules appear to have the potential for no drug-drug interaction liabilities, important for CF patients who use multiple medications like antibiotics.

The diagram below is a pre-clinical evaluation of Class II homozygous primary cells.

### Galapagos in-house pre-clinical evaluation of various compounds in lung epithelial cells from Class II mutation patients

% of WTC



Lumacaftor and Kalydeco achieve approximately 20% wild-type restoration on average in this assay. The other bars show potentiator GLPG1837 in combination with lumacaftor, with GLPG2222, and with another corrector candidate, or a combination of GLPG2222 and another corrector candidate, all tested in this assay in the same donor cells. These compounds may make a clinical difference for heterozygous Class II patients. Based on pre-clinical data, potentiator GLPG1837, in combination with GLPG2222 plus other molecules from the C2 corrector series showed a 60% restoration of wild-type, as shown in the diagram above.

## Galapagos' IPF program

With GLPG1690, Galapagos discovered a novel mode of action targeting autotaxin, with potential application in idiopathic pulmonary fibrosis. GLPG1690 completed a Phase 1 first-in-human trial. The randomized, double-blind, placebo controlled, single center trial was conducted in at least 40 healthy volunteers in Belgium. In the first part of the trial, single ascending doses were evaluated. In the second part, the new compound was administered daily for 14 days. GLPG1690 proved to be safe and well-tolerated over a wide dose range in healthy volunteers. Engagement of the autotaxin target was confirmed using a relevant biomarker. GLPG1690 displayed a favorable pharmacokinetic and pharmacodynamic profile. The data shown in Phase 1 encourage Galapagos to explore a Phase 2 study design in IPF, to be filed before end 2015. GLPG1690 is wholly owned by Galapagos.



## Risk factors

Description of  
the risks of which  
investors should be  
aware

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Galapagos is an innovator that discovers and develops novel treatments for patients suffering from diseases with high unmet medical needs.

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**Dr Piet Wigerinck**  
CSO of Galapagos



## RISK FACTORS

### Risks related to Galapagos' financial position and need for additional capital

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Galapagos is a clinical-stage biotechnology company and has not yet generated significant income. Galapagos' operations to date have been limited to developing its technology and undertaking pre-clinical studies and clinical trials of its product candidates.

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

Galapagos will require substantial additional future capital which may not be available to it on acceptable terms, or at all, in order to complete clinical development and, if Galapagos is successful, to commercialize any of its current product candidates. In addition, raising additional capital may cause dilution to Galapagos' existing shareholders, restrict Galapagos' operations or require Galapagos to relinquish rights to its product candidates or technologies. The incurrence of additional indebtedness could result in increased fixed payment obligations and could also result in certain additional restrictive covenants that could adversely impact Galapagos' ability to conduct its business. In the event that Galapagos 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 its rights to technologies or product candidates.

For further reference on financial risks in particular, see [note 38](#) of the notes to the consolidated financial statements.

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

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The Group operates adequate standard operating procedures to secure the integrity and protection of its research and development activities and results, and the optimum allocation of its R&D budgets. The progress of the most important research and development programs is continuously monitored by the Executive Committee; they are discussed with the Board at least once per quarter, and Board members with expertise in clinical and scientific matters occasionally attend meetings with scientific staff to discuss and assess such programs. Nevertheless, due to Galapagos' limited resources and access to capital, Galapagos 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 its business.

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

Galapagos' business and future success is substantially dependent on its ability to develop successfully, obtain regulatory approval for, and then successfully commercialize its product candidate filgotinib and its other product candidates. Galapagos 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 Galapagos may never receive such regulatory approval for any of its product candidates. Galapagos cannot give any assurances that its clinical trials for filgotinib or its other product candidates will be completed in a timely manner, or at all. Galapagos has never completed a Phase 3 trial or submitted an NDA. If filgotinib or any future product candidate is not approved and commercialized, Galapagos will not be able to generate any product revenues for that product candidate.



## RISK FACTORS

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

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

The rates at which Galapagos completes its scientific studies and clinical trials depend on many factors, including, but are not limited to, patient enrolment.

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

Galapagos' 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 Galapagos' product candidates could cause Galapagos 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 Galapagos' business, financial condition and prospects significantly.

## Risks related to Galapagos' reliance on third parties

Galapagos may not be successful in maintaining development and commercialization collaborations, and any partner may not devote sufficient resources to the development or commercialization of Galapagos' product candidates.

The collaboration arrangements that Galapagos 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 its business, results of operations, financial condition and growth prospects. It is possible that a partner may not devote sufficient resources to the development or commercialization of Galapagos' 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 Galapagos' business could be substantially harmed.

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

Galapagos relies on third parties to conduct its pre-clinical studies and clinical trials.

Galapagos has relied upon and plans to continue to rely upon contract research organizations ("CROs") to monitor and manage data for its pre-clinical and clinical programs. Galapagos and its CROs also rely upon clinical sites and investigators for the performance of its 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



## RISK FACTORS

or meet quality standards, regulatory requirements or expected, Galapagos' clinical trials may be extended, delayed or terminated and Galapagos may not be able to obtain regulatory approval for or successfully commercialize its product candidates.

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

As part of its strategy to mitigate development risk, Galapagos seeks to develop product candidates with validated mechanisms of action and it 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 Galapagos relies upon prove to be inaccurate, unreliable or not applicable to its product candidates, Galapagos could make inaccurate assumptions and conclusions about its product candidates and its research and development efforts could be materially adversely affected.

### Risks related to Galapagos' competitive position

Galapagos faces significant competition for its drug discovery and development efforts, and if it does not compete effectively, its commercial opportunities will be reduced or eliminated.

The biotechnology and pharmaceutical industries are intensely competitive and subject to rapid and significant technological change. Galapagos' 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. In addition, Galapagos' ability to develop competitive products would be limited if its competitors succeeded in obtaining regulatory approvals for drug candidates more rapidly than Galapagos were able to or in obtaining patent protection or other intellectual property rights that limited Galapagos' drug development efforts.

### Risks related to Galapagos' intellectual property

Galapagos' ability to compete may decline if Galapagos does not adequately protect its proprietary rights.

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

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

Pharmaceutical patents and patent applications involve highly complex legal and factual questions, which, if determined adversely to Galapagos, 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, the European Patent Office, and other foreign counterparts are sometimes uncertain and could change in the future. If Galapagos fails to obtain and maintain patent protection and trade secret protection of its product candidates, it could lose its competitive advantage and competition Galapagos faces would increase, reducing any potential revenues and adversely affecting its ability to attain or maintain profitability.



## RISK FACTORS

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

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

### Risks related to Galapagos' organization, structure and operation

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

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

risk has a high potential impact, but is mitigated by policies and procedures such as surveillance of the buildings, annual appraisals and bonuses, and monthly management meetings.

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

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

Galapagos may undertake strategic acquisitions in the future and any difficulties from integrating such acquisitions could adversely affect Galapagos' share price, operating results and results of operations. Galapagos may acquire companies, businesses and products that complement or augment its existing business. Galapagos 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 Galapagos predicts. As part of its efforts to acquire companies, business or product candidates or to enter into other significant transactions, Galapagos conducts business, legal and financial due diligence with the goal of identifying and evaluating material risks involved in the transaction. Despite its efforts, Galapagos ultimately may be unsuccessful in ascertaining or evaluating all such risks and, as a result, might not realize the intended advantages of the transaction.



## RISK FACTORS

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

As a company active in research and development in Belgium and France, Galapagos 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, Galapagos' results of operations could be adversely affected. Galapagos 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 Galapagos is unable to qualify for such advantageous tax legislation, its business, results of operations and financial condition may be adversely affected.

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

Galapagos annually establishes a detailed budget that is submitted to the Board of Directors for review and approval. The Group's performance compared to the budget is continuously monitored by the Executive Committee and is discussed with the Board at least once per quarter. For the establishment of its financial information, the Group has processes and methods in place that enable the preparation of consolidated financial statements for its annual and mid-year reporting, and more often if required. The Group's management reporting systems – which include an advanced integrated ERP system – secure the generation of consistent financial and operational information, allowing

management to follow-up the Group's performance on a daily basis.

## Market risks relating to the Galapagos shares

Galapagos has identified the following major market risks:

### ■ Possible volatility of share price

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

### ■ Economic risk due to failure in confidence

General public confidence about future economic conditions or performance of Galapagos or its suppliers or customers may impact the ability or willingness of others to trade with Galapagos

### ■ Dilution through exercise of warrant plans

The exercise of existing warrants can significantly increase the number of outstanding Galapagos shares

### ■ Inability to distribute dividends

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

### ■ Reputational damage

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

### ■ Belgian law provisions

There are several provisions of Belgian company law and certain other provisions of Belgian law, such as the obligation to disclose important shareholdings and merger control, that may apply to Galapagos and which may make an unfriendly tender offer, merger, change in management or other change in control, more difficult.



## RISK FACTORS

These provisions could discourage potential takeover attempts that third parties may consider and thus deprive the shareholders of the opportunity to sell their shares at a premium (which is typically offered in the framework of a takeover bid)

## General statement about Galapagos Group risks

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





# Corporate governance

Corporate governance at Galapagos in 2014



Filgotinib and our cystic fibrosis programs were at the top of investors' agendas in 2014. Going forward, we see investors asking more often about our platform that generated these successes.

**Elizabeth Goodwin**

Head of Corporate Communications and Investor Relations



## Galapagos' corporate governance policies

Galapagos has adopted the Belgian Corporate Governance Code 2009 (which can be consulted on [www.corporategovernancecommittee.be](http://www.corporategovernancecommittee.be)) as its reference code. Galapagos NV's Board of Directors approved a Corporate Governance Charter. The Corporate Governance Charter, which is available on Galapagos' website [www.glp.com](http://www.glp.com), is applicable in addition to the law, Galapagos NV's articles of association and the corporate governance provisions included in the Belgian Companies Code and the Belgian Corporate Governance Code 2009.

The Corporate Governance Charter includes the following specific rules and charters:

- Charter of the Board of Directors
- Charter of the Audit Committee
- Charter of the Nomination- and Remuneration Committee
- Charter of the Executive Committee
- Dealing Charter (which provides procedures and guidelines to prevent abuse of insider information and to prevent insider trading and market manipulation).

The Board of Directors strives to comply with the rules of the Belgian Corporate Governance Code 2009 as much as possible. At the same time, the Board of Directors is of the opinion that Galapagos can be justified in not adhering to certain provisions of the Belgian Corporate Governance Code 2009, in view of the activities of Galapagos, its size and the specific circumstances in which Galapagos operates. In such cases, which are mentioned in this corporate governance statement, Galapagos applies the "comply or explain" principle. Reference is made to the "[Remuneration of non-executive Directors of Galapagos NV](#)" section and the "[Shares, warrants or other rights to acquire shares awarded to, exercised by or expired for the Galapagos NV Executive Committee members during financial year 2014](#)" section.

In addition to the information set out below, we refer to the "[Risk management](#)" and "[Risk factors](#)" sections of this report for a description of the most important characteristics of the

internal control and risk management systems of Galapagos. The "Risk Management" and "Risk Factors" sections are incorporated by reference in this corporate governance statement.

## Board of Directors of Galapagos NV

### Current composition of Galapagos NV's Board of Directors

**Onno van de Stolpe** founded Galapagos NV in 1999 and has served as our Chief Executive Officer and a member of the Board of Directors from 1999 to the present. From 1998 to 1999, he was the Managing Director of Genomics at IntroGene B.V. (later Crucell N.V., which was acquired by Johnson & Johnson Services, Inc. in 2011). Prior to joining IntroGene in 1998, he was Managing Director of Molecular Probes Europe B.V. He established the European headquarters after joining Molecular Probes, Inc. in the United States. Previously, he worked for The Netherlands Foreign Investment Agency in California, where he was responsible for recruiting biotechnology and medical device companies to locate in The Netherlands. Onno started his career as Manager of Business Development at MOGEN International N.V. in Leiden. He received an MSc degree from Wageningen University. Onno 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 has served as the Chairman of Galapagos NV's Board of Directors since 2004. Raj is a General Partner at Advent Life Sciences LLP, which he joined in 2005. During an academic career at Oxford University, he co-founded Oxford GlycoSciences PLC, where he served as Chief Scientific Officer and Chief Executive Officer from 1988 until its sale to Celltech Group PLC (now UCB SA) in 2003. He has founded or served on the boards of several life sciences companies in the United States and Europe including Celldex Therapeutics, Inc.; Avila Therapeutics, Inc.; EUSA Pharma (Europe) Limited; Thiakis Limited; and Amsterdam Molecular Therapeutics (AMT) Holding N.V. (now uniQure). Raj currently serves as a member of the board of directors of Cellnovo



## COPORATE GOVERNANCE

Limited, PE Limited, F<sub>2</sub>G Limited, LuxFold S.A., Biocartis NV and Levicept Limited. In addition, he serves as a member of the board of directors of Advent Management IV Limited, Advent Management Life Sciences Limited, Advent Life Sciences Services Limited and is a general partner of Advent Venture Partners LLP. 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 4-Antibody AG, NeRRe Therapeutics Limited and CoCo Therapeutics Limited. He received his MA in Biochemistry and DPhil in Molecular Medicine from the University of Oxford, where he has also been a Senior Research Fellow and Professor.

**Harrold van Barlingen**, Ph.D. has served as a member of Galapagos NV's Board of Directors since 2005. Harrold is the managing director and founder of Thuja Capital 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 AlInvest Partners B.V. from 2001 to 2006, managing a portfolio of over 30 companies. Previously, he was at the Boston Consulting Group ("BCG") where he worked as a consultant in management and strategy from 1999 to 2002. Prior to BCG, he headed the continental activities of The Lewin Group (a Quintiles subsidiary), an internationally active firm specialized in the field of health economics. He holds an MSc in Medical Biology and a PhD in Medicine, both from Utrecht University. From 1991 to 1992 he was a visiting scientist at the University of Chicago. He is the author of a wide variety of peer-reviewed scientific and pharmacoeconomics papers. He currently serves on the supervisory boards of Encare Biotech B.V., TheraSolve NV (chairman), Hemics B.V. (chairman) and arGEN-X N.V. (ARGX, Euronext). In addition, during the last five years he also served on the boards of Okapi Sciences NV and Curacyte GmbH.

**Werner Cautreels**, Ph.D. has served as a member of Galapagos NV's Board of Directors since 2009. Werner is the President, Chief Executive Officer and member of the board of Selecta Biosciences, Inc. Previously, he joined Solvay Pharmaceuticals SA in 1998 where he was Global Head of R&D and later Global Chief Executive Officer from 2005 onwards, until it was acquired by Abbott Laboratories Inc. in February 2010. Prior to joining Solvay he was employed by Sanofi 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. He graduated from the University of Antwerp, with a Doctorate in Chemistry,

specializing in mass spectrometry. He received his management and financial education from the Harvard Business School. Werner currently serves as a member of the board of directors of Seres Health, Inc.

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

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



## About Galapagos NV's Board of Directors

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

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

Except for Mr. Onno van de Stolpe, all Board members are non-executive Directors. In 2014, the following persons were members of the Board: Dr. Raj Parekh (Chairman), Ir. Onno van de Stolpe (CEO), Dr. Harrold van Barlingen, Dr. Werner Cautreels, Mr. Howard Rowe, Dr. Vicki Sato (until 31 December 2014) and Ms. Katrine Bosley; the latter four Directors were appointed as independent Directors within the meaning of article 526<sup>ter</sup> of the Belgian Companies Code.

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

In 2014, the Board of Directors held 4 regular meetings, 10 meetings by telephone conference to discuss specific matters and 2 meetings in the presence of a notary (relating to the issuance of Warrant Plan 2014 and the issuance of Warrant Plan 2014 (B)).

The attendance rate (in person or by written proxy to a fellow Director) for the Board members in function at 31 December 2014 was as follows: Dr. Parekh 100%, Mr. Van de Stolpe 100%, Dr. Van Barlingen 94%, Mr. Rowe 94%, Dr. Cautreels 94%, Dr. Sato 94% and Ms. Bosley 100%. The overall attendance rate was 97%. In addition, certain Board members (including Dr.

Cautreels and Dr. Sato) also attended a number of review meetings with scientific staff of the Group.

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

During 2014, Galapagos complied with the Law of 28 July 2011 with respect to gender diversification in the Board of Directors, and the Board will continue to monitor future compliance. The Board will take gender diversity into account as one of the key factors in its search for candidates to fill the vacancy on the Board that was created by Dr. Sato's resignation as a Director effective as of 31 December 2014.

## Committees of Galapagos NV's Board of Directors

The Board of Directors has installed an Executive Committee, an Audit Committee and a Nomination and Remuneration Committee.

### Executive Committee

#### Current composition of Galapagos NV's Executive Committee



**Onno van de Stolpe** founded Galapagos NV in 1999 and has served as our Chief Executive Officer and a member of the Board of Directors from 1999 to the present. From 1998 to 1999, he was the Managing Director of Genomics at IntroGene B.V. (later Crucell N.V., which was acquired by Johnson & Johnson Services, Inc. in 2011). Prior to joining IntroGene in



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1998, he was Managing Director of Molecular Probes Europe B.V. He established the European headquarters after joining Molecular Probes, Inc. in the United States. Previously, he worked for The Netherlands Foreign Investment Agency in California, where he was responsible for recruiting biotechnology and medical device companies to locate in The Netherlands. Onno started his career as Manager of Business Development at MOGEN International N.V. in Leiden. He received an MSc degree from Wageningen University. Onno 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.



**Piet Wigerinck, Ph.D.** joined Galapagos in April 2008 from Tibotec-Virco Comm. VA (a subsidiary of Johnson & Johnson Services, Inc.) where he was the Vice President, Drug Discovery, Early Development and CM&C, and a member of the Management Board. He started his professional career as a medicinal chemist at Janssen Research Foundation in 1992. He then joined Tibotec Group NV in 1998, where, under his leadership, TMC114 (Prezista<sup>TM</sup>) and TMC435 (Olysio<sup>TM</sup>) were selected and moved forward into clinical trials. Piet 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 15 years of research and development experience from both large pharmaceutical companies and biotechnology companies to our company. Piet holds a Ph.D. from the K.U. Leuven and is inventor on more than 25 patent applications.



**Bart Filius, MBA** has served as our Chief Financial Officer since December 2014. Prior to that, Bart worked over 13 years at Sanofi S.A. since 2001, where he was the Chief Financial Officer of Sanofi Europe during the last three years. Earlier at Sanofi, he was the Country Manager and Chief Financial Officer of Sanofi in The Netherlands. Before that, he was Vice President for Mergers & Acquisitions, during which time he led and completed the divestiture of various franchises. Prior to joining Sanofi, he was a strategy consultant at Arthur D. Little. Bart has an MBA degree from INSEAD and a bachelor's degree in business from Nyenrode Business University.



**Andre Hoekema, Ph.D.** is responsible for M&A, licensing and Intellectual Property at Galapagos. He had the lead in rolling out our pharmaceutical alliance strategy since its start in 2006, and is the architect of our two collaborations with AbbVie (filgotinib and CF). Andre joined Galapagos in March 2005 from Invitrogen Corporation, where he was Managing Director of Corporate Development Europe, overseeing licensing and M&A for Invitrogen Europe. He brings 20 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). Andre studied Chemistry and holds a Ph.D. from Leiden University. During his Ph.D. work, he invented the binary vector system for the



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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.

### **About the Executive Committee of Galapagos NV**

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

On 31 December 2014, the Executive Committee consisted of four people: Mr Van de Stolpe (CEO, also executive Director), Dr Andre Hoekema (Senior Vice President, Corporate Development), Dr Piet Wigerinck (Chief Scientific Officer) and Mr Bart Filius (CFO, starting from 1 December 2014). Mr David Smith (former CEO, Galapagos Services) was a member of the Executive Committee until 1 April 2014 and Mr Guillaume Jetten (former CFO) was a member of the Executive Committee until 1 May 2014.

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

### **Audit Committee**

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

At the end of 2014, the Audit Committee consisted of the following three Directors: Dr Cautreels (Chairman), Dr Van Barlingen and Mr Rowe. All members of the Audit Committee are non-executive Directors, the majority of whom are independent. The Chairman is an independent non-executive Director and has extensive experience in financial matters (including general accounting and financial reporting) and in

matters of audit, internal control and risk control. The other members have extensive experience in these matters as well.

In 2014, the Audit Committee held 6 meetings, in which it dealt with matters including audit review and risk management. The Audit Committee acts as a collegial body. The overall attendance (present or represented) at the Audit Committee meetings in 2014 was 100%. Some of the meetings were attended by the Statutory Auditor.

### **Nomination and Remuneration Committee**

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

At the end of 2014, the Nomination and Remuneration Committee consisted of the following three non-executive Directors: Dr Parekh (Chairman), Dr Sato and Ms. Bosley, the majority of whom are independent Directors. Following Dr Sato's resignation effective as of 31 December 2014, Dr Cautreels joined the Nomination and Remuneration Committee. The Committee has the necessary expertise in the area of remuneration policy.

The Nomination and Remuneration Committee meets at least twice per year. In 2014, the Nomination and Remuneration Committee made recommendations on 4 occasions, dealing with matters including grants of warrants and bonuses, the appointment of Mr Bart Filius as CFO, the review of Galapagos' remuneration policy and salary increases. The Nomination and Remuneration Committee acts as a collegial body. The overall attendance rate (present or represented) at the Nomination and Remuneration Committee meetings in 2014 was 100%. The CEO attended the meetings of this Committee when the remuneration of the other members of the Executive Committee was discussed.



## Composition of Board Committees (excluding Executive Committee)

	Audit Committee	Nomination and Remuneration Committee
Onno van de Stolpe		
Raj Parekh		*
Harrold van Barlingen	●	
Werner Cautreels <sup>1</sup>	*	●
Howard Rowe <sup>1</sup>	●	
Katrine Bosley <sup>1</sup>		●

● denotes committee membership

\* denotes committee chairmanship

<sup>1</sup> denotes qualification as an independent director within the meaning of article 526 *ter* of the Belgian Companies Code

## Galapagos NV's share capital and shares

### Share capital increases and issue of shares by Galapagos NV in 2014

On 1 January 2014, the share capital of Galapagos NV amounted to €161,171,635.86 represented by 29,794,046 shares. In the course of 2014 there were four capital increases resulting from the exercise of warrants, resulting in the issuance of 505,083 new shares, an increase of the share capital by €2,732,499.03 and an increase of the issuance premium account by €1,697,217.99. At the end of 2014, the total share capital of Galapagos NV amounted to €163,904,134.89 represented by 30,299,129 shares.

On 25 July 2014, the Board of Directors issued 571,660 warrants (after acceptances) within the framework of the authorized capital, for the benefit of the Directors and an independent consultant of Galapagos NV, and of employees of the Group under a new warrant plan ("Warrant Plan 2014"). The offer of warrants to the Directors under Warrant Plan 2014 was approved by the Annual Shareholders' Meeting of 29 April 2014. The warrants issued under Warrant Plan 2014 have a term of eight years and an exercise price of €14.54.

On 14 October 2014, the Board of Directors issued 150,000 warrants (after acceptances) within the framework of the authorized capital, under a new warrant plan ("Warrant Plan

2014 (B)"), for the benefit of Mr. Bart Filius, who joined the Executive Committee as CFO. The warrants issued under Warrant Plan 2014 (B) have a term of eight years and an exercise price of €11.93.

### Number and form of Galapagos shares

Of the 30,299,129 shares of Galapagos NV outstanding at the end of 2014, 538,696 were registered shares and 29,760,433 shares were dematerialized shares (of which 760 shares were automatically converted into dematerialized shares on 1 January 2014 pursuant to the Belgian legislation on the abolition of bearer shares). All shares are issued and fully paid up and are of the same class.

### Rights attached to Galapagos shares

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

### Galapagos NV's authorized capital

In accordance with the articles of association, the Extraordinary Shareholders' Meeting of Galapagos NV authorized the Board of Directors to increase the share capital of Galapagos NV, in one or several times, and under certain conditions set forth *in extenso* in the articles of association of Galapagos NV. This authorization was renewed and is valid for a period of five years from the date of this renewal, i.e. 23 May 2011. The Board of Directors may increase the share capital of Galapagos NV within the framework of the authorized capital for an amount of up to €142,590,770.44. In 2014, Galapagos NV's Board of Directors made use of the right to increase the capital in the framework of the authorized capital on two occasions: (1) on 25 July 2014, in connection with the issuance of Warrant Plan 2014 under which a maximum of 571,660 new shares can be issued for a total maximum capital increase of €3,092,680.60 (plus



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issuance premium); and (2) on 25 October 2014, in connection with the issuance of Warrant Plan 2014 (B) under which a maximum of 150,000 new shares can be issued for a total maximum capital increase of €811,500.00 (plus issuance premium). On 31 December 2014, an amount of €117,826,922.83 still remained available under the authorized capital.

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

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

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

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

### **Purchase and sale of Galapagos treasury shares**

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

represented at such meeting. The aforementioned rules are also applicable to the acquisition of shares of Galapagos NV by its subsidiaries.

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

On 31 December 2014, neither Galapagos NV nor any subsidiary of Galapagos NV held any shares in Galapagos NV, nor did any third party hold any shares in Galapagos NV on behalf of Galapagos NV or any of its subsidiaries either.

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

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

### **Anti-takeover provisions under Belgian law**

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

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

Pursuant to the Belgian Companies Code, any amendment to the articles of association, such as an increase or decrease in the share capital of Galapagos NV, and certain other matters, such as the approval of the dissolution, merger or de-merger





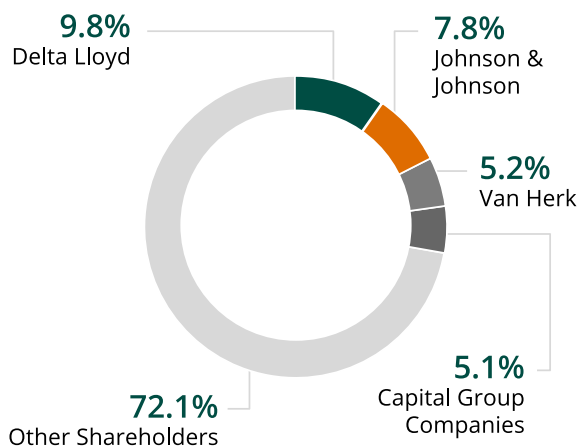
of Galapagos NV may only be authorized with the approval of at least 75% of the votes validly cast at an Extraordinary Shareholders' Meeting where at least 50% of Galapagos NV's share capital is present or represented. If the attendance quorum of 50% is not met, a new Extraordinary Shareholders' Meeting must be convened at which the shareholders may decide on the agenda items, irrespective of the percentage of share capital present or represented at such meeting.

## Shareholders

### Major shareholders of Galapagos NV

Based on the transparency notifications received by Galapagos NV, the shareholders owning 5% or more of its shares on 31 December 2014 were Delta Lloyd N.V. (2,954,890 shares), Johnson & Johnson (2,350,061 shares), Van Herk Investments B.V. (1,586,727 shares) and The Capital Group Companies, Inc. (1,554,436 shares).

### Transparency notice shareholders on 31 Dec 2014



Since 31 December 2014, Galapagos has received (i) a transparency notification from Delta Lloyd N.V. notifying the reduction of its shareholding below the statutory 5% threshold on 14 January 2015 and (ii) a transparency notification from BNP Paribas notifying that the shareholding of entities under their control exceeded the statutory 5% threshold on 30 January 2015. A pie chart representing our major shareholders based on transparency notifications received to date is available on Galapagos' website, [www.glp.com](http://www.glp.com).

At the end of 2014, the CEO owned 364,226 Galapagos shares and 765,000 warrants. The other members of the Executive Committee held an aggregate of 20,352 shares and 680,000 warrants. The other members of the Board held an aggregate of 6,800 shares and 199,070 warrants. Each warrant entitles its holder to subscribe to one share of Galapagos NV.

### Agreements between Galapagos NV shareholders

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

### Agreements with major Galapagos NV shareholders

On 23 October 2007, Galapagos NV entered into the Rheumatoid Arthritis Research Alliance and Option Agreement and the Reserved Program Option Agreement with Janssen Pharmaceutica NV, an affiliate of Johnson & Johnson. These agreements were terminated in March 2015 (see "Subsequent events").

Throughout 2014 there were no lock-up agreements in effect between Galapagos NV and any of its shareholders.

## Remuneration report

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

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

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



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

### Galapagos' remuneration policy

#### Principles

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

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

The remuneration of the CEO (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 the Group's 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 of Directors, and the objectives of the other members of the Executive Committee are established annually by the CEO and are in relation to the corporate objectives set by the Board. For 2014 the corporate objectives included elements of revenue, operating profitability, clinical trial progression and business development; all of these objectives were considered to be of equal importance. The level of achievement of the objectives

for the CEO is reviewed at the end of each year by the Nomination and Remuneration Committee and discussed and finally established by the Board, and the level of achievement of the objectives of the other members of the Executive Committee is assessed by the CEO at the end of the year in connection with appraisal discussions, discussed by the Nomination and Remuneration Committee and finally established by the Board of Directors.

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

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

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

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

#### Relative importance of the various components

The CEO's bonus under the Senior Management Bonus Scheme can be maximum 100% of the fixed part of his annual remuneration of the year for which the bonus is awarded. The aggregate bonuses of the other members of the Executive Committee under the Senior Management Bonus Scheme can be maximum 60% of the total amount of the fixed part of



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their aggregate annual remuneration of the year for which the bonus is awarded. In addition, the CEO and/or the other members of the Executive Committee enjoy a number of benefits such as pension payments, insurances and other fringe benefits, the monetary value of which is, however, limited.

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

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

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

Galapagos currently has no plans to substantially deviate from the remuneration policy used in 2014 and the years before, as described above, in the next two financial years.

### **Remuneration of non-executive Directors of Galapagos NV**

Pursuant to the decision of the Annual Shareholders' Meeting of 29 April 2014, 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, upon recommendation of the Nomination and Remuneration Committee, the allocation of the aggregate annual remuneration for Directors as follows: (a) remuneration for non-executive directors who do not represent a shareholder (Dr. Van Barlingen and Mr. Rowe): €20,000; (b) remuneration for non-EU-based Directors (who do not represent a shareholder) and/or for Directors who actively and on a regular basis provide independent clinical, scientific and/or transactional advice to the Board of Directors (Dr. Cautreels, Dr. Sato and Ms. Bosley): €40,000; (c) additional remuneration for the chairman of the Audit Committee (Dr. Cautreels): €5,000. The aforementioned levels

of remuneration are a continuation of the fees as paid in previous years.

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 2014).

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 several years ago, under which he receives an annual fee of £50,000 as compensation for giving strategic advice.

The Board of Directors resolved to issue the Warrant Plan 2014 for the benefit of employees of the Group and of the Directors and one independent consultant of Galapagos NV. In accordance with the resolution of the Annual Shareholders' Meeting of 29 April 2014, the following number of warrants were offered under such Plan to the non-executive Directors: Dr. Parekh: 5,400 warrants; Dr. Cautreels: 3,780 warrants; and Ms. Bosley, Dr. Van Barlingen, Mr. Rowe and Dr. Sato: each 2,520 warrants. All Directors accepted the warrants. These warrants have a term of eight years. The exercise price of the warrants is €14.54. As regards the Directors, the warrants vest over a period of 36 months at a rate of 1/36th per month. The warrants cannot be transferred and cannot be exercised prior to the end of the third calendar year following the year of the grant. The Board of Directors does not consider these warrants as variable remuneration as defined by the Belgian Companies Code as they are not subject to any performance-related criteria.

The Board of Directors points out that provision 7.7 of the Belgian Corporate Governance Code 2009 stipulates that non-executive Directors should not be entitled to performance-related remuneration such as stock-related long-term incentive schemes. In deviation from this provision, the Board of Directors has decided to grant warrants to non-executive Directors. This way, Galapagos has additional possibilities to attract competent non-executive Directors and to offer them an attractive additional remuneration that does not affect Galapagos' cash position. Furthermore, the



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grant of warrants is a commonly used method in the sector in which Galapagos operates. Without this possibility, Galapagos would be confronted with a considerable disadvantage compared to competitors who do offer stock-related incentive schemes to their non-executive Directors. The Board of Directors is of the opinion that the granting of warrants has no negative impact on the functioning of the non-executive Directors.

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

### Remuneration of executive Directors of Galapagos NV

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

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

The executive Director (CEO) and the members of the Executive Committee are eligible for performance-based remuneration (bonus). The level of the achieved bonus is established annually by the Board of Directors on the basis of proposals from the Nomination and Remuneration Committee (whose proposals are based on recommendations by the CEO for the other members of the Executive Committee). The award of a bonus is merit-driven and based on the Group's performance rating system that is based on annual individual performance (including exceptional deliverables) in combination with 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 of Directors, and the objectives of the other members of the Executive Committee are established annually by the CEO. For 2014 the corporate objectives included elements of revenue, operating profitability, clinical trial progression and business

development; all of these objectives were considered to be of equal importance. Each of the corporate objectives is clear and measurable so that it is easy to determine whether or not a specific objective has been achieved or not.

### Gross remuneration of Galapagos' CEO for financial year 2014

- i. Base salary (fixed): €428,491.
- 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 2014), a bonus of €268,000 (i.e. 60% of the 2014 base salary) was awarded over 2014 of which 50% was paid early January 2015, and the other 50% was deferred for 3 years. 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.
- iii. Pension: €65,244.
- iv. Other components of the remuneration: company car and payments for invalidity and healthcare cover, totaling €19,900.

In its meeting of 17 December 2014 (in application of Article 523 of the Belgian Companies Code 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 2% as from 2015. The principles applied for such increase were in line with the Remuneration Policy described above.

### Aggregate gross remuneration of the other Galapagos NV Executive Committee members for financial year 2014

- i. Base salaries (fixed): €723,107.
- 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 2014), an aggregate bonus of €200,000 (i.e. 60% of the aggregate bonus pot for the incumbents in function on 31 December 2014) was awarded over 2014 of which 50% was paid early January 2015, and the other 50% was deferred for 3 years. In addition, an aggregate amount of €34,686 was paid to Mr. Smith as an exceptional special bonus in connection



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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.

- iii. Pensions: €118,610.
- iv. Other components of the remunerations: company cars, payments for invalidity and healthcare cover, and other fringe benefits, totaling €31,078.

The amounts in this section include normal payments for compensation and benefits made to Mr. David Smith and Mr. Guillaume Jetten, who both ceased to be a member of the Executive Committee, until the date of cessation of their mandate as Executive Committee member, i.e. until 1 April 2014 and 1 May 2014 respectively.

In its meeting of 17 December 2014 the Board of Directors resolved, upon recommendation of the Nomination and Remuneration Committee, to implement salary increases as from 2015 for the members of the Executive Committee generally in line with the increases awarded in previous years, based on individual performance and taking into account relevant benchmarks. The principles applied for such increases were in line with the Remuneration Policy described above.

### **Shares, warrants or other rights to acquire shares awarded to, exercised by or expired for the Galapagos NV Executive Committee members during financial year 2014**

In 2014, 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 2014 and, in aggregate, 112,500 warrants were exercised by members of the Executive Committee in 2014 (30,000 warrants were exercised by Onno van de Stolpe, 5,000 warrants by Piet Wigerinck, 2,500 warrants by Andre Hoekema and 75,000 warrants by former Executive Committee member Guillaume Jetten. 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 2014: (i) under the Warrant Plan 2014, issued by the Board of Directors under the authorized capital on 25 July 2014, to

each of Dr. Hoekema and Dr. Wigerinck: 40,000 warrants and to Mr. Van de Stolpe: 100,000 warrants; and (ii) under the Warrant Plan 2014 (B), issued by the Board of Directors under the authorized capital on 14 October 2014, to Mr. Bart Filius (who joined the Executive Committee per 1 December 2014): 150,000 warrants.

The warrants issued under Warrant Plan 2014 have an exercise price of €14.54 per warrant, a life time of 8 years, and vest only and fully at the end of the third calendar year after the year of the grant, except for Mr. Van de Stolpe, whose warrants vest over a period of 36 months at a rate of 1/36th per month. The warrants cannot be exercised prior to the end of the third calendar year after the year of the grant; they are not transferable, and each warrant gives the right to subscribe to one share of Galapagos NV.

The warrants issued under Warrant Plan 2014 (B) have an exercise price of €11.93 per warrant, a life time of 8 years, vest only and fully at the end of the third calendar year after the year of the grant, cannot be exercised prior to the end of the third calendar year after the year of the grant, are not transferable, and each warrant gives the right to subscribe to one share of Galapagos NV.

At the end of 2014, the CEO owned 364,226 shares of Galapagos NV and 765,000 warrants. The other members of the Executive Committee in function on 31 December 2014 held an aggregate of 20,352 shares and 680,000 warrants. The other members of the Board held an aggregate of 6,800 shares and 199,070 warrants. Each warrant entitles its holder to subscribe to one share of Galapagos NV.

The Board notes that Warrant Plan 2010 (C), Warrant Plan 2013 (B) and Warrant Plan 2014 (B), each pertaining to the issuance of warrants to a new member of the Executive Committee, were approved by the Board based on a general authorization of the Shareholders' Meeting. Pursuant to provision 7.13 of the Belgian Corporate Governance Code 2009, however, schemes under which executive officers are remunerated in shares, share options or any other right to acquire shares should be subject to prior shareholder approval by way of a resolution at the Shareholders' Meeting. However, given (i) the fact that the adoption of these warrant plans falls within the scope of the authorizations to the Board of Directors granted by the Extraordinary Shareholders' Meetings of 2 June 2009 and 23 May 2011 to use the authorized capital for the issue of warrants in the framework of the remuneration policy for employees, directors and



## COPORATE GOVERNANCE

independent consultants of the Group and (ii) the interest of Galapagos NV in having the relevant beneficiaries join as soon as possible, the Board of Directors is of the opinion that it was not desirable to convene a Shareholders' Meeting to grant its express prior approval for the adoption of Warrant Plans 2010 (C), 2013 (B) and 2014 (B).

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

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

### **Severance payments for departing Galapagos NV Executive Committee members during financial year 2014**

In 2014, two members of the Executive Committee have left the Group: Mr. David Smith, effective as of 1 April 2014, and Mr. Guillaume Jetten, effective as of 1 May 2014.

Further to the reasoned recommendation of the Remuneration Committee, the Board of Directors approved a severance package for Mr Jetten upon the termination of his services in an aggregate amount of €574,375. The value of Mr Jetten's severance package exceeds 12 months' salary but does not exceed 18 months' salary. It consisted of the following elements: (i) a payment of an amount equal to 6 months' salary; (ii) compensation for loss of post in an amount that Galapagos' external employment counsel advised the Board was within the normal range; (iii) payment as consideration for Mr Jetten's contributions to Galapagos; (iv) outstanding warrants to continue to vest and be exercisable as though he were still an employee; and (v) reimbursement for lawyer's fees and tax advice, subject to an agreed cap. The Board of Directors further notes that the severance package is

consistent with the approach adopted in the past for departing members of the Executive Committee.

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

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

## **Conflict of interests and related parties**

In the event of a transaction where a Director's interest conflicts with the interest of Galapagos NV, the Director shall notify the Board of Directors in advance of the conflict and will act in accordance with the relevant rules of the Belgian Companies Code (i.e. article 523 of the Belgian Companies Code). In addition, Galapagos' Corporate Governance Charter includes a policy for transactions between Galapagos and its Directors and members of its Executive Committee. Without prejudice to the procedure defined in article 523 of the Belgian Companies Code, this policy provides that all transactions between Galapagos and its Directors, its members of the Executive Committee or its representatives need the approval of the Board of Directors, whose approval can only be provided for transactions at normal market conditions. Such a conflict of interest, even in the event it is not a conflict of interest as provided for in article 523 of the Belgian Companies Code, shall be enacted in the minutes, and the Director or member of the Executive Committee shall abstain from voting.

In 2014, three cases of conflict of interests between Galapagos NV and a Director within the meaning of article 523 of the Belgian Companies Code were noted:

- i. In a meeting of the Board of Directors held on 27 March 2014, it was resolved that the Board would make a recommendation to the next Shareholders' Meeting for a grant of warrants to the CEO and the other members of the Board under a proposed Warrant Plan 2014 as follows: Mr Van de Stolpe: 100,000 warrants; Dr Parekh:



## COPORATE GOVERNANCE

5,400 warrants; Dr Cautreels: 3,780 warrants; Ms. Bosley, Dr Van Barlingen, Mr Rowe and Dr Sato: each 2,520 warrants. Pursuant to section 523 of the Belgian Companies Code, the following was reported in connection with the proposed warrant offer 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 100,000 warrants. It was explained to the Board that said warrant offer is proposed upon recommendation of the Remuneration Committee, is consistent with past practice and is a justified reward for the results achieved by Mr Van de Stolpe. The award of this benefit will have no material impact on the financial position of the company. The Board shared the opinion of the Remuneration Committee that the proposed benefit is justified and reasonable. Mr Van de Stolpe did not take part in the deliberation and the vote concerning this decision. Furthermore, as a warrant offer is proposed to each Director, the same procedure was followed for each Director individually.

- ii. In a meeting of the Board of Directors held on 5 June 2014, the following was reported in application of article 523 of the Belgian Companies Code and in connection with the recommendation of the Remuneration Committee, further to the resolution of the Shareholders' Meeting of 29 April 2014, as to the allocation of the aggregate annual remuneration of €200,000 (plus expenses) for Directors (other than Dr Parekh and Mr Van de Stolpe) for the exercise of their mandate as Director: the Chairman declared that the Directors involved had informed the Board of a conflict of interest, concerning their proposed remuneration. It has been explained to the Board that the proposed remuneration for each Director is a continuation of the level of the fees as paid in previous years, without increase. 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.
- iii. In a meeting of the Board of Directors held on 17 December 2014 the following was reported in application of article 523 of the Belgian Companies Code and in connection with the salary increase and bonus

for the CEO: the Chairman declares that Mr Onno van de Stolpe has 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 2% as of 2015. 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 2014) a bonus of €268,000 (i.e. 60% of his 2014 salary) has been awarded to Mr Van de Stolpe for 2014. 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 2014. 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.

In addition, the conflict of interests procedure set forth in Galapagos' Corporate Governance Charter was applied twice in 2014 with respect to conflicts that do not qualify as conflicts of interests within the meaning of article 523 of the Belgian Companies Code.



## Statement by the Board of Directors

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The Board of Directors of Galapagos NV, represented by all its members, declares that, as far as it is aware, the statutory accounts and consolidated financial statements, prepared according to the applicable standards for financial statements, give a true and fair view of the equity, financial position and the results of Galapagos NV and its consolidated companies as of 31 December 2014.

The Board of Directors of Galapagos NV, represented by all its members, further declares that, as far as it is aware, this report to the shareholders for the financial year ending on 31 December 2014, gives a true and fair view on the development, results and position of Galapagos NV and its consolidated companies and on the most important risks and uncertainties with which Galapagos is confronted.

The Board of Directors will submit proposed resolutions to the Shareholders' Meeting to approve the annual accounts for the financial year 2014, and to release the Directors and the Statutory Auditor from liability for the performance of their mandate during the financial year ended 31 December 2014.

Mechelen, 26 March 2015

On behalf of the Board of Directors

**Onno van de Stolpe**  
CEO

**Raj Parekh**  
Chairman





# Financial statements

Consolidated and non-consolidated financial statements for 2014

“

The Company is well-positioned to create significant value from its R&D assets, with nearly €200 million in cash on the balance sheet end 2014, the largest year end cash position ever for Galapagos.

—

**Bart Filius**  
CFO of Galapagos



## Consolidated financial statements

### Consolidated income statement and statement of comprehensive income

for the years ended 31 December

#### Consolidated income statement

(thousands of €, except share and per share data)	Year ended 31 December,		Notes
	2014	2013(*)	
Revenues	69,368	76,625	4
Other income	20,653	19,947	4
<b>Total revenues and other income</b>	<b>90,021</b>	<b>96,572</b>	
Research and development expenditure	(111,110)	(99,380)	5
General and administrative expenses	(13,875)	(12,353)	5
Sales and marketing expenses	(992)	(1,464)	5
Restructuring and integration costs	(669)	(290)	5
<b>Operating loss</b>	<b>(36,624)</b>	<b>(16,915)</b>	
Finance income	1,424	780	7
<b>Loss before tax</b>	<b>(35,201)</b>	<b>(16,135)</b>	
Income taxes	(2,103)	(676)	8
<b>Net loss from continuing operations</b>	<b>(37,303)</b>	<b>(16,811)</b>	
<b>Net income from discontinued operations</b>	<b>70,514</b>	<b>8,732</b>	<b>9</b>
<b>Net income / loss (-)</b>	<b>33,211</b>	<b>(8,079)</b>	<b>10</b>
<b>Net income / loss (-) attributable to:</b>			
Owners of the parent	33,211	(8,079)	
<b>Basic and diluted income / loss (-) per share</b>	<b>1.10</b>	<b>(0.28)</b>	<b>10</b>
<b>Basic and diluted loss per share from continuing operations</b>	<b>(1.24)</b>	<b>(0.58)</b>	
Weighted average number of shares (in thousands of shares)	30,108	28,787	10

(\*) Reclassification of the service division to the discontinued operations as described in note 2 and 9

#### Consolidated statement of comprehensive income

(thousands of €)	Year ended 31 December,		Notes
	2014	2013	
<b>Net income / loss (-)</b>	<b>33,211</b>	<b>(8,079)</b>	
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Remeasurement of defined benefit obligation	(267)	47	31



## FINANCIAL STATEMENTS

### Consolidated statement of comprehensive income

(thousands of €)	Year ended 31 December,		Notes
	2014	2013	
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Translation differences, arisen from translating foreign activities	460	(824)	23
Translation differences, arisen from the sale of service division	(1,787)		23
<b>Other comprehensive income, net of income tax</b>	<b>(1,594)</b>	<b>(777)</b>	
<b>Total comprehensive income attributable to:</b>			
Owners of the parent	31,617	(8,856)	



## FINANCIAL STATEMENTS

### Consolidated statements of financial position

at 31 December

(thousands of €)	As at 31 December,		Notes
	2014	2013(*)	
<b>Assets</b>			
Goodwill		39,239	11
Intangible assets	2,015	7,832	12
Property, plant and equipment	10,091	19,525	13
Deferred tax assets	293	4,558	24
Non-current R&D incentives receivables	43,944	39,347	14
Non-current restricted cash	306	3,306	16
Other non-current assets	215	220	15
<b>Non-currents assets</b>	<b>56,864</b>	<b>114,027</b>	
Inventories	281	249	17
Trade and other receivables	3,211	19,207	18
Current R&D incentives receivables	7,351	10,625	14
Cash and cash equivalents	187,712	138,175	19
Current restricted cash	10,422		16
Other current assets	4,625	5,091	18
<b>Current assets</b>	<b>213,603</b>	<b>173,347</b>	
<b>Total assets</b>	<b>270,467</b>	<b>287,374</b>	
<b>Equity and liabilities</b>			
Share capital	157,274	154,542	20
Share premium account	114,182	112,484	21
Other reserves	(220)	47	22
Translation differences	(1,157)	170	23
Accumulated losses	(63,944)	(100,107)	
<b>Total equity</b>	<b>206,135</b>	<b>167,137</b>	
Pension liabilities	2,865	2,189	31
Provisions	72	668	27
Deferred tax liabilities		2,192	24
Finance lease liabilities	115	167	25
Other non-current liabilities	923	2,462	26
<b>Non-current liabilities</b>	<b>3,976</b>	<b>7,678</b>	
Provisions	105	81	27

(\*) restricted cash was reclassified as described in notes 2 and 16



## FINANCIAL STATEMENTS

(thousands of €)	As at 31 December,		Notes
	2014	2013(*)	
Finance lease liabilities	52	226	25
Trade and other payables	30,007	29,365	26
Current tax payable	2,582	50	8
Accrued charges	585	3,858	26
Deferred income	27,026	78,979	26
<b>Current liabilities</b>	<b>60,356</b>	<b>112,559</b>	
<b>Total liabilities</b>	<b>64,332</b>	<b>120,237</b>	
<b>Total equity and liabilities</b>	<b>270,467</b>	<b>287,374</b>	

(\*) restricted cash was reclassified as described in notes 2 and 16



## FINANCIAL STATEMENTS

### Consolidated cash flow statements

for the years ended 31 December

(thousands of €)	Year ended 31 December,		Notes
	2014	2013(*)	
<b>Cash and cash equivalents at beginning of year</b>	<b>138,175</b>	<b>94,369</b>	<b>19</b>
Net income / loss (-)	33,211	(8,079)	
<b>Adjustments for:</b>			
Tax income (-) / expenses	2,337	(3,115)	8
Financial income (-) / expenses	(1,841)	174	7
Depreciation of property, plant and equipment	3,582	6,036	13
Amortization of intangible fixed assets	1,067	2,118	12
Net realized loss on foreign exchange transactions	(261)	(2,078)	
Share-based compensation	2,952	2,742	32
Increase / decrease (-) in provisions	27	(88)	27
Increase in pension liabilities	409	154	
Gain on sale of service division	(67,508)		36
<b>Operating cash flows before movements in working capital</b>	<b>(26,025)</b>	<b>(2,137)</b>	
Increase in inventories	(32)	(39)	17
Increase (-) / decrease in receivables	(10,110)	1,069	18
Increase/decrease (-) in payables	(40,311)	2,242	26
<b>Cash generated / used (-) from operations</b>	<b>(76,479)</b>	<b>1,136</b>	
Interest paid	(113)	(164)	
Interest received	951	959	
Income taxes paid (-) / received	86	(85)	
<b>Net cash flows generated / used (-) in operating activities</b>	<b>(75,555)</b>	<b>1,846</b>	
Purchase of property, plant and equipment	(2,061)	(7,328)	13
Purchase of and expenditure in intangible fixed assets	(743)	(545)	12
Proceeds from disposal of property, plant and equipment	45	65	13
Acquisitions (-) of subsidiaries, net of cash acquired	-	(1,152)	36
Disposals of subsidiaries, net of cash disposed	130,787		36
Increase (-) in restricted cash	(7,422)	(3,028)	16
<b>Net cash flows generated / used (-) in investing activities</b>	<b>120,606</b>	<b>(11,988)</b>	

(\*) Reclassification of interest received from financing cash flow to operating cash flow as described in [note 2](#)



## FINANCIAL STATEMENTS

(thousands of €)	Year ended 31 December,		Notes
	2014	2013(*)	
Repayment of obligations under finance leases and other debts	(216)	(308)	25
Proceeds from Capital and Share premium increases, net of issue costs	4,430	54,803	20
<b>Net cash flows generated in financing activities</b>	<b>4,214</b>	<b>54,495</b>	
Effect of exchange rate differences on cash and cash equivalents	271	(548)	
<b>Increase in cash and cash equivalents</b>	<b>49,537</b>	<b>43,806</b>	
<b>Cash and cash equivalents at end of year</b>	<b>187,712</b>	<b>138,175</b>	

(\*) Reclassification of interest received from financing cash flow to operating cash flow as described in [note 2](#)



## FINANCIAL STATEMENTS

### Consolidated statements of changes in equity

(thousands of €)	Share capital	Share premium account	Translation differences	Other reserves	Accumul. losses	Total
<b>On 1 January 2013</b>	<b>139,347</b>	<b>72,876</b>	<b>994</b>		<b>(94,770)</b>	<b>118,447</b>
Net loss					(8,079)	(8,079)
Other comprehensive income			(824)	47		(777)
<b>Total comprehensive income</b>			<b>(824)</b>	<b>47</b>	<b>(8,079)</b>	<b>(8,856)</b>
Share-based compensation					2,742	2,742
Private placement	13,429	39,346				52,775
Exercise of warrants	1,766	262				2,028
<b>On 31 December 2013</b>	<b>154,542</b>	<b>112,484</b>	<b>170</b>	<b>47</b>	<b>(100,107)</b>	<b>167,137</b>
Net income					33,211	33,211
Other comprehensive income			(1,327)	(267)		(1,594)
<b>Total comprehensive income</b>			<b>(1,327)</b>	<b>(267)</b>	<b>33,211</b>	<b>31,617</b>
Share-based compensation					2,952	2,952
Exercise of warrants	2,732	1,698				4,430
<b>On 31 December 2014</b>	<b>157,274</b>	<b>114,182</b>	<b>(1,157)</b>	<b>(220)</b>	<b>(63,944)</b>	<b>206,135</b>





## FINANCIAL STATEMENTS

## Non-consolidated financial statements

## Statement of profit and loss

(thousands of €)	Year ended 31 December,	
	2014	2013
Turnover	63,033	48,330
Internally generated intangible assets	94,295	90,444
Other operating income	15,332	13,185
<b>Operating income</b>	<b>172,661</b>	<b>151,959</b>
Raw materials, consumables and goods for resale	(3,706)	(3,399)
Services and other goods	(96,690)	(78,801)
Remuneration, social security costs and pensions	(13,689)	(12,094)
Depreciation, impairment and other amounts written off on constitution costs, intangible and tangible assets	(76,847)	(66,820)
Other operating charges	(6,628)	(6,579)
<b>Operating profit / loss (-)</b>	<b>(24,899)</b>	<b>(15,735)</b>
Finance income	108,110	1,905
Finance cost	(1,118)	(1,596)
<b>Profit / loss (-) on ordinary activities before taxes</b>	<b>82,093</b>	<b>(15,426)</b>
Extraordinary income	6	
Extraordinary cost	(19,705)	(1,001)
<b>Profit / loss (-) before taxes</b>	<b>62,394</b>	<b>(16,427)</b>
Taxes	(436)	
<b>Profit / loss (-) for the year</b>	<b>61,958</b>	<b>(16,427)</b>
Loss brought forward	(131,714)	(115,287)
<b>Accumulated losses to be carried forward</b>	<b>(69,756)</b>	<b>(131,714)</b>



## FINANCIAL STATEMENTS

### Balance sheet

(thousands of €)	As at 31 December,	
	2014	2013
<b>Assets</b>		
<b>Non-current assets</b>	<b>168,717</b>	<b>209,812</b>
Intangible fixed assets	131,423	125,842
Tangible fixed assets	3,227	3,762
Financial fixed assets	34,067	80,209
<b>Current assets</b>	<b>219,266</b>	<b>156,263</b>
Inventories	276	249
Trade and other receivables	1,898	10,994
Deferred costs	429	318
Accrued income	22,615	17,562
Cash and cash equivalents	194,046	127,141
<b>Total assets</b>	<b>387,983</b>	<b>366,075</b>
<b>Equity and liabilities</b>		
<b>Equity</b>	<b>207,276</b>	<b>140,775</b>
Share capital and reserves	163,904	161,172
Share premium account	108,222	106,524
Accumulated losses	(69,756)	(131,714)
Investment grants	4,906	4,793
<b>Liabilities</b>	<b>180,707</b>	<b>225,300</b>
<b>Non-current liabilities</b>	<b>413</b>	<b>464</b>
Obligations under finance lease (non-current)	115	167
Other liabilities	298	297
<b>Current liabilities</b>	<b>180,294</b>	<b>224,835</b>
Trade and other payables	53,178	50,782
Obligations under finance lease (current)	52	226
Tax, payroll and social security liabilities	2,723	2,452
Accrued costs	468	229
Deferred income	123,873	171,147
<b>Total equity and liabilities</b>	<b>387,983</b>	<b>366,075</b>



# Notes

Notes to our consolidated financial statements for 2014



# Notes

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## 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. The Group’s ambition is to become a leading global biotechnology company focused on the development and commercialization of novel medicines. The Group’s 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 B.V. (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).

The Group’s continuing operations have around 400 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 B.V. 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

The principal Group 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 the Group’s activities and the results achieved. They give a true and fair view of the entity’s financial position, its financial performance and cash flows, on a going concern basis.

### Standards and interpretations applicable for the annual period beginning on 1 January 2014

- IFRS 10 *Consolidated Financial Statements* (applicable for annual periods beginning on or after 1 January 2014)
- IFRS 11 *Joint Arrangements* (applicable for annual periods beginning on or after 1 January 2014)
- IFRS 12 *Disclosures of Interests in Other Entities* (applicable for annual periods beginning on or after 1 January 2014)



## NOTES

- IAS 27 *Separate Financial Statements* (applicable for annual periods beginning on or after 1 January 2014)
- IAS 28 *Investments in Associates and Joint Ventures* (applicable for annual periods beginning on or after 1 January 2014)
- Amendments to IFRS 10, IFRS 12 and IAS 27 *Consolidated Financial Statements and Disclosure of Interests in Other Entities: Investment Entities* (applicable for annual periods beginning on or after 1 January 2014)
- Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (applicable for annual periods beginning on or after 1 January 2014)
- Amendments to IAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (applicable for annual periods beginning on or after 1 January 2014)
- Amendments to IAS 39 *Financial Instruments – Novation of Derivatives and Continuation of Hedge Accounting* (applicable for annual periods beginning on or after 1 January 2014)

### Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2014

- IFRS 9 *Financial Instruments* and subsequent amendments (not yet endorsed in the EU)
- IFRS 14 *Regulatory Deferral Accounts* (applicable for annual periods beginning on or after 1 January 2016, but not yet endorsed in the EU)
- IFRS 15 *Revenue from Contracts with Customers* (applicable for annual periods beginning on or after 1 January 2017, but not yet endorsed in EU)
- Improvements to IFRS (2010-2012) (applicable for annual periods beginning on or after 1 July 2014, but not yet endorsed in the EU)
- Improvements to IFRS (2011-2013) (applicable for annual periods beginning on or after 1 July 2014, but not yet endorsed in the EU)
- 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, 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 Amortisation* (applicable for annual periods beginning on or after 1 January 2016, but not yet endorsed in EU)
- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants* (applicable for annual periods beginning on or after 1 January 2016, but not yet endorsed in EU)
- Amendments to IAS 19 *Employee Benefits – Employee Contributions* (applicable for annual periods beginning on or after 1 July 2014, but not yet endorsed in EU)
- IFRIC 21 *Levies* (applicable for annual periods beginning on or after 1 January 2014)

The new standards applicable did not have any impact on the Group's financials.

### Reclassification made to the consolidated financial statements

Subsequent to the issuance of the Group's consolidated financial statements as of and for the year ended 31 December 2013, management made the following reclassifications to the comparative figures:

- €3,306 thousand of restricted cash was reclassified out of cash and cash equivalents and was presented separately in our consolidated statement of financial position. Corresponding reclassifications were made to our consolidated statement of cash flows to present changes in restricted cash balances as cash flows from investing activities.
- €1,325 thousand of interest and other financial income was reclassified as cash flows from operating activities, instead of cash flows from financing activities for the year ended 31 December 2013.



## NOTES

The reclassifications in the comparative figures mentioned above have been reflected in the consolidated financial statement and accompanying note. They did not have an impact on the consolidated income statement, total assets, total liabilities or equity.

### Group reporting

The consolidated financial statements comprise the financial statements of Galapagos NV and entities controlled by Galapagos NV. Together they constitute the Group. 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 the Group's 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 the Group in exchange for control of the acquiree.

The acquiree'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 the Group's 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 acquiree'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 the Group's 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
- The Group has the intention to complete the intangible assets and use or sell it
- The Group 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
- The Group is able to measure reliably the expenditure attributable to the intangible asset during its development.

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



## NOTES

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 the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Hedging and derivatives have never been used: the Group does not actively use currency derivatives to hedge planned future cash flows, nor does the Group make use of forward foreign exchange contracts.





## NOTES

### Research and development incentives receivables

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 Group's 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 it is probable that future taxable profits will be available.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets relating to tax losses carried forward are recognized to the extent that it is probable that the related tax benefit will be realized.

### Foreign currencies

#### ■ Functional and presentation currency

Items included in the financial statements of each of the Group's 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 Galapagos NV's functional and presentation currency.



## NOTES

### ■ 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 Group 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. The Group also generates revenue from its fee-for-service activities, and various research and development incentives and grants.

Collaboration and alliance agreements with Galapagos' 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.

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 the Group's involvement. The payments and the Group's involvement relate to a contractually defined phase of the project. At inception Management estimates the period of the Group's 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 the Group 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.



## NOTES

### 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 the Group can reliably estimate such amounts and collectability is reasonably assured. As such, the Group generally recognizes royalty revenues in the period in which the licensees are reporting the royalties to the Group 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 the Group reports are not based upon the Group estimates and such royalty revenues are typically reported in the same period in which the Group receives payment from its licensees.

### Grants and R&D incentives

As a company that carries out extensive research and development activities, the Group 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 research and development efforts of the Group 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 a group entity undertakes its activities under joint operations, the Group 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

The Group 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 a group entity transacts with a joint operation in which a group entity is a joint operator (such as sale or contribution of assets), the Group 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 the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as purchase of assets), the Group 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 the Group are measured by the fair value of the proceeds received, net of direct issue costs.



## NOTES

### 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 Group's 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 in future contributions to the plans. A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

#### c/ Staff bonus plan

The Group 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 Galapagos' peers). 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.

Galapagos recognizes 75% of the possible payment within three years at the moment that the bonus amount is determined, which reflects both an estimation of the number of employees that will remain within Galapagos for three years as well as the probability that the share price will meet the target. Since the bonus is calculated by reference to Galapagos' 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 remeasured 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.



## NOTES

### Share-based payments

The Group 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 grant. The fair value determined at the grant date of the warrants is expensed over the vesting period, based on the Group's 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 a Group company 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 transfers 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 of the Group 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, the Group 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, the Group 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.



## NOTES

### Net income/loss per share

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

### Discontinued operations

A discontinued operation is a component of the Group 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. The Group has only one segment.

## 3. Segment information

Following the sale of the service division on 1 April 2014, the continuing operations relate primarily to R&D activities. Consequently there is one reportable segment.

### Geographical information

In 2014 the Group's R&D continuing operations were located in Belgium, Croatia, France and The Netherlands.

In 2014 the Group's continuing operations top 10 customers represents 98% of the revenues. The Group's continuing operations client base includes four of the top 20 pharmaceutical companies in the world in 2014 and 2013.

Following table summarizes Group revenues by destination of customer:

(thousands of €)	Year ended 31 December,	
	2014	2013
United States	31,100	46,963
Europe	38,169	29,662
Asia Pacific	100	
<b>Total revenues</b>	<b>69,368</b>	<b>76,625</b>



## NOTES

Following table summarizes Group revenues of the continuing operations by destination of Group company:

(thousands of €)	Year ended 31 December,	
	2014	2013
Galapagos NV (Belgium)	65,448	73,913
Galapagos SASU (France)	108	
Fidelta d.o.o. (Croatia)	3,726	2,514
Xenometrix, Inc. (United States)	86	198
<b>Total revenues</b>	<b>69,368</b>	<b>76,625</b>

In 2014, Galapagos held €57 million of non-current assets (€114 million in 2013) distributed as follows:

- France: €26 million (€27 million in 2013)
- Belgium: €25 million (€24 million in 2013)
- Croatia: €4 million (€4 million in 2013)
- The Netherlands: €1 million (€2 million in 2013)

The decrease in non-current assets 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.

## 4. Total Revenues and other Income

### Revenues

The following table summarizes the revenues for the years ended 31 December 2014 and 2013.

(thousands of €)	Year ended 31 December,	
	2014	2013
Recognition of non-refundable upfront payments	45,838	51,751
Milestone payments	19,768	20,488
Other revenues	3,762	4,387
<b>Total Revenues</b>	<b>69,368</b>	<b>76,625</b>

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 the Group's involvement.

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



## NOTES

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.

### Other income

The following table summarizes other income for the years ended 31 December 2014 and 2013.

(thousands of €)	Year ended 31 December,	
	2014	2013
Grant income	5,646	5,054
Other income	15,008	14,893
<b>Total Other income</b>	<b>20,653</b>	<b>19,947</b>

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 the Group 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.

## 5. 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 2014 and 2013.





## NOTES

(thousands of €)	Year ended 31 December,	
	2014	2013
Personnel costs	(31,038)	(29,385)
Subcontracting	(54,293)	(44,760)
Disposables and lab fees and premises costs	(16,830)	(15,840)
Other operating expenses	(8,949)	(9,395)
<b>Total research and development expenditure</b>	<b>(111,110)</b>	<b>(99,380)</b>

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.

### General and administrative expenses

The following table summarizes the general and administrative expenses for the years ended 31 December 2014 and 2013.

(thousands of €)	Year ended 31 December,	
	2014	2013
Personnel costs and directors fees	(8,087)	(7,156)
Other operating expenses	(5,788)	(5,197)
<b>Total general and administrative expenses</b>	<b>(13,875)</b>	<b>(12,353)</b>

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.

### Sales and marketing expenses

The following table summarizes the sales and marketing expenses for the years ended 31 December 2014 and 2013.



## NOTES

(thousands of €)	Year ended 31 December,	
	2014	2013
Personnel costs	(579)	(994)
Other operating expenses	(412)	(470)
<b>Total sales and marketing expenses</b>	<b>(992)</b>	<b>(1,464)</b>

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.

### Restructuring and integration costs

(thousands of €)	Year ended 31 December,	
	2014	2013
Restructuring costs	(669)	(290)
<b>Total restructuring and integration costs</b>	<b>(669)</b>	<b>(290)</b>

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.

## 6. Staff costs

The table below describes the evolution of the employees of the Group between the years 2014 and 2013. The decrease is primarily due to the sale of the service division.

	Year ended 31 December,	
	2014	2013
Number of employees on 31 December	417	810
<b>Total</b>	<b>417</b>	<b>810</b>

The average number of employees of the continuing operations during the years 2014 and 2013 was:

	Year ended 31 December,	
	2014	2013
Key Management	4	4
Laboratory staff	353	348
Administrative staff	64	67
<b>Total</b>	<b>421</b>	<b>419</b>



## NOTES

Their aggregate remuneration comprised:

(thousands of €)	Year ended 31 December,	
	2014	2013
Wages and salaries	(26,891)	(26,260)
Social security costs	(7,468)	(6,363)
Pension costs	(1,454)	(1,260)
Other personnel costs	(2,635)	(2,097)
<b>Total personnel costs</b>	<b>(38,447)</b>	<b>(35,979)</b>

The other personnel costs mainly relate to costs for warrants granted of €2.2 million (2013: €1.8 million). For the costs of warrants granted, see [note 32](#).

## 7. Finance income and expense

The following table summarizes finance income and expense for the years ended 31 December 2014 and 2013.

(thousands of €)	Year ended 31 December,	
	2014	2013
<b>Finance income</b>		
Interest on bank deposit	1,155	1,179
Effect of discounting long term R&D incentives receivables	920	409
Currency exchange gain	198	590
Other financial income	17	4
<b>Total Financial income</b>	<b>2,291</b>	<b>2,182</b>
<b>Finance expense</b>		
Interest expenses	(110)	(156)
Currency exchange loss	(652)	(1,130)
Other financial charges	(105)	(116)
<b>Total Financial expense</b>	<b>(867)</b>	<b>(1,402)</b>
<b>Total Finance income</b>	<b>1,424</b>	<b>780</b>

Finance 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.

Finance expense 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.



## 8. 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 2014 and 2013.

(thousands of €)	Year ended 31 December,	
	2014	2013
Current tax	(2,396)	
Deferred tax	293	(676)
<b>Total Taxes</b>	<b>(2,103)</b>	<b>(676)</b>

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 change in estimate in 2014. 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.

### Tax liabilities

The below tables illustrate the tax liabilities related captions in the balance sheet for the year ended 31 December 2014 and 2013.

(thousands of €)	Year ended 31 December,	
	2014	2013
Current tax payable	2,582	50
<b>Total tax liabilities</b>	<b>2,582</b>	<b>50</b>

The tax liabilities amounting to €2.6 million on 31 December 2014 are primarily related to the recognition of tax liabilities for one of the subsidiaries operating on a cost plus basis for the group for €2.1 million due to a change in estimates. In addition, taxes on gain on the sale of the service division 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%.



## NOTES

### Taxes recognized in profit or loss

(thousands of €)	Year ended 31 December,	
	2014	2013
<b>Continuing operations</b>		
Current tax	(2,396)	
Deferred tax	293	(676)
<b>Total continuing operations</b>	<b>(2,103)</b>	<b>(676)</b>
<b>Discontinued operations</b>		
Current tax	(437)	(165)
Deferred tax	203	3,956
<b>Total discontinued operations</b>	<b>(234)</b>	<b>3,791</b>
<b>Total taxes</b>	<b>(2,337)</b>	<b>3,115</b>

Corporation tax is calculated at 34% (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.

(thousands of €)	Year ended 31 December,	
	2014	2013
Loss before tax from continuing operations	(35,201)	(16,135)
Income before tax from discontinued operations	70,748	4,941
<b>Income / loss (-) before tax</b>	<b>35,548</b>	<b>(11,194)</b>
Income tax debit / credit (-), calculated using the Belgian statutory tax rate (34%) on the accounting income / loss (-) before tax (theoretical)	12,083	(3,805)
Tax expenses in income statement (effective) from continuing operations	2,103	676
Tax expenses / income (-) in income statement (effective) from discontinued operations	234	(3,791)
<b>Tax expenses / income (-) in income statement (effective)</b>	<b>2,337</b>	<b>(3,115)</b>
<b>Difference in tax expenses / income (-) to explain</b>	<b>(9,746)</b>	<b>690</b>
Effect of tax rates in other jurisdictions	6	(22)
Effect of non taxable revenues	(41,249)	(6,817)
Effect of consolidation entry without tax impact	12,786	(388)
Effect of non tax deductible expenses	1,459	1,188
Effect of recognition of previously non recognized deferred tax assets	(293)	(3,595)
Effect of change in tax rates	(165)	(245)
Effect of tax losses (utilized) reversed	(1,549)	(499)
Effect from under or over provisions in prior periods	2,144	(89)
Effect of non recognition of deferred tax assets	17,688	10,821
Effect of R&D tax credit claims	(572)	(340)
Effect of derecognition of previously recognized deferred tax assets		676
<b>Total Explanations</b>	<b>(9,746)</b>	<b>690</b>



## NOTES

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, and by the unrecognized deferred tax assets on tax losses carried forward for which the Group conservatively assesses that it is not likely that these will be realized in the foreseeable future.

## 9. Discontinued operations

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

(thousands of €, except share and per share data)	Year ended 31 December,	
	2014	2013
Service revenues	17,502	61,074
Other income	669	1,902
<b>Total revenues and other income</b>	<b>18,171</b>	<b>62,976</b>
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)
Gain on sale of service division	67,508	-
<b>Operating income</b>	<b>70,331</b>	<b>5,895</b>
Finance income / expense (-)	417	(954)
<b>Income before tax</b>	<b>70,748</b>	<b>4,941</b>
Income taxes	(234)	3,791
<b>Net income from discontinued operations</b>	<b>70,514</b>	<b>8,732</b>
<b>Basic and diluted income per share from discontinued operations</b>	<b>2.34</b>	<b>0.30</b>
Weighted average number of shares (in thousands of 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 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 the service division.



## NOTES

Cash flows from discontinued operations can be summarized as follows:

(thousands of €)	Year ended 31 December,	
	2014	2013
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)
<b>Net cash generated</b>	<b>120,858</b>	<b>3,513</b>

## 10. Result per share

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

Income / loss per share

	Year ended 31 December,	
	2014	2013
<b>Result for the purpose of basic income / loss (-) per share (thousands of €)</b>	<b>33,211</b>	<b>(8,079)</b>
<b>Number of shares (thousands)</b>		
Weighted average number of shares for the purpose of basic income / loss per share	30,108	28,787
<b>Basic income / loss (-) per share (€)</b>	<b>1.10</b>	<b>(0.28)</b>
<b>Result for the purpose of diluted income / loss (-) per share (thousands of €)</b>	<b>33,211</b>	<b>(8,079)</b>
<b>Number of shares (thousands)</b>		
Weighted average number of shares for the purpose of diluted income / loss per share	30,108	28,787
Number of dilutive potential ordinary shares		
<b>Diluted income / loss (-) per share (€)</b>	<b>1.10</b>	<b>(0.28)</b>

As the Group's continuing operations report a net loss, the outstanding warrants (specified in [note 32](#)) have an anti-dilutive effect rather than a dilutive effect. Consequently, basic and diluted loss per share are the same.



## NOTES

# 11. Goodwill

(thousands of €)

On 1 January 2013	37,667
Acquisition of subsidiaries	1,572
On 31 December 2013	39,239
Sale of the service division	(39,239)
On 31 December 2014	

Goodwill increased in 2013 and is related to the acquisition of Cangenix Ltd. (U.K.) by the service division on 4 January 2013.

The allocation of this goodwill through a Purchase Price Allocation (PPA) exercise has been performed in line with IFRS 3 and the outcome was that no purchase price was allocated to tangible or intangible assets, as the purchase was driven by acquiring skills relating to structured-based biology and not customer base or customer relationships.

The decrease of the goodwill to €0 was exclusively due to the sale of the service division to Charles River. The Group did not hold goodwill related to its continuing operations in its balance sheet.

(thousands of €)	Year ended 31 December,	
	2014	2013
Services – BioFocus		29,040
Services – Argenta		10,199
Total goodwill		39,239





## NOTES

## 12. Intangible assets

(thousands of €)	Customer relationships	In process technology	Software & databases	Brands, licenses, patents & know-how	Total
<b>Acquisition value</b>					
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	0	5,561	8,088	1,512	15,161
<b>Amortization and impairment</b>					
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	0	5,561	6,087	1,497	13,147
<b>Carrying amount</b>					
On 31 December 2013	1,143		1,359	5,332	7,832
On 31 December 2014			2,000	15	2,015

The intangible assets decreased by €5.8 million from €7.8 million for the year ended 31 December 2013, to €2.0 million for the year ended 31 December 2014. This decrease was mainly due to the sale of the service division on 1 April 2014 by €5.5 million.



## NOTES

## 13. Property, plant and equipment

(thousands of €)	Land & building improvements	Installation & machinery	Furniture, fixtures & vehicles	Other tangible assets	Total
<b>Acquisition value</b>					
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)
<b>On 31 December 2013</b>	<b>13,898</b>	<b>52,251</b>	<b>4,455</b>	<b>3,565</b>	<b>74,169</b>
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
<b>On 31 December 2014</b>	<b>8,286</b>	<b>28,820</b>	<b>2,594</b>	<b>321</b>	<b>40,021</b>
<b>Depreciations and impairment</b>					
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)
<b>On 31 December 2013</b>	<b>12,715</b>	<b>36,720</b>	<b>3,086</b>	<b>2,123</b>	<b>54,644</b>
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
<b>On 31 December 2014</b>	<b>7,984</b>	<b>19,790</b>	<b>2,046</b>	<b>110</b>	<b>29,930</b>
<b>Carrying amount</b>					
On 31 December 2013	1,183	15,532	1,368	1,441	19,525
<b>On 31 December 2014</b>	<b>302</b>	<b>9,031</b>	<b>547</b>	<b>210</b>	<b>10,091</b>

The property, plant and equipment decreased from €19.5 million for the year ended 31 December 2013 to €10.1 million for the year ended 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'.



## NOTES

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

### 14. Research and Development incentives receivables

The table below illustrates the R&D incentives receivables related captions in the balance sheet for the years ended 31 December 2014 and 2013.

(thousands of €)	Year ended 31 December,	
	2014	2013
Non-current R&D incentives receivables	43,944	39,347
Current R&D incentives receivables	7,351	10,625
<b>Total R&amp;D incentives receivables</b>	<b>51,296</b>	<b>49,972</b>

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 Group's total current R&D receivables at the end of 2013.

The R&D incentives receivables relate to refunds resulting from R&D incentives on research expenses in France, the U.K. (2013) and Belgium. Non-current R&D incentives receivables are discounted over the period until maturity date.

The below table provides detailed information on the maturity of the non-current R&D incentives receivables reported in the balance sheet at 31 December 2014.

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

(thousands of €)	Year ended 31 December, 2014					Total
	Maturity date					
	2016	2017	2018	2019	2020	
French non-current R&D incentives receivables - nominal value	7,830	8,185	8,214			24,229
French non-current R&D incentives receivables - discounted value	7,830	8,185	8,214			24,229
Belgian non-current R&D incentives receivables - nominal value	3,632	3,377	3,922	4,458	4,327	19,716
Belgian non-current R&D incentives receivables - discounted value	3,632	3,377	3,916	4,424	4,255	19,604
<b>Total non-current R&amp;D incentives receivables - nominal value</b>	<b>11,462</b>	<b>11,561</b>	<b>12,136</b>	<b>4,458</b>	<b>4,327</b>	<b>43,944</b>
<b>Total non-current R&amp;D incentives receivables - discounted value</b>	<b>11,462</b>	<b>11,562</b>	<b>12,130</b>	<b>4,424</b>	<b>4,255</b>	<b>43,833</b>



## NOTES

### 15. Other non-current assets

(thousands of €)	Year ended 31 December,	
	2014	2013
Other non-current assets	215	220
<b>Total other non-current assets</b>	<b>215</b>	<b>220</b>

### 16. Restricted cash

(thousands of €)	Year ended 31 December,	
	2014	2013
Non-current restricted cash	306	3,306
Current restricted cash	10,422	
<b>Total restricted cash</b>	<b>10,728</b>	<b>3,306</b>

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.

### 17. Inventory

(thousands of €)	Year ended 31 December,	
	2014	2013
Raw materials and supplies (net)	281	249
<b>Total inventory</b>	<b>281</b>	<b>249</b>

Inventory only consists of raw materials and supplies.



## NOTES

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

(thousands of €)	Year ended 31 December,	
	2014	2013
Trade receivables	1,340	13,291
Prepayments	9	2,124
Other receivables	1,862	3,792
<b>Trade and other receivables</b>	<b>3,211</b>	<b>19,207</b>
Accrued income	3,242	4,271
Deferred charges	1,384	820
<b>Other current assets</b>	<b>4,625</b>	<b>5,091</b>
<b>Total trade and other receivables &amp; other current assets</b>	<b>7,836</b>	<b>24,299</b>

The movements in 2014 presented in the table above resulted primarily from the sale of the service division.

The Group 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.

### 19. Cash and cash equivalents

(thousands of €)	Year ended 31 December,	
	2014	2013
Bank balances	187,711	138,172
Cash at hand	1	4
<b>Total cash and cash equivalents</b>	<b>187,712</b>	<b>138,175</b>

The Group reported a cash position of €187.7 million at the end of December 2014 compared to €138.2 million at year-end 2013. The Group's 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.

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. The Group's cash management strategy monitors and optimizes the Group's liquidity position. The Group's 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 €50 million of term deposits with an original maturity longer than 3 months.



## NOTES

### 20. Share capital

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

(thousands of €)	Year ended 31 December,	
	2014	2013
<b>On 1 January</b>	<b>154,542</b>	<b>139,347</b>
Share capital increase	2,732	16,356
Costs of capital increase		(1,161)
<b>Share capital on 31 December</b>	<b>157,274</b>	<b>154,542</b>
Aggregate share capital	163,904	161,171
Costs of capital increase (accumulated)	(6,629)	(6,629)
<b>Share capital on 31 December</b>	<b>157,274</b>	<b>154,542</b>

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 share capital between 1 January 2013 and 31 December 2014 is as follows:

Date	Share capital increase new shares (in thousands of €)	Share capital increase warrants (in thousands of €)	Number of shares issued (in thousands of shares)	Aggregate number of shares after transaction (in thousands of shares)	Aggregate share capital after transaction (in thousands of €)
<b>1 January 2013</b>				<b>26,771</b>	<b>144,815</b>
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		
<b>31 December 2013</b>				<b>29,794</b>	<b>161,171</b>
10 April 2014		1,649	305		
4 July 2014		982	182		
25 September 2014		66	12		
9 December 2014		35	7		
<b>31 December 2014</b>				<b>30,299</b>	<b>163,904</b>

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.



## NOTES

On 5 April 2013, warrants were exercised at various exercise prices under Warrant Plan 2006 Belgium/The Netherlands, Warrant Plan 2006 UK, Warrant Plan 2007, Warrant Plan 2008, Warrant Plan 2008 (B), Warrant Plan 2009 and Warrant Plan 2009 (B). 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.

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 under Warrant Plan 2002 Belgium, Warrant Plan 2005, Warrant Plan 2006 UK, Warrant Plan 2007 RMV, Warrant Plan 2008, Warrant Plan 2009 and Warrant Plan 2009 (B). 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.

On 21 October 2013, warrants were exercised at various exercise prices under Warrant Plan 2002 Belgium, Warrant Plan 2005, Warrant Plan 2006 UK, Warrant Plan 2008, Warrant Plan 2009 and Warrant Plan 2009 (B). The exercise resulted in a share capital increase of €193.2 thousand (plus €49.6 thousand in issuance premium) and the issuance of 35,719 new shares.

On 6 December 2013, warrants were exercised at various exercise prices under Warrant Plan 2007 RMV and Warrant Plan 2009. 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.

On 31 December 2013, the share capital amounted to €161,171.6 thousand, represented by 29,794,046 shares. All shares were issued, fully paid up and of the same class.

On 10 April 2014, warrants were exercised at various exercise prices under Warrant Plan 2002 Belgium, Warrant Plan 2005, Warrant Plan 2006 Belgium/The Netherlands, Warrant Plan 2006 UK, Warrant Plan 2007 RMV, Warrant Plan 2009, Warrant Plan 2009 (B), Warrant Plan 2010 and Warrant Plan 2010 (B). The exercise resulted in a share capital increase of €1,648.9 thousand (plus €732.3 thousand in issuance premium) and the issuance of 304,791 new ordinary shares.

On 4 July 2014, warrants were exercised at various exercise prices under Warrant Plan 2006 Belgium/ The Netherlands, Warrant Plan 2006 UK, Warrant Plan 2007 RMV, Warrant Plan 2008, Warrant Plan 2009, Warrant Plan 2010 and Warrant Plan 2010 (B). The exercise resulted in a share capital increase of €982.0 thousand (plus €880.3 thousand in issuance premium) and the issuance of 181,507 new ordinary shares.

On 25 September 2014, warrants were exercised at various exercise prices under Warrant Plan 2006 Belgium/The Netherlands, Warrant Plan 2006 UK and Warrant Plan 2010. The exercise resulted in a share capital increase of €66.3 thousand (plus €63.7 thousand in issuance premium) and the issuance of 12,260 new ordinary shares.

On 9 December 2014, warrants were exercised at various exercise prices under Warrant Plan 2005 and Warrant Plan 2006 Belgium/The Netherlands. The exercise resulted in a share capital increase of €35.3 thousand (plus €20.9 thousand in issuance premium) and the issuance of 6,525 new ordinary shares.

On 31 December 2014, the 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.

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

### Other information

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



## NOTES

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 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 2014, €24,763.8 thousand of the authorized capital was used, so that an amount of €117,826.9 thousand still remained available under the authorized capital.

## 21. Share premium

(thousands of €)	Year ended 31 December,	
	2014	2013
<b>On 1 January</b>	<b>112,484</b>	<b>72,876</b>
Increase as a result of private placement		39,346
Increase as a result of exercise of warrants	1,698	262
<b>Share premium on 31 December</b>	<b>114,182</b>	<b>112,484</b>

## 22. Other reserves

Actuarial gains or losses recognized through other comprehensive income

(thousands of €)	Year ended 31 December,	
	2014	2013
<b>On 1 January</b>	<b>47</b>	
Actuarial gains or losses (-) recognised through OCI	(267)	47
<b>Other reserves on 31 December</b>	<b>(220)</b>	<b>47</b>

The other reserves amount to a negative of €220 thousand (2013: €47 thousand) and relate to remeasurement of defined benefit obligation booked through OCI in line with IAS19R.

### Derivative financial instruments: currency derivatives

The Group 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 the Group has committed are nil (2013: nil).

On 31 December 2014 the fair value of the Group's currency derivatives is estimated to be nil (2013: nil).

The Group 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 38](#) for further information on how the Group manages financial risks.





## NOTES

## 23. Translation differences

(thousands of €)	Year ended 31 December,	
	2014	2013
<b>On 1 January</b>	<b>170</b>	<b>994</b>
Translation differences, arisen from translating foreign activities	460	(824)
Translation differences, arisen from the sale of the service division	(1,787)	
<b>Translation differences on 31 December</b>	<b>(1,157)</b>	<b>170</b>

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.

## 24. Deferred tax

(thousands of €)	Year ended 31 December,	
	2014	2013
<b>Recognized deferred tax assets and liabilities</b>		
<b>Assets</b>	<b>293</b>	<b>4,558</b>
<b>Liabilities</b>		<b>(2,192)</b>
<b>Continuing operations</b>		
Assets	293	
Liabilities		
<b>Discontinued operations</b>		
Assets		4,558
Liabilities		(2,192)
<b>Deferred tax assets unrecognized</b>	<b>104,484</b>	<b>105,529</b>
Continuing Operations	104,484	100,160
Discontinued Operations		5,369
<b>Deferred taxes</b>	<b>496</b>	<b>3,280</b>
Continuing operations	293	(676)
Tax benefit arising from previously unrecognized tax assets used to reduce deferred tax expense (+)	293	
Deferred tax expenses relating to write down of previously recognized deferred tax assets		(676)
<b>Discontinued operations</b>	<b>203</b>	<b>3,956</b>
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



## NOTES

The notional interest deduction for an amount of €2.6 million (2013: €2.6 million) and the investment deduction of €1 million (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 2014 amounted to €315 million (2013: €329 million), €21.8 million were related to unrecognized tax losses with expiry date between 2015 and 2029.

The available statutory tax losses carried forward that can be offset against future statutory taxable profits amounted to €220 million on 31 December 2014. These statutory tax losses can be compensated with future statutory profits for an indefinite period except for an amount of €18 million in Switzerland, Croatia, the US and The Netherlands with expiry date between 2015 and 2029. On 31 December 2014, the available tax losses carried forward in Galapagos NV (Belgium) amounted to €136 million.

For one subsidiary operating on a cost plus basis for the group a deferred tax asset was set up for an amount of €0.3 million in 2014 (2013: €0 million).

A deferred tax asset for tax losses carried forward, which are limited in time (three years), was reversed for the Croatian subsidiary for an amount of €0.7 million in 2013 because of the current year loss and forecasted losses in the near future due to the fact that the entity is in a transition period to go from an R&D subcontractor company to a fee-for-service company.

The deferred tax assets and liabilities recorded on the balance sheet at 31 December 2013 related to discontinued operations.

The Group has a history of losses. Excluding the impact of possible upfront or milestone payments to be received from collaborations, the Group 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 2014, except for one subsidiary operating on a cost plus basis for the group for which a minor deferred tax asset was set up (of €0.3 million as explained above).



## NOTES

## 25. Finance lease liabilities

(thousands of €)	Minimum lease payments		Present value of minimum lease payments	
	Year ended 31 December,		Year ended 31 December,	
	2014	2013	2014	2013
<b>Amounts payable under finance lease</b>				
Within one year	58	238	52	226
In the second to fifth years inclusive	121	237	115	167
After five years				
	<b>179</b>	<b>475</b>	<b>167</b>	<b>393</b>
Less future finance charges	12	82		
<b>Present value of lease obligation</b>	<b>167</b>	<b>393</b>		
Less amount due for settlement within 12 months			52	226
<b>Amount due for settlement after 12 months</b>			<b>115</b>	<b>167</b>

(thousands of €)	Net book value		Acquisition cost	
	Year ended 31 December,		Year ended 31 December,	
	2014	2013	2014	2013
<b>Leased assets</b>				
Installation & machinery	161	384	295	2,534
<b>Total leased assets</b>	<b>161</b>	<b>384</b>	<b>295</b>	<b>2,534</b>

The Group leases certain of its installation and machinery under finance leases. For the year ended 31 December 2014, the average borrowing rate was 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 decrease in leased assets in 2014 is mainly related to a finance lease of lab equipment in the Belgian entity which ended in 2014.

The fair value of the Group's lease obligations approximates their carrying value.



## NOTES

## 26. Trade and other payables

(thousands of €)	Year ended 31 December,	
	2014	2013
Trade payables	29,344	29,365
Other current liabilities	663	
Other non-current liabilities	923	2,462
Accrued charges	585	3,858
Deferred income	27,026	78,979
<b>Total trade and other payables</b>	<b>58,541</b>	<b>114,664</b>
Included in current liabilities	57,618	112,202
Included in non-current liabilities	923	2,462
<b>Total trade and other payables</b>	<b>58,541</b>	<b>114,664</b>

The Group's trade and other payables, 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 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.

## 27. Provisions

(thousands of €)	Post-employment benefits (non-current)	Other provisions (non-current)	Restructuring provision (current)	Other provisions (current)	Total
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
<b>On 31 December 2014</b>	<b>14</b>	<b>57</b>	<b>32</b>	<b>73</b>	<b>176</b>

The decrease in provisions in 2014 is mainly due to the sale of the service division (€0.6 million).



## NOTES

As of 31 December 2013, the non-current provision was mainly related to a dilapidation provision for facilities located in the U.K. of €0.6 million. The decrease of €0.1 million in the (current) restructuring provision in 2013 is related to utilized amounts related to the leased premises in Basel, Switzerland, which is credited to the income statement on line item Provisions within general and administrative expenses.

## 28. Operating lease obligations

The Group 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

(thousands of €)	Year ended 31 December,	
	2014	2013
Continuing operations	3,676	4,059
Discontinued operations	643	2,433
<b>Total minimum lease payments under operating leases</b>	<b>4,319</b>	<b>6,492</b>

Regarding outstanding commitments for future minimum lease payments under operating leases, see off-balance sheet arrangements as explained in [note 29](#) below.

## 29. Off-balance sheet arrangements

### Contractual obligations and commitments

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

On 31 December 2014, the Group's continuing operations had outstanding obligations for future minimum rent payments and purchase commitments, which become due as follows:

(thousands of €)	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations	35,030	3,759	8,517	5,931	16,823
Purchase commitments	36,052	28,992	7,060		
<b>Total contractual obligations &amp; commitments</b>	<b>71,082</b>	<b>32,751</b>	<b>15,577</b>	<b>5,931</b>	<b>16,823</b>

## 30. Contingent assets and liabilities

The French entity has signed a lease agreement in October 2013 for new office premises in the "Parc Biocitech" in Romainville, France (with effect from 1 February 2015) to replace the current premises in Romainville. The agreement is entered into for a 12-year period. The net rent amounts to €1.4 million on an annual basis. Galapagos NV, as the parent company, has issued a guarantee on first demand for €2 million to lessor of the building. Additionally a bank guarantee, amounting to €3 million, was issued for the rental of the new premises. These guarantees entered into force upon signature of the lease agreement and will expire on 30 June 2015 after the move into the new facilities.



## NOTES

On 13 March 2014, the Group 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 Galapagos an immediate cash consideration of €129 million. Upon achievement of a revenue target 12 months after transaction closing, Galapagos will be eligible to receive an earn-out payment of €5 million. In addition, approximately 5% of the total price consideration, including price adjustments, is being held on an escrow account which will be released on 30 June 2015 if no claim has been introduced by the Buyer. Following the divestment, Galapagos remains guarantor for a limited transitional period in respect of the lease obligations for certain U.K. premises amounting to £40 million future rent payments. The Buyer will fully indemnify Galapagos NV against all liabilities arising in connection with the lease obligation. Galapagos evaluated the risk to be remote. Finally, following common practice, Galapagos NV has given customary representations and warranties which are capped and limited in time.

In the course of 2008, a former director of one of the subsidiaries sued for wrongful termination and seeks damages of €1.1 million. The Group 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. This analysis is still ongoing. Considering the defense elements provided in favor of Galapagos and also the latest evolution in the court, 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 2014 as the exposure is considered to be limited.

## 31. Retirement benefit plans

### Defined contribution plans

The Group operates defined contribution systems for all of its qualifying employees. The assets of the schemes are held separately from those of the Group in designated pension plans. For defined contribution systems, the Group pays contributions to publicly or privately administered pension- or insurance funds. Once the contribution is paid, the Group does not have any remaining obligation.

The personnel of the Group in Belgium participate in a defined contribution plan (extra-legal pension). The Belgian defined contribution pension plans are by law subject to minimum guaranteed rates of return, currently 3.25% on employer contributions and 3.75% on employee contributions. These rates, which apply as an average over the entire career, may be modified by Royal Decree in which case the new rate(s) apply to both the accumulated past contributions and the future contributions as from the date of modification. Therefore, those plans were basically accounted for as defined contribution plans.

As at 31 December 2014 no net liability was recognised (2013: nil) in the balance sheet as the difference between the minimum guaranteed reserves and the actual accumulated reserves is not deemed material.

The contributions for those plans that were due by the employer for 2014 and 2013 amounted to respectively €465.6 thousand and €367.9 thousand, of which €32.9 thousand was paid after 31 December 2014 (2013: €33.9 thousand). No contributions were made by the employees.

The plan assets as at 31 December 2014 consisted of €886.4 thousand individual insurance reserves, which benefit from a weighted average guaranteed interest rate of 3.0%, and €0.2 thousand reserves in collective financing funds.

Similar pension schemes apply to the Group's entities in other countries. The amounts due by the Group's continuing operations to these pension plans in 2014 were €1.5 million in total (2013: €1.3 million). The amounts due by the Group's discontinued operations to these pension plans in 2013 were €3.0 million in total.



## NOTES

### Defined benefit plans

The Group uses two defined benefit plans for France. The defined benefit plans are not supported by funds.

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 €1,622.3 thousand for 2014 (2013: €1,207.2 thousand). This increase is mainly due to changed actuarial assumptions (decrease of discount rate from 3.00% to 1.75%).

Additionally, there are also seniority premiums paid in France. The provisions for these premiums amounted to €1,242.9 thousand in 2014 (2013: €981.8 thousand).

Total obligation included in the balance sheet related to the defined benefit plans amounts to €2,865.2 thousand for the year ended 31 December 2014 (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 losses of €266.6 thousand have been booked through other comprehensive income (OCI) at the end of 2014 (2013: €46.6 thousand of actuarial gains).

#### Obligations included in the balance sheet

(thousands of €)	Year ended 31 December,	
	2014	2013
Present value of funded defined benefit obligation	2,865	2,189
Fair value of plan assets		
Shortage	2,865	2,189
<b>Liability included in the balance sheet</b>	<b>2,865</b>	<b>2,189</b>

The present value of the gross obligation developed as follows:

(thousands of €)	Year ended 31 December,	
	2014	2013
Opening balance	2,189	2,035
Current service cost	228	228
Interest cost	65	60
Benefits paid	(48)	(51)
Actuarial gains (-) or losses due to experience adjustments	82	(89)
Actuarial losses due to experience adjustments related to new financial assumptions	347	
Actuarial gains (-) or losses due to experience adjustments related to new demographic assumptions	3	5
<b>Closing balance</b>	<b>2,865</b>	<b>2,189</b>



## NOTES

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

(thousands of €)	Year ended 31 December,	
	2014	2013
Current service cost	228	228
Interest cost	65	60
Revaluations of net liability / net asset	165	(37)
<b>Total expense</b>	<b>457</b>	<b>251</b>

Obligation included in the balance sheet reconciles as follows:

(thousands of €)	Year ended 31 December,	
	2014	2013
Opening balance	2,189	2,035
Total expense recognized in the income statement	457	251
Remeasurement on the net defined benefit liability	267	(47)
Benefits paid	(48)	(51)
<b>Closing balance</b>	<b>2,865</b>	<b>2,189</b>

The most important actuarial assumptions are:

(%)	Year ended 31 December,	
	2014	2013
Discount rate	1.75	3.00
Expected salary increase	2.25	2.50

Sensitivity analysis on discount rate: effect on obligation

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





## NOTES

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

	Year ended 31 December,
Obligation (thousands of €)	2013
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

## 32. Warrant plans

Presented below is a summary of warrant plans activities for the reported periods. Various warrant plans were approved for the benefit of employees of the Group, Directors and independent consultants of Galapagos NV. For warrant plans issued prior to 2011, the warrants offered to the employees and independent consultants vest according to the following schedule: 10% of the warrants vest on the date of the grant; an additional 10% vest at the first anniversary of the grant; an additional 20% vest at the second anniversary of the grant; an additional 20% vest at the third anniversary of the grant; and an additional 40% vest at the end of the third calendar year following the grant. The warrants granted under warrant plans created from 2011 onwards vest at the end of the third calendar year following the year of the grant, with no intermediate vesting. 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. 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 of the Group, 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 a mixture of rights.



## NOTES

The table below sets forth a summary of warrants outstanding and exercisable at December 31, 2014, per warrant plan:

Warrants	Allocation date	Expiry date	Exercise price (€)	Outstanding per 1 January 2014	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding per 31 December 2014	Exercisable per 31 December 2014
2002 B	09.07.2004	08.07.2017	4	31,250					31,250	31,250
2002 B	31.01.2005	30.01.2017	6.76	47,500		2,500			45,000	45,000
2005	04.07.2005	03.07.2018	6.91	145,000		14,000			131,000	131,000
2005	23.11.2005	22.11.2018	8.35	32,500					32,500	32,500
2005	15.12.2005	14.12.2018	8.6	12,500					12,500	12,500
2005	22.11.2006	21.11.2019	8.65	1,050		525			525	525
2006 BNL	13.02.2006	12.02.2019	8.61	46,470		11,372			35,098	35,098
2006 BNL	22.11.2006	21.11.2019	8.65	6,000		6,000			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					2,100	2,100
2006 UK	01.06.2006	31.05.2014	8.7	3,748		3,748			0	0
2006 UK	22.11.2006	21.11.2014	8.65	735		735			0	0
2006 UK	28.06.2007	27.06.2015	8.43	6,000		6,000			0	0
2007	28.06.2007	27.06.2015	8.65	108,126					108,126	108,126
2007	28.06.2007	27.06.2020	8.65	104,644					104,644	104,644
2007 RMV	25.10.2007	24.10.2020	8.65	50,400		1,050			49,350	49,350
2008	26.06.2008	25.06.2021	5.6	136,140		5,525			130,615	130,615
2009	01.04.2009	31.03.2017	5.87	278,500		120,250			158,250	158,250
2009 B	02.06.2009	01.06.2014	7.09	42,540		42,540			0	0
2009 B	02.06.2009	01.06.2017	7.09	75,000		75,000			0	0
2010	27.04.2010	26.04.2018	11.55	456,750		210,750			246,000	246,000
2010 B	27.04.2010	26.04.2015	11.55	190,108		5,088			185,020	185,020
2010 C	23.12.2010	26.04.2018	11.74	75,000					75,000	75,000
2011	23.05.2011	22.05.2019	9.95	536,500			54,000		482,500	
2011 B	23.05.2011	22.05.2016	9.95	127,750					127,750	
2012	03.09.2012	02.09.2020	14.19	435,490			60,000		375,490	
2013	16.05.2013	15.05.2021	19.38	592,040			138,800		453,240	
2013 B	18.09.2013	17.09.2021	15.18	75,000					75,000	
2014	25.07.2014	24.07.2022	14.54		571,660				571,660	
2014B	14.10.2014	13.10.2022	11.93		150,000				150,000	
<b>Total</b>				<b>3,627,076</b>	<b>721,660</b>	<b>505,083</b>	<b>252,800</b>		<b>3,590,853</b>	<b>1,355,213</b>



## NOTES

	Warrants	Weighted average exercise price (€)
<b>Outstanding on 31 December 2012</b>	<b>3,347,709</b>	<b>9.51</b>
Exercisable on 31 December 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)	
<b>Outstanding on 31 December 2013</b>	<b>3,627,076</b>	<b>11.50</b>
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		
<b>Outstanding on 31 December 2014</b>	<b>3,590,853</b>	<b>12.06</b>
Exercisable on 31 December 2014	1,355,213	

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

### Belgian Plans

	2014	2014	2013	2013
	14 Oct	25 Jul	16 May	18 Sep
Exercise price (€)	11.93	14.54	19.38	15.18
Current share price (€)	10.95	14.38	17.74	14.87
Fair value on the grant date (€)	4.35	6.14	7.75	6.80
Estimated volatility (%)	38.03	38.76	38.76	38.76
Time to expiration (years)	8	8	8	8
Risk free rate (%)	0.58	0.58	1.99	1.99
Expected dividends	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.

Warrants expense of the Group in 2014 amounted to €2,952 thousand (2013: €2,742 thousand).



## NOTES

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

### Category

(in number of warrants)	Year ended 31 December,	
	2014	2013
Non-executive directors	199,070	192,350
Executive team	1,445,000	1,382,500
Other	1,946,783	2,052,226
<b>Total warrants outstanding</b>	<b>3,590,853</b>	<b>3,627,076</b>

The outstanding warrants at the end of the accounting period have an average exercise price of €12.06 (2013: €11.50) and a weighted average remaining expected life of 1,639 days (2013: 1,628 days).

## 33. 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 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 a power of attorney granted by the Shareholders' Meeting held on 29 April 2014, 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 2014, amounting in total to maximum €200 thousand (plus expenses) as follows: (a) remuneration for non-executive Directors who do not represent a shareholder (Dr. Van Barlingen and Mr. Rowe): €20 thousand; (b) remuneration for non-EU-based directors (who do not represent a shareholder) and/or for Directors who actively and on a regular basis provide independent clinical, scientific and/or transactional advice to the Board of Directors (Dr. Cautreels, Dr. Sato and Ms. Bosley): €40 thousand; and (c) additional remuneration for the Chairman of the Audit Committee (Dr. Cautreels): €5 thousand. The aforementioned amounts are identical to the remuneration of the Directors for the exercise of their mandate during the previous years. Dr. Parekh, the Chairman of the Board, is compensated through a consultancy agreement only (see [note 34](#)).

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 [note 34](#).

In 2014 (as in 2013), there were no arrangements or understandings with major shareholders pursuant to which a representative of such shareholder became a member of the Board of Directors or the Executive Committee of the Group.

In 2014, a total of 119,260 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 29 April 2014. In 2013, the total number of warrants issued to Directors was 124,240 (of which 100,000 for the CEO);



## NOTES

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 30 April 2013.

### 34. Remuneration of key management personnel

On 31 December 2014, the Executive Committee comprised four members: Mr. Onno van de Stolpe, Dr. Andre Hoekema, Dr. Piet Wigerinck and Mr. Bart Filius. In the course of 2014, two individuals ceased to be members of the Executive Committee: Mr. David Smith, with effect from 1 April 2014, and Mr. Guillaume Jetten, with effect from 1 May 2014. The remuneration package of the members of the Executive Committee who were in function in the course of 2014 comprises:

Thousands of € (except for the number of warrants)	Year ended 31 December,	
	2014	2013
Short-term employee benefits (*)	1,506	2,450
Post-employment benefits	184	135
<b>Total benefits excluding warrants</b>	<b>1,690</b>	<b>2,585</b>
Number of warrants offered in the year	330,000	265,000

(\*) includes: salaries, employer social security contributions, other short term benefits.

The above table includes the normal payments for compensation and benefits made to Mr. Smith and Mr. Jetten up to the respective date of cessation of their mandate as Executive Committee member. In addition, upon termination of his employment, Mr. Jetten received a total payment of €574.4 thousand.

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

The 330,000 warrants offered in 2014 to the members of the Executive Committee were offered under Warrant Plan 2014, with the exception of the warrants offered to Mr. Filius (150,000 warrants), which were offered under Warrant Plan 2014 (B).

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 the Company's peers). 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 the Group's employ.



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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: (i) 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, (ii) 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.

The five members of the Executive Committee (including the CEO) who were in function in the course of 2013 were paid an aggregate amount of €1,467.5 thousand in remunerations and received an aggregate amount of €841.9 thousand in bonuses. The aggregate bonus amount was composed of 2 parts: (i) an aggregate bonus of €377.9 thousand, being 50% of the bonus for performance over 2013 (paid in early January 2014), with the other 50% being deferred for 3 years; and (ii) an aggregate amount of €464.1 thousand paid in early January 2014 as the 50% deferred part of the bonus over 2010; this deferred part was established at the end of 2013 using a multiple of 1.205 of the deferred part of the 2010 bonus, as a result of the share price performance over the period 2010-2013.

Other components of the remuneration of the Executive Committee members included contributions to the Group's 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

In connection with the compensation of Directors, the annual Shareholders' Meeting of 29 April 2014 resolved to establish the total maximum amount of the annual remuneration for all Directors together (excluding Dr. Parekh and the CEO) for the exercise of their mandate as a Director of Galapagos NV, on an aggregate basis, at €200 thousand (plus expenses). The same annual Shareholders' Meeting granted a power of attorney to the Board to determine the remuneration of the individual Board members within the limits of said aggregate amount. Pursuant to this power of attorney, the Board determined, upon recommendation of the Nomination and Remuneration Committee, the allocation of the aggregate annual remuneration for Directors as follows: (a) remuneration for non-executive Directors who do not represent a shareholder (Dr. Van Barlingen and Mr. Rowe): €20 thousand; (b) remuneration for non-EU-based Directors (who do not represent a shareholder) and/or for Directors who actively and on a regular basis provide independent clinical, scientific and/or transactional advice to the Board of Directors (Dr. Cautreels, Dr. Sato and Ms. Bosley): €40 thousand; (c) additional remuneration for the Chairman of the Audit Committee (Dr. Cautreels): €5 thousand. The aforementioned levels of remuneration are a continuation of the fees as paid in previous years.

In 2014, a total amount of €145 thousand was paid to the independent Directors as Board fees (2013: €137 thousand) and €17 thousand as expenses (2013: €26 thousand).

In 2014 an aggregate amount of €20 thousand in Board fees was paid to the Directors who are not independent Directors and who do not represent a shareholder (2013: €20 thousand) and €6 thousand as expenses (they did not claim reimbursement of expenses in 2013).

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 2014 or 2013.



## NOTES

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 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 2014, 11,340 warrants were granted to independent Directors (2013: 16,320) and 7,920 warrants were granted to the other non-executive Directors (2013: 7,920).

## 35. Consolidated companies as of 31 December 2014

Name of the subsidiary	Country	% voting right Galapagos NV (directly or indirectly through subsidiaries)	Change in % voting right previous period (2014 vs 2013)
<b>Continuing operations</b>			
BioFocus DPI AG	Switzerland	100%	
BioFocus DPI LLC	United States	100%	
BioFocus, Inc.	United States	100%	
Discovery Partners International GmbH	Germany	100%	
Galapagos B.V.	The Netherlands	100%	
Galapagos NV	Belgium	parent company	
Fidelta d.o.o.	Croatia	100%	
Galapagos SASU	France	100%	
Inpharmatica Ltd.	United Kingdom	100%	
Xenomatrix, Inc.	United States	100%	
<b>Discontinued operations *</b>			
Argenta Discovery 2009 Ltd.	United Kingdom	0%	(100%)
BioFocus DPI (Holdings) Ltd.	United Kingdom	0%	(100%)
BioFocus DPI Ltd.	United Kingdom	0%	(100%)
Cangenix Ltd.	United Kingdom	0%	(100%)

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



## 36. Company acquisitions and disposals

### Company disposals: sale of service division

On 1 April 2014, the Group 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, the Group 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 B.V. (Leiden, The Netherlands) have been acquired by Charles River Laboratories International, Inc..

(thousands of €)	1 April, 2014
Consideration received in cash and cash equivalents	137,760
Correction on consideration still to settle	(650)
<b>Total consideration</b>	<b>137,110</b>
(thousands of €)	1 April, 2014
Cash	6,115
Trade and other receivables	18,165
<b>Current assets</b>	<b>24,280</b>
Goodwill	39,246
Fixed assets	13,397
Deferred tax assets	4,588
<b>Non-current assets</b>	<b>57,231</b>
Trade payables	(2,569)
Other payables	(5,263)
<b>Current liabilities</b>	<b>(7,832)</b>
Provisions	(604)
Deferred tax liabilities	(1,996)
Other non-current liabilities	(549)
<b>Non-current liabilities</b>	<b>(3,149)</b>
<b>Net assets disposed of</b>	<b>70,531</b>





## NOTES

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

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

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

### 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.



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### Condensed balance sheet Cangenix at acquisition date

(thousands of €)	4 January 2013
Fixed assets	100
Work in progress	7
Debtors and prepayments	134
Cash	84
<b>Total assets</b>	<b>325</b>
Equity	207
Trade payables and advances received	67
Accrued charges and other liabilities	51
<b>Total Equity and liabilities</b>	<b>325</b>
Net assets	207
Goodwill	1,572
<b>Total consideration</b>	<b>1,779</b>
Deferred consideration	(543)
<b>Cash consideration on acquisition</b>	<b>1,236</b>
Cash and cash equivalents acquired	(84)
<b>Cash consideration, net of cash acquired</b>	<b>1,152</b>

As part of the sale of the services division, Cangenix was sold on 1 April 2014 and presented under discontinued operations.

## 37. Critical accounting estimates and judgments

In the application of the accounting policies, the Group 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 Group's 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 Group's critical judgments and estimates that the Group 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.



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### Recognition of clinical trial expenses

The Group 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.

### 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.

### Share-based payments plans

The Group 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 32](#).

### 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 31](#) for additional details.

### Impairment of goodwill

Changes in management assumptions on profit margin and growth rates used for cash flow predictions could have an important impact on the results of the Group. Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which the goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. Considering that the consideration received for the sale of the service division is much higher than its net assets value, such estimation of the value in use is no longer necessary at the end of 2013.



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### 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 one subsidiary operating intercompany on a cost plus basis and as such only a minor deferred tax asset is therefore recognized. As of 31 December 2014, the Group had a total of approximately €220 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 €18 million in Switzerland, Croatia, the United States and The Netherlands with expiry date between 2015 and 2029. As of 31 December 2014, the available tax losses carried forward in Belgium amounted to €136 million.

## 38. Financial risk management

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

### Financial risk factors

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

Categories of material financial assets and liabilities:

(thousands of €)	Year ended 31 December,	
	2014	2013
<b>Financial assets</b>		
Cash at bank and in hand	187,712	138,175
Restricted cash (current and non-current)	10,728	3,306
Trade receivables	1,340	13,291
R&D incentives receivables (current and non-current)	51,296	49,972
Other amounts receivable	1,862	3,792
<b>Total financial assets</b>	<b>252,937</b>	<b>208,536</b>
<b>Financial liabilities</b>		
Trade payables	30,007	29,365
Other non-current liabilities	923	2,462
Leasing debts	167	393
Tax payable	2,582	50
<b>Total financial liabilities</b>	<b>33,679</b>	<b>32,270</b>

### Liquidity risk

The Group's consolidated balance sheet shows an amount of €63.9 million as incurred losses at the end of 2014. Management forecasts the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. The Group has no credit lines. Such forecasting is based on realistic assumptions with regards to milestone and upfront payments to be received, taking



## NOTES

into account the Group's 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 to the Group.

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, the Group has developed a policy of only dealing with creditworthy counterparties.

Galapagos grants credit to its clients in the framework of its normal business activities. Usually, the Group 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 provision for doubtful debtors has been established.

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

(thousands of €)	Year ended 31 December,	
	2014	2013
60-90 days	17	1,034
90-120 days		
more than 120 days	45	

The Group's 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

The Group 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

The Group is exposed to foreign exchange risk arising from various currency exposures. The Group's functional currency is euro, but the Group 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, the Group attempts to align incoming and outgoing cash flows in currencies other than EUR. In addition, contracts closed by the different entities of the Group 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, Galapagos implemented a netting system within the Group in the course of 2012, which restrains intra-group payments between entities with a different functional currency.



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

(thousands of €)	Year ended 31 December,	
	2014	2013
<b>Net book value</b>		
Euros – US Dollars	589	521
Euros – GB Pounds	138	185
Euros – CH Francs	181	163
Euros – HR Kunas	215	798
CH Francs – GB Pounds		1
HR Kunas – GB Pounds		31
US Dollars – GB Pounds	807	708

The magnitude of the amounts for the year ended 31 December 2014 decreased mainly in the conversion Euros–HR Kunas.

### Capital risk factors

The Group manages its capital to safeguard that the Group will be able to continue as a going concern. At the same time, the Group wants to ensure the return to its shareholders through the results from its research and development activities.

The capital structure of the Group consists of cash at bank and in hand and cash equivalents, financial debt (which currently the Group barely has: as of 31 December 2014, the Group has no financial debt other than finance leases and advances from Oseo, a French public organization for innovation support, for €1.2 million), and equity attributed to the holders of equity instruments of Galapagos, such as capital, reserves and results carried forward, as mentioned in the consolidated statement of changes in equity.

The Group 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.

## 39. Auditor's remuneration

The Auditor's fees for carrying out his mandate on the level of the Group headed by Galapagos NV amounted to €80.0 thousand in 2014 (2013: €94.4 thousand). The fees for audit related services executed by the Auditor, in particular other assurance engagements, amounted to €117.3 thousand in 2014 (2013: €20.9 thousand). Fees for persons related to the Auditor for carrying out an auditor's mandate on the level of the group headed by Galapagos NV amounted to €40.8 thousand in 2014 (2013: €105.7 thousand). The fees paid in 2014 for non-audit services executed in this Group by persons related to the auditor for tax and advisory services amounted to €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.



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### 40. Events after balance sheet date

On 12 March 2015, Janssen Pharmaceutica and Galapagos NV terminated their research alliance and option agreements to develop and commercialize compounds for the treatment of inflammation initially focusing on RA. All rights to the candidate drugs developed under these agreements are returned to Galapagos.

The consolidated financial statements of Galapagos were approved by the Board of Directors and authorized for issue, on 26 March 2015. They were signed on its behalf by:

(signed)

**Onno van de Stolpe**

Managing Director and CEO

26 March 2015



# Statutory auditor's report to the shareholders' meeting on the consolidated financial statements for the year ended 31 December 2014

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## 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 statement of financial position as at 31 December 2014, the consolidated statements of income and comprehensive income, the consolidated statements of financial position, 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 270 467 (000) EUR and the consolidated income statement shows a consolidated profit for the year then ended of 33 211 (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 the 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.





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### **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 2014, 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, 27 March 2015

#### **The statutory auditor**

**DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises**

BV o.v.v.e. CVBA / SC s.f.d. SCRL

Represented by Gert Vanhees



## Glossary of terms

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**ACR**

American College of Rheumatology

**ACR20**

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

**ADR**

American Depositary Receipt; Galapagos has a Level 1 ADR with ticker symbol GLPYY and CUSIP number 36315X101, which is traded over the counter on the Pink Sheets. One ADR is equivalent to one ordinary share in Galapagos NV

**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

**Bioavailability**

Assessment of the amount of (candidate) drug that reaches a body's systemic circulation after administration

**Biomarker**

Substance used as an indicator of a biological state, particularly to monitor a biological response to a candidate drug

**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 pre-clinical testing and has been selected for clinical testing for the treatment of a certain disorder in humans

**CIR**

Credit Impot 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

**Clinical Proof of Concept (PoC)**

Point in the drug development process where the candidate drug shows efficacy in a therapeutic setting

**Colitis ulcerosa/ulcerative colitis (UC)**

see IBD

**Compound**

A chemical substance, often a small molecule with drug-like properties

**Contract research organization**

Organization which provides drug discovery and development services

**COPD**

Chronic obstructive pulmonary disease; chronic lung disease characterized by difficulty breathing and persistent coughing; includes the diseases commonly referred to as chronic bronchitis and emphysema

**Corrector drug**

Drug that restores the protein forming the 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

**Crohn's (CD)**

see IBD

**CRP**

C-reactive protein is a protein found in the blood, the levels of which rise in response to inflammation



## GLOSSARY OF TERMS

### **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 frequent lung infections

### **DAS28**

DAS28 is an RA Disease Activity Score based on C-reactive protein, tender and swollen joint counts of 28 defined joints and physician's global health assessment

### **Development**

Process of bringing a new drug to the market. At Galapagos, this is the department which performs pre-clinical and clinical development research, clinical batch scale-up, and regulatory filings of Galapagos' 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

### **Downstream milestones**

The downstream milestones are for successes at key decision making points in the alliance, i.e. selection of a pre-clinical candidate, start of a clinical research study, regulatory filings and approvals, and achievement of commercial sales goals

### **Drug development**

Process of bringing a new drug to the market; includes both pre-clinical development and human clinical trials

### **Drug discovery**

Process by which a (potential) therapeutic is either discovered or designed

### **Efficacy**

Effectiveness for intended use

### **EMA**

European Medicines Agency

### **FDA**

The U.S. Food and Drug Administration is an agency responsible for protecting and promoting public health

### **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 bioavailability of the candidate drug

### **filgotinib**

Also known as GLPG0634. Small molecule selective JAK1 inhibitor which showed excellent efficacy and safety in rheumatoid arthritis patients in Phase 2 trials in November 2011 and November 2012, partnered with AbbVie in 2012. Currently in a Phase 2b study in rheumatoid arthritis and Phase 2 study in Crohn's disease

### **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**

Also known as filgotinib. Small molecule selective JAK1 inhibitor which showed excellent efficacy and safety in rheumatoid arthritis patients in Phase 2 trials in November 2011 and November 2012, partnered with AbbVie in 2012. Currently in a Phase 2b study in rheumatoid arthritis and Phase 2 study in Crohn's disease

### **GLPG0778**

Second candidate drug from Galapagos' arthritis alliance with GlaxoSmithKline, inlicensed by GSK in 2012. This program is now called GSK2586184

### **GLPG0974**

Galapagos candidate drug targeting GPR43, which plays a key role in Inflammatory Bowel Disease: did not show efficacy in a Phase 2 Proof of Concept study in ulcerative colitis patients



## GLOSSARY OF TERMS

### **GLPG1205**

Novel mode of action medicine in inflammatory bowel disease, fully owned by Galapagos, currently in a Phase 2 Proof-of-Concept study in ulcerative colitis

### **GLPG1492**

A novel mode of action antibiotic currently in pre-clinical candidate stage, is fully proprietary to Galapagos

### **GLPG1690**

A novel drug targeting autotaxin, with potential applications in idiopathic pulmonary fibrosis. Fully proprietary to Galapagos. Currently in preparations for the start of a Phase 2 Proof of concept study in IPF

### **GLPG1790**

A novel drug targeting the ephrin tyrosine kinase receptor, with potential applications in triple-negative breast cancer, melanoma, prostate and other cancer types. Currently in pre-clinical candidate stage

### **GLPG1837**

A potentiator drug which entered Phase 1 in December 2014. Galapagos and AbbVie are planning to combine GLPG1837 with GLPG2222 and another corrector drug to treat the largest mutation of CF

### **GLPG1972**

A novel mode of action drug currently in pre-clinical candidate stage, is part of the osteoarthritis alliance with Servier. GLPG1972 is expected to enter Phase 1 before end 2015

### **GLPG2222**

A corrector drug currently in pre-clinical candidate stage, which is expected to enter Phase 1 before end 2015. Galapagos and AbbVie are planning to combine GLPG1837 with GLPG2222 and another corrector drug to treat the largest mutation of CF

### **IBD**

Inflammatory Bowel Disease. This is a general term for autoimmune disease affecting the bowel, including Crohn's disease and ulcerative colitis. Crohn's disease affects the small intestine primarily, while ulcerative colitis affects the large intestine. Both diseases involve inflammation of the intestinal wall, leading to pain, bleeding, and ultimately in some cases removal of bowel tissue

### **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.

### **Infectious diseases**

Diseases that are caused by pathogenic micro-organisms such as bacteria, viruses, parasites or fungi

### **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

### **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



## GLOSSARY OF TERMS

### **Molecule collections**

Chemical libraries, usually consisting of drug-like small molecules that are designed to interact with to specific target classes. These collections can be screened against a target to generate initial “hits” in a drug discovery program

### **MOR106**

A novel mode of action antibody currently in pre-clinical candidate stage, is part of the alliance with MorphoSys. MOR106 is expected to enter Phase 1 in 2016

### **MRSA**

Methicillin-resistant *Staphylococcus aureus* is a strain of *Staphylococcus aureus* that is resistant to methicillin. It causes a potentially life-threatening infection that occurs most frequently among patients in hospitals

### **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

### **OTC**

“Over the Counter” which means trading directly between two parties. In the U.S., over the counter trading in stocks is carried out via market makers who use quotation services such as the OTC Bulletin Board (OTCBB) and the Pink Sheets. The US over-the-counter market is monitored by the FINRA. Galapagos’ Level 1 ADR is traded over the counter under ticker symbol GLPYY on the Pink Sheets in the US, [www.pinksheets.com](http://www.pinksheets.com)

### **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

### **Phase 1**

First stage of clinical testing of a potential new treatment designed to assess the safety and tolerability 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 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

### **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, pharmaco-kinetics, toxicology, and chemical upscaling

### **Pre-clinical candidate (PCC)**

A potential drug that meets chemical and biological criteria to begin the development process

### **Psoriasis**

Psoriasis is an immune-mediated disease that affects the skin. It is caused by the immune system being mistakenly triggered, resulting in overproduction of new skin cells

### **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



## GLOSSARY OF TERMS

### **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

### **Ussing Chamber**

Ussing chamber is a scientific tool used to measure the current as an indicator of ion transport taking place across an epithelium



## FINANCIAL CALENDAR

# Financial calendar

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### **28 April 2015**

Annual General Meeting of Shareholders in Mechelen

### **7 August 2015**

First Half 2015 Results



## COLOPHON

## Colophon

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### Concept, design, and online programming

nexsar GmbH, Vienna - Online annual reports and online sustainability reports

[www.nexsar.com](http://www.nexsar.com)

### Photography

Frank van Delft

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This Annual Financial Report 2014 is also available in Dutch and available for download in the [Downloads](#) section of this report or at [www.glp.com](http://www.glp.com)

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