Galápagos

Pioneering
for patients

Annual Report 2019

Contents

Pioneering for patients

2019 – a historic year

At Galapagos, everything we do is with patients in mind. By using our scientific knowledge, our partnerships, and our passion to make a difference, we aim to improve the lives of those with unmet needs – and 2019 was a historic year in our work to achieve this.

Receiving positive data from our first Phase 3 study in RA was a particularly momentous occasion. This has allowed us to file for a license in Europe, Japan and the United States. We started our ISABELA trial in IPF: our first Phase 3 that we execute ourselves and the largest global study in IPF ever. A true pivotal moment was the deal we signed with Gilead. The 10 years stability and $5.5 billion will enable us to focus on the discovery and development of further molecules to improve lives of patients.

2019 also marked a significant anniversary for us, as we celebrated 20 years of operation.

Throughout our history, we have worked without fear to try new approaches and transform how medicines are discovered. As we grow, we will continue to raise the bar for ourselves and other biotechnology companies, developing innovative medicines that will make a difference.

Doing more & moving faster, together

In July 2019, we entered into a 10-year global research and development collaboration with Gilead. Through this strategic partnership, we secured our independence, and we now have the resources we need to expand and accelerate our research and development programs, enabling us to get innovative drugs to market faster.

Onno van de Stolpe, CEO, reflects on the significance of this landmark deal.

Getting medicines to market demands a huge commitment in terms of resources, so our collaboration with Gilead will make a great impact in helping us to speed up our drug delivery process. Our collaboration is cause for celebration on both sides – Gilead benefits from access to the pipeline created by our target discovery platform, while we benefit greatly from Gilead's expertise and infrastructure.

At the same time, we keep our independence and have the freedom to invest in research and operations required to make us a global powerhouse in biotech.

Gilead's investment builds on our successful filgotinib collaboration and is a huge endorsement of our target discovery platform and the strength of our pipeline. At the core of this agreement is a desire to maximize innovation based on developing new mode of action medicines. With the capital provided by Gilead, we can accelerate the development of current and new programs for patients. That will have a huge impact not only on the person affected, but on their families, friends and society in general.

Looking ahead, this partnership will also enable us to work towards our top 10 biotech ambition, by optimizing the global potential of our products.

> Our collaboration with Gilead will make a great impact in helping us to speed up our drug delivery process.

> The acceleration of our programs for patients will have a huge impact not only on the person affected, but on their families, friends and society in general.

Onno van de Stolpe, CEO

We are transforming drug discovery

At Galapagos, we discover and develop novel medicines. What makes us different is how we innovate. Our daring approach to discovery and development rests on the knowledge of disease biology that our own experts have built up over the past 20 years.

In the past, most medicines treated the symptoms of a disease. Today, we tackle the disease itself. Our proprietary target discovery platform makes it possible to identify the starting points of disease processes and develop novel medicines, that address those starting points. This process is shown in the infographic below.

1

Can we make a difference

The start of a project is sparked by the question, 'Can we make a difference? Are we the first, can we be the most innovative, can we really bring benefit to the patient?'

2

Our proprietary target discovery engine

The combination of **disease assays** with **target discovery tools** (our proprietary target discovery engine) generates unique knowhow about disease processes and the role of individual targets in a disease. We select targets that play an active role in the disease process for further drug discovery.

a

Disease assay

In the lab, we mimic the disease using patient cells and carry out our research in this 'disease assay'. For each project, we build a new disease assay. Assays are proprietary, and this approach yields new insights and starting points with the potential to lead to new medicines.

b

Target discovery tools (RNAi)

We use our RNAi discovery technology to find the molecular starting points (called targets) of a disease. This technology allows us to knock down targets, so they are no longer present in the cells, and study how this influences the disease process. We do this for thousands of individual targets in parallel.

3

Find a matching compound

We now search through large collections of chemical compounds to find one that attaches itself to the target and suppresses its function.

4

Develop a potential medicine

The next step is to develop the chemical compound into a potential medicine. Through medicinal chemistry, we introduce the traits necessary for a drug (e. g. potency, stability, solubility, safety).

5

Test the potential medicine

We assess the effects and safety of the medicine by testing it in the lab, on animals, on a small group of human volunteers and then finally on a large group of patients.

Feed forward into new drug development

Finally, we feed the insights we gain from our clinical patient studies into the loop of drug development, contributing to our knowledge and expertise in disease biology. Our unique approach increases the chances of bringing more, and better, new drugs to the market and to patients.

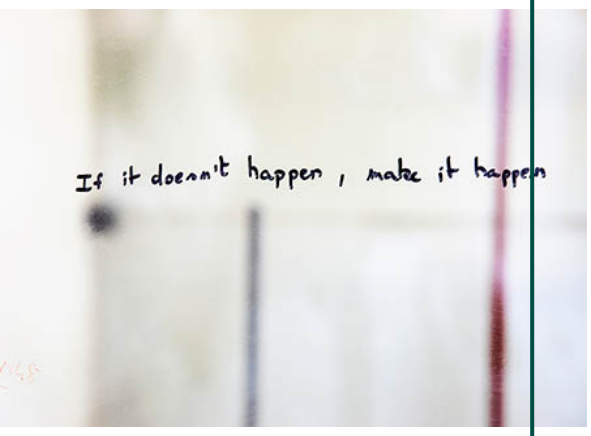
Pioneering for patients

We have been using this approach for our research consistently for over 20 years. Thanks to this unique scientific approach, we have built a vast bank of proprietary knowledge on disease biology. Together with a bullish ambition to build our pipeline, this has led us to the extraordinary position we find ourselves in today: over 40 unique compounds, more than half of which have gone into clinical development.

We foster our people-centricity

Our people and culture are crucial to our business success. We strive to challenge ourselves without fear of failure, and we look for people from different backgrounds who thrive in an environment that embraces change and who are bold in their approach. We are not afraid to go where others haven't, working together to achieve shared goals on our path of discovery.

Here, three colleagues share a personal, standout anecdote that they believe best demonstrates our culture.



If something doesn't work out, rethink it

My colleagues and I collect powerful quotes and write them on a lab window to inspire us as we work. One particular quote – 'If it doesn't happen, make it happen' – proved particularly useful on a demanding project involving a chemical synthesis. In 2012, we knew we were on to a very promising molecule, so, with the quote in mind, we forged ahead. It took us four months to deliver, but it eventually led to a preclinical candidate.

Our driving aim is to contribute to molecules that, one day, will better people's lives, and our inspirational quotes remind us of that goal when things are difficult. What I appreciate in Galapagos is the agility of our research and development. If something doesn't work out the way we thought it would, we rethink it. And rethink it. Until it works.

Maxim De Wachter, Scientist

Letting go of our hierarchy makes it easier to see the positive impact change can have

Since I joined Galapagos 10 years ago, I've been building and shaping the organization, looking at how best to distribute new and existing roles and responsibilities.

Over time, the development has taken various departments that were originally reporting to me into other leadership areas. The overall growth of the company has always provided me opportunities to build, broaden or deepen something new, and my focus has been on bringing to the organization what it requires regardless of the impact on my own territory. I will continue to deliver what Galapagos requires and look at where certain skills and experience sit best.

Working at Galapagos has taught me to not be afraid of letting hierarchy go and to show others the positive results of what can happen when you do.

Imme Van der Taelen,
Vice President Operations and Project Management

We are encouraged to take risks – but recognize no one is perfect

A couple of years ago, our CEO, Onno van de Stolpe, asked for my opinion on a third-party patent I had been analysing. I said I didn't think it was something we should pursue. I said there was always a possibility I could be wrong and that someone else could do something with the patent and compete with us, but I felt it wasn't going anywhere.

Onno said to me: 'I'm asking for your professional opinion, your best judgement of what to do. I don't expect it to be bullet proof.'

At Galapagos, we are encouraged to give our best advice and take risks, but we recognize that everyone is fallible. If your best analysis turns out to be wrong, no one will come back and blame you. It is that perspective that gives you the confidence to take risks.

Maria Nichol, Vice President Intellectual Property

Meet our executive committee

Innovation is at the heart of our company, and an important enabler for our team spirit that encourages everyone to act as pioneers. That also applies to our executive committee – together we make it happen.

Watch the video in our online report

Visit our magazine online →

The Galapagos group

An overview of Galapagos,
its strategy and portfolio in 2019

Pioneering for patients

Letter from the management

Dear shareholder,

2019 was our 20th anniversary year, and what a year it was!

We are very proud of the deal with our collaboration partner Gilead announced in the summer, and we're convinced that it offers us the opportunity to maximize our potential, to the benefit of patients, society, and shareholders. With independent R&D secured for a period of 10 years, and the financing in place to boost our research engine and build out our commercial presence, the collaboration set-up creates the right circumstances to realize our ambition to become one of the largest biopharma companies globally. With the world now facing the COVID-19 outbreak, we are encountering unexpected challenges, but we are convinced that Galapagos is in an especially good position to weather the storm.

Importantly, our pipeline made significant progress in 2019. For the first time in our history, there is a drug candidate from our pipeline under review for approval: filgotinib in rheumatoid arthritis (RA) in the U.S., Europe, and Japan. Pending approval, we are preparing to commercialize filgotinib in RA in the EU5 and Benelux countries, hand in hand with our collaboration partner Gilead.

In addition, we and Gilead are advancing filgotinib in a range of inflammatory diseases. We aim to start the Phase 3 in ankylosing spondylitis (AS) later in 2020, and importantly, we expect the Phase 3 topline results of our ulcerative colitis (UC) trial, the first inflammatory bowel disease (IBD) indication, in the second quarter.

Our collaboration with Servier in osteoarthritis (OA) continues to progress well. We completed recruitment of the ROCCELLA Phase 2 trial with GLPG1972, and anticipate topline results in the second half of this year. This is the trial to evaluate ADAMTS-5 inhibition with GLPG1972 in patients with knee osteoarthritis. ROCCELLA represents a rigorous study with a systemic, oral, potentially disease-modifying approach in OA, and as such, we and the medical community look forward to those results.

We continue to do pioneering work in idiopathic pulmonary fibrosis (IPF) and other fibrotic diseases to address the current unmet needs of patients suffering from these debilitating and fatal conditions. With GLPG1690 in a worldwide Phase 3 program that we run with Gilead, GLPG1205 reading out Phase 2 results later this year, and earlier programs progressing in discovery, we are building a unique pipeline in fibrosis.

We also have an innovative proprietary early stage pipeline, most notably in inflammation with our Toledo program. We are now executing on a broad and accelerated program to discover and develop multiple series of compounds against the novel, proprietary Toledo class of targets.

To ensure long-term value creation, we are dedicated to maintaining an active and growing early-stage portfolio. Currently we have approximately 30 programs running, and while the focus remains on our key franchises in inflammation and fibrosis, we have promising programs running in additional indications, including type 2 diabetes, hepatitis B, and polycystic kidney disease.

As we rapidly grow across seven locations and transform into a fully-fledged biopharma, we are cognizant of the challenges ahead. Our *'Make it Happen'* culture is especially key and brought us to where we are today. We see it as a priority to manage and protect this culture, which we consider essential to maintain our agile, science-driven DNA.

From a financial perspective, we ended 2019 with a very strong balance sheet, thanks to the Gilead deal bringing in an upfront of $3.95 billion and an equity investment of $1.5 billion, including the warrant exercised by Gilead. This capital gives us the firepower to boost our unique research engine and bring much needed innovation to patients.

R&D

In the field of inflammation:

- Gilead submitted applications for approval of selective JAK1 inhibitor filgotinib in RA in the U.S., Europe and Japan
- Gilead dosed the first patients in the PENGUIN Phase 3 trials with filgotinib in psoriatic arthritis (PsA)
- We initiated our first-in-human Phase 1 trials with the Toledo compounds GLPG3312 and GLPG3970
- We jointly announced with collaboration partners Novartis and MorphoSys that due to lack of efficacy, we stopped clinical development of MOR106 in atopic dermatitis (AtD)

In fibrosis:

- For the ISABELA Phase 3 IPF program with selective ATX inhibitor GLPG1690, nearly all study centers were opened for recruitment by year end 2019, and to date, over 800 patients are randomized in this study. As part of the R&D collaboration closed with Gilead, Gilead has in-licensed all ex-European rights on GLPG1690
- We completed recruitment of the NOVESA Phase 2a trial with GLPG1690 in systemic sclerosis (SSc) patients
- We further strengthened our early-stage fibrosis pipeline through agreements with Evotec and Fibrocor

In osteoarthritis:

- We and our collaboration partner Servier completed recruitment for the ROCCELLA Phase 2b trial with GLPG1972 in osteoarthritis patients

Corporate:

- We received $3.95 billion upfront payment from Gilead for the R&D collaboration
- We raised €960.1 million and €368.0 million in gross proceeds as result of respectively a share subscription and a warrant exercise by Gilead and €17.2 million from warrant exercises

Post-period events:

- We completed recruitment of the PINTA Phase 2 trial with GPR84 inhibitor GLPG1205 in IPF
- We obtained orphan drug designation for GLPG1690 in SSc from the FDA and the European Commission
- We expanded the Fibrocor R&D collaboration in fibrosis

- In light of the ongoing COVID-19 pandemic, we are committed to keeping our stakeholders informed as the situation evolves. We see the following impact at this point in time:
  - *Staff*
    Galapagos has strong measures in place to help prevent spread of the virus and protect the health of our staff. We rolled out our global and site business continuity plans and took appropriate recommended precautions and restrictions, including suspending all travel. In practice, this means that our employees are working from home, with the exception of lab personnel and skeleton IT and facilities teams to ensure safety and operational continuity essential to keep research going. For those, we have stringent cleaning and sanitation protocols in place, and we strictly respect social distancing policies at all times, in order to minimize risk of exposure.
  - *Clinical trials*
    We have a business continuity plan for our non-clinical and clinical trials, including a pandemic response plan. We have decided to pause the start of Phase 1 trials temporarily. We are continuously monitoring the situation, always putting patients' safety and needs front & center, and our teams are working hand in hand with our CROs and clinical trial sites to define next steps.

    Our collaboration partner Gilead and we have paused enrollment into the filgotinib trials in order to help protect patient safety. This includes the Phase 2 and Phase 3 trials of filgotinib in Crohn's disease (DIVERSITY), the Phase 3 in psoriatic arthritis (PENGUIN), the Phase 2 trial in uveitis, and the MANTA and MANTA-RAy trials.

    We anticipate the Phase 3 program in ankylosing spondylitis will now start later this year.
  - *Filgotinib filing process in RA*
    To date, our collaboration partner Gilead has not been informed by the regulatory agencies in the US, Europe, and Japan of approval timeline delays. Gilead also confirmed that all sites involved in the manufacturing of filgotinib are established sites that currently manufacture other Gilead marketed products, are in good standing with the FDA, and are GMP certified.
  - *Commercial organization*
    Build-up of our commercial operations in the EU5 countries and the Benelux to prepare for the potential launch of filgotinib continues as planned.

2019: Details of the financial results

Revenues

Our revenues and other income for 2019 significantly increased to €895.9 million, compared to €317.8 million in 2018. Revenues represented €845.0 million in 2019 compared to €288.8 million in 2018 and were higher due to the revenue recognition of the upfront payment received in August 2019 from Gilead related to (i) the GLPG1690 program, (ii) the exclusive access to our drug discovery platform (i.e. the IP, technology, expertise and capabilities) during the collaboration period and exclusive option rights on our current and future clinical programs after Phase 2 outside Europe and (iii) additional consideration received for the extended cost sharing for filgotinib, offset by (iv) a negative catch-up effect for revenues related to the previously received upfront and milestones due to the revised filgotinib collaboration agreement.

Other income increased to €50.9 million, mainly driven by higher income from governmental incentives for our R&D activities.

Operating result

The group realized a net operating profit in 2019 of €370.3 million, compared to a net operating loss of €44.8 million in 2018.

R&D expenses for the group in 2019 increased by 32% to €427.3 million compared to €322.9 million in 2018. This was due to an increase of €52.3 million in subcontracting costs primarily related to our filgotinib program, Toledo program and other programs. Furthermore, personnel costs increased explained by a planned headcount increase following the growth in our R&D investments. These factors as well as the preparation of the forthcoming commercial launch of filgotinib also contributed to the increase in our G&A and S&M expenses which were €98.3 million in 2019, compared to €39.8 million in 2018.

We reported a non-cash fair value loss amounting to €181.6 million resulting from the re-measurement of derivative financial instruments triggered by the share subscription agreement with Gilead and the warrants granted to Gilead, primarily due to the increase in the Galapagos share price.

Net other financial loss in 2019 amounted to €38.6 million, compared to net other financial income of €15.6 million in 2018, which was primarily attributable to €34.9 million realized exchange loss on the U.S. dollars upfront payment from Gilead (mainly related to the negative hedging effect) and €10.6 million of unrealized exchange loss on our cash and cash equivalents and current financial investments in U.S. dollars.

Net result

The group realized a net profit in 2019 of €149.8 million, compared to a net loss of €29.3 million in 2018.

Cash, cash equivalents and current financial investments

Current financial investments and cash and cash equivalents totaled €5,780.8 million on 31 December 2019 as compared to €1,290.8 million on 31 December 2018.

Total net increase in current financial investments and cash and cash equivalents amounted to €4,490.0 million in 2019, compared to an increase of €139.6 million in 2018. This net increase was composed of (i) €3,162.8 million of operational cash flow, of which €3,497.1 million net operational cash proceeds from the Gilead collaboration and €334.3 million of operational cash burn,[1](ii) €955.6 million net cash proceeds related to the share subscription by Gilead and €368.0 million cash proceeds related to the exercise of warrant A by Gilead, (iii) €17.2 million of cash proceeds from capital and share premium increase from the exercise of warrants in 2019, and (iv) €13.7 million of negative fair value and currency translation effects.

Furthermore, Galapagos' balance sheet holds a receivable from the French government (Crédit d'Impôt Recherche[2]), and a receivable from the Belgian Government for R&D incentives, for a total of both receivables of €115.4 million.

Galapagos in 2020

After a historic 2019, 2020 promises to be a particularly newsflow rich year for Galapagos.

First of all, we and our collaboration partner Gilead expect approval of our first product candidate, filgotinib, in RA in the U.S., Europe, and Japan. We also expect Gilead to report Phase 3 data of filgotinib in ulcerative colitis (UC) in the second quarter of this year. Moreover, Gilead and we plan to start the Phase 3 program with filgotinib in ankylosing spondylitis (AS) later in 2020 – a potential additional indication for our growing filgotinib franchise.

Besides the filgotinib UC read-out, we expect to report data from four Phase 2 clinical trials.

[1] We refer to note 19 of the notes to our consolidated financial statements for an explanation and reconciliation of this alternative performance measure.
[2] *Crédit d'Impôt Recherche* refers to an innovation incentive system underwritten by the French government

Within our fibrosis portfolio, we anticipate reporting topline data from the PINTA Phase 2 trial with GLPG1205 in IPF and, together with collaboration partner Gilead, from the NOVESA Phase 2a trial with GLPG1690 in SSc.

We also plan to report topline data from the ROCCELLA Phase 2b study of GLPG1972 in OA, together with our collaboration partner Servier. Following the results, Gilead will have the option to inlicense GLPG1972 for the U.S. market.

We will continue to execute on our accelerated development plan for Toledo, our next generation inflammation program. We expect to launch multiple proof-of-concept patient trials in the second half of the year and expect to report topline data from our first patient study towards the end of the year.

In the meantime, we continue recruitment in our landmark Phase 3 ISABELA program with GLPG1690 in IPF, together with Gilead. We are proud to report that over 800 patients have been recruited, and the futility analysis remains on track for the first quarter of 2021.

In total, we expect to conduct more clinical trials in 2020 than ever before, further expanding our broad clinical pipeline of novel modes of action candidate medicines in indications with high unmet medical needs.

Given the large number of maturing proprietary clinical programs and the expansion of our R&D and commercial teams, in 2020, we expect an operational cash burn between €420 and €450 million, including milestone income from Gilead for potential regulatory approvals of filgotinib in RA.

We publish this report during the ongoing COVID-19 pandemic. First and foremost, I hope that you and your loved ones are safe and healthy. Secondly, of course these are challenging times for Galapagos as well, and our share price has been under severe pressure. I want to assure you that the team continues to face this unprecedented situation with resilience. And as challenging as the COVID-19 crisis is, this too shall pass. Supported by a strong balance sheet and by a deep, growing pipeline, I firmly believe that we can weather this storm. This also comes with a responsibility that we do not take lightly: we are more determined than ever in our unwavering ambition to bring innovation to patients worldwide.

I wish to thank all our shareholders for their support last year. I also want to thank our teams for their dedication and hard work. We truly had a transformative year in 2019, but we are just getting started. We remain in a strong position to weather the uncertainty created by the global corona virus outbreak, and we look forward to a newsflow rich 2020. We hope that you stay with us, as we are breaking innovative ground in inflammation, fibrosis, and beyond.

Onno van de Stolpe
CEO

At a glance

Consolidated Key Figures

(thousands of €, if not stated otherwise)	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
INCOME STATEMENT			
Revenues	844,985	288,836	127,087
Other income	50,905	29,009	28,830
R&D expenditure	(427,320)	(322,875)	(218,502)
S, G&A expenses	(98,278)	(39,776)	(27,218)
Operating expenses	(525,597)	(362,652)	(245,720)
Operating profit/loss (-)	370,292	(44,807)	(89,802)
Net financial results	(220,233)	15,598	(25,705)
Taxes	(214)	(50)	(198)
Net profit/loss (-)	149,845	(29,259)	(115,704)
BALANCE SHEET			
Cash and cash equivalents	1,861,616	1,290,796	1,151,211
Current financial investments	3,919,216	–	–
R&D incentives receivables	115,356	84,646	75,783
Assets (*)	6,068,609	1,439,496	1,286,274
Shareholders' equity (*)	2,875,658	1,214,249	1,011,983
Deferred income	3,000,646	149,801	219,892
Other liabilities (*)	192,305	75,446	54,399
CASH FLOW			
Operational cash flow/operational cash burn (-) (**)	3,162,804	(158,384)	(154,089)
Cash flow generated/used (-) in operating activities (*)	3,208,617	(142,466)	(147,030)
Cash flow used in investing activities	(3,764,660)	(15,914)	(549)
Cash flow generated in financing activities (*)	1,335,751	287,876	353,357
Increase in cash and cash equivalents	779,708	129,497	205,778
Transfer to current financial investments	(198,922)	–	–
Effect of currency exchange rate fluctuation on cash and cash equivalents	(9,966)	10,089	(27,808)
Cash and cash equivalents on 31 December	1,861,616	1,290,796	1,151,211
Current financial investments on 31 December	3,919,216	–	–
Total current financial investments and cash and cash equivalents on 31 December	5,780,832	1,290,796	1,151,211

(*) Our assets, shareholders' equity, other liabilities, cash flow generated/used (-) in operating activities and cash flow generated in financing activities for the year ended 31 December 2019 were impacted by the adoption of the new standard IFRS 16 - Leases, on 1 January 2019. We refer to the notes of this consolidated financial report for additional information.

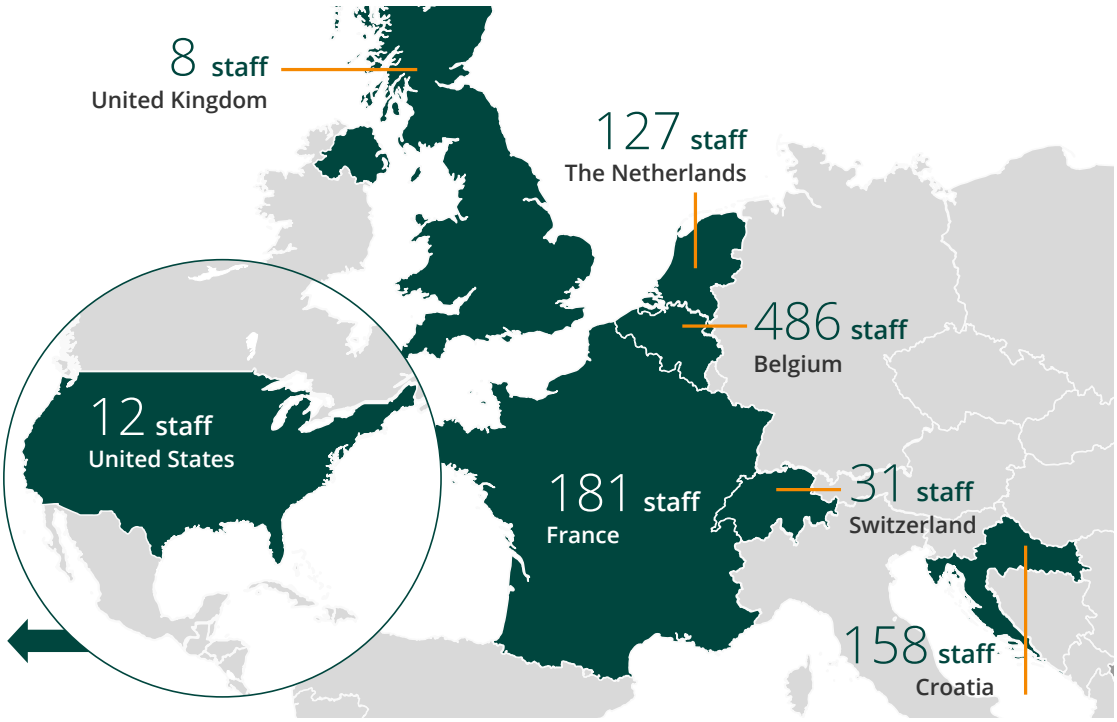
(**) We refer to note 19 of our consolidated financial statements for an explanation and reconciliation of this alternative performance measure.

(thousands of €, if not stated otherwise)	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
FINANCIAL RATIOS			
Number of shares issued on 31 December	64,666,802	54,465,421	50,936,778
Basic income/loss (-) per share (in €)	2.60	(0.56)	(2.34)
Diluted income/loss (-) per share (in €)	2.49	(0.56)	(2.34)
Share price on 31 December (in €)	186.50	80.56	78.98
Total group employees on 31 December (number)	1,003	725	600

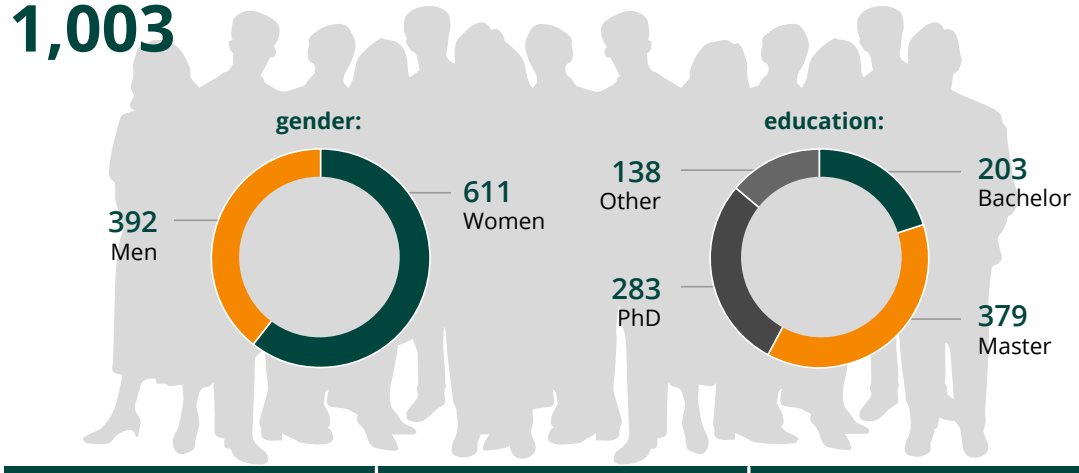
(*) Our assets, shareholders' equity, other liabilities, cash flow generated/used (-) in operating activities and cash flow generated in financing activities for the year ended 31 December 2019 were impacted by the adoption of the new standard IFRS 16 - Leases, on 1 January 2019. We refer to the notes of this consolidated financial report for additional information.

(**) We refer to note 19 of our consolidated financial statements for an explanation and reconciliation of this alternative performance measure.

Employees per site



Number of employees Galapagos group



Average age: 41	**Number of employees older than 45:** 359	**Nationalities:** 39
Average years of service: 4.6	**Employee turnover:** 5.6%	**New hires in 2019:** 279

Strategy

Our mission is to develop and commercialize first-in-class medicines based on the discovery of novel targets. Using human primary cells, we discover which proteins ('targets') play a key role in disease pathways. We then identify and develop small molecules that inhibit these targets, restore the balance, and thereby positively influence the course of the disease. This approach is designed to address the root cause of the disease rather than just treating symptoms.

Our ambition is to become a fully integrated biopharmaceutical company focused on the development and commercialization of novel medicines in areas of unmet medical needs to improve the lives of people suffering from serious diseases.

The key elements of our strategy include:

- **Rapidly advance the development of filgotinib in a range of inflammatory diseases with our collaboration partner Gilead**
  Based on the results from our Phase 2 and Phase 3 clinical trials, we are planning to further develop filgotinib in additional indications in inflammation, including CD, UC, PsA, AS, and other inflammatory diseases. Our collaboration partner Gilead has submitted applications for approval of filgotinib in RA in the U.S., Europe, and Japan. Gilead is also conducting Phase 3 clinical programs in UC (SELECTION), CD (DIVERSITY) and PsA (PENGUIN) and several Phase 2 clinical programs in additional inflammatory diseases.

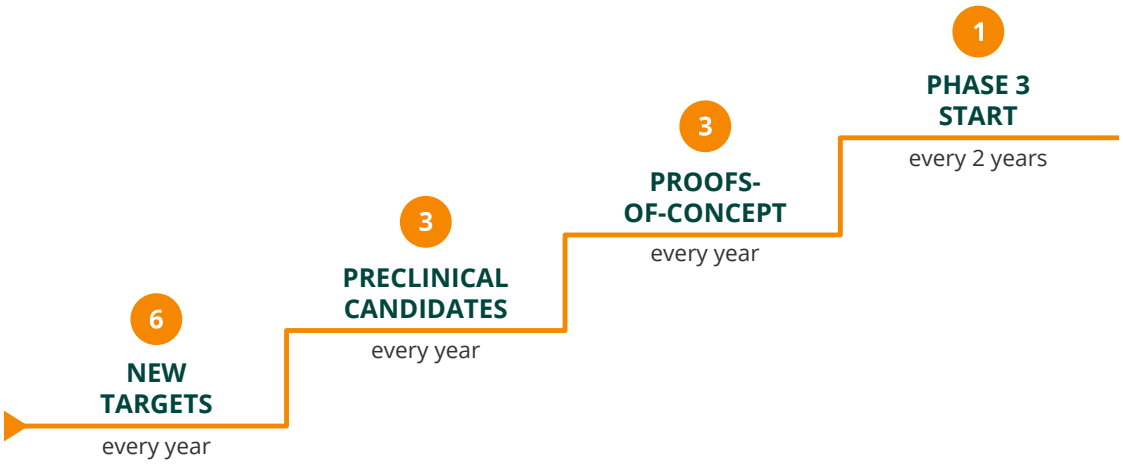
- **Tackle IPF/fibrosis with our pioneering approach**
  We are building a diverse fibrosis portfolio with different modes of action in IPF and other forms of organ and skin fibrosis. We recruited the first 800 IPF patients in the ISABELA global Phase 3 program with ATX inhibitor GLPG1690, for which Gilead has in-licensed ex-European rights from us. We completed recruitment for the NOVESA Phase 2a trial with GLGP1690 in SSc as well as recruitment for the PINTA Phase 2a trial with GPR84 inhibitor GLPG1205 in IPF patients. We also in-licensed two early stage compounds (and have an exclusive option to in-license a total of four additional novel target programs) with novel modes of action in the field of fibrosis from Evotec and Fibrocor respectively, thereby strengthening a growing portfolio of distinct mechanism approaches to tackle IPF and fibrosis.

- **Advance GLPG1972 in OA patient clinical trials with our collaboration partner Servier**
  We completed recruitment for the ROCCELLA global Phase 2 program with ADAMTS-5 inhibitor GLPG1972 together with our collaboration partner Servier and expect topline results in the second half of 2020. Servier licensed the compound for further development in OA outside the United States. Upon successful completion of the Phase 2 trial, Gilead has the option to license development and commercialization rights to this compound in the United States, where we currently lead all clinical development of GLPG1972.

- **Strengthen our innovation leadership in inflammation**
  We have observed unprecedented activity in various inflammatory preclinical models with compounds targeting the class of novel targets we discovered and code-named Toledo. Molecules inhibiting this target family effectuate a dual mode of action on inflammation by stimulating anti-inflammatory cytokines and inhibiting pro-inflammatory cytokines. We are executing on a broad and accelerated program to discover and develop multiple series of compounds acting on Toledo, aimed at activity across several conditions, including inflammation. We completed much of our Phase 1 work with GLPG3312 and initiated a Phase 1 trial with GLPG3970 in 2019. We expect to initiate multiple PoC patient trials with these compounds and report first topline results by the end of the year. Meanwhile, we continue to advance multiple preclinical candidates in inflammation, scale-up our target and drug discovery productivity, and explore additional modalities of drug therapies aimed at inflammation.

- **Maximize and capture the value of our target discovery platform based on novel modes of action**
  Our platform has yielded many new mode of action investigational therapies across multiple therapeutic areas. Our most advanced preclinical programs are GLPG4059 (metabolic), GLPG4124 (fibrosis), GLPG4259 (inflammation), and our third generation Toledo compound GLPG4399 for inflammation. Additionally, we are exploring the potential of preclinical product candidates in AS, Pso, IBD, AtD, lupus, IPF, SSc, nonalcoholic steatohepatitis, type 2 diabetes, hepatitis B, osteoarthritis and polycystic kidney disease. We aim to initiate a Phase 3 trial every other year and our ambition is to conduct three proof-of-concept trials, deliver at least three preclinical product candidates and at least six new validated targets every year. We have paused starts of Phase 1 trials temporarily, due to the coronavirus pandemic.

R&D ambition – Maintaining an active portfolio of around 30 projects



- **Build long-term value and accelerate our pipeline with our collaboration partner Gilead**
  Through our transformative R&D collaboration with Gilead signed in July 2019, we plan to increase our discovery, development and commercial efforts to bring much needed innovation to patients suffering from serious diseases. Under the agreement, we also gained a broader commercialization role for filgotinib in Europe and agreed to equally share all future development costs. Gilead has access to our pioneering discovery platform and gains option rights to our current and future programs outside Europe. Gilead is subject to a 10-year standstill, made a $3.95 billion upfront payment and a $1.5 billion equity investment including the exercise of Warrant A. We are also eligible to receive opt-in fees plus ex-filgotinib tiered royalties ranging from 20-24% on net sales of all our products licensed by Gilead, as well as milestone payments on certain products. See the Notes to the consolidated financial statements.

- **After approval, market our innovative products successfully in Europe**
  We are building a commercial organization to prepare for the expected market launch of filgotinib in collaboration with Gilead in France, Italy, Spain, Germany, UK and the Benelux in 2020 and 2021. Gilead will be solely responsible for commercialization outside of these eight countries. In a next step, we intend to commercialize successful candidates from our Gilead collaboration in our European territories, with Gilead solely responsible for commercialization outside Europe. See the Notes to the consolidated financial statements.

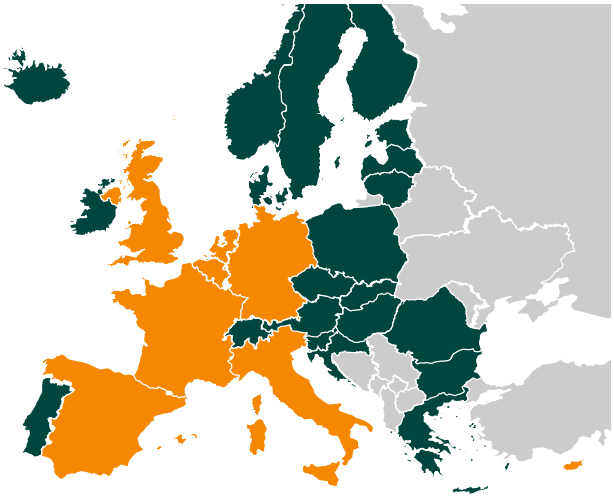
European commercial footprint

2020 – 2021 filgotinib

- Benelux
- France, Italy, Spain
- UK, Germany

2022 – 2023

- Roll out in rest of Europe
- Future products



Going concern statement

To date, we have incurred significant operating losses, which are reflected in the balance sheet showing €109.2 million accumulated losses as at 31 December 2019. We realized a consolidated net profit of €149.8 million for the year ended 31 December 2019. The board of directors has examined the financial statements and accounting policies. Based on conservative assumptions, we believe that our existing current financial investments and cash and cash equivalents of €5,780.8 million at 31 December 2019 will enable us to fund our operating expenses and capital expenditure requirements for the coming years (and at least for the next 12 months). The board of directors is also of the opinion that additional financing could be obtained, if required. Taking this into account, as well as the favorable outlook of developments of our drug discovery and development activities, the board of directors is of the opinion that it can submit the financial statements on a going concern basis. Whilst our current financial investments and cash and cash equivalents are sufficient for the coming years (and at least for the next 12 months), the board of directors points out that if the R&D activities continue to go well, we may seek additional funding to support the continuing development of our products or to be able to execute other business opportunities.

Risk management and internal control

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

To safeguard the proper implementation and execution of the group's strategy, our executive committee has set up internal risk management and control systems within Galapagos. The board of directors has delegated an active role to the audit committee members to monitor the design, implementation and effectiveness of these internal risk management and control systems. The purpose of these systems is to manage in an effective and efficient manner the significant risks to which Galapagos is exposed.

The internal risk management and control system is designed to ensure:

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

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

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

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

The financial risks of Galapagos are managed centrally. The finance department of Galapagos coordinates the access to national and international financial markets and considers and manages continuously the financial risks concerning the activities of the group. These relate to the financial markets risk, credit risk, liquidity risk and currency risk. There are no other important risks, such as interest rate risk, because the group has nearly no financial debt and has a strong cash position. The group does not buy or trade financial instruments for speculative purposes. For further reference on financial risk management, see note 31 of the notes to the consolidated financial statements. We also refer to the Risk factors section of the annual report for additional details on general risk factors.

The company's internal controls over financial reporting are a subset of internal controls and include those policies and procedures that:

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

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

In 2018 management has reviewed its internal controls over financial reporting based on criteria established in the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and engaged an external advisor to help assess the effectiveness of those controls.

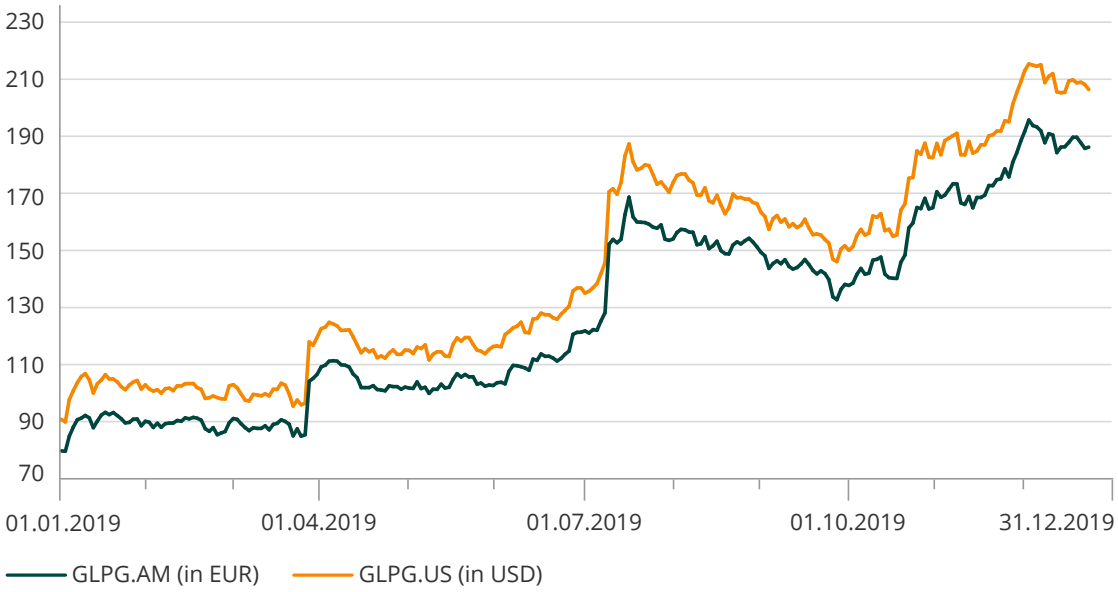
As described in Section 404 of the U.S. Sarbanes-Oxley Act of 2002 and the rules implementing such act, we will include the management and the statutory auditor's assessment of the effectiveness of internal control over financial reporting in our annual report on Form 20-F, which is expected to be filed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

Management as well as the statutory auditor concluded that the group maintained, in all material respects, effective internal control over financial reporting as of 31 December 2019.

The Galapagos share

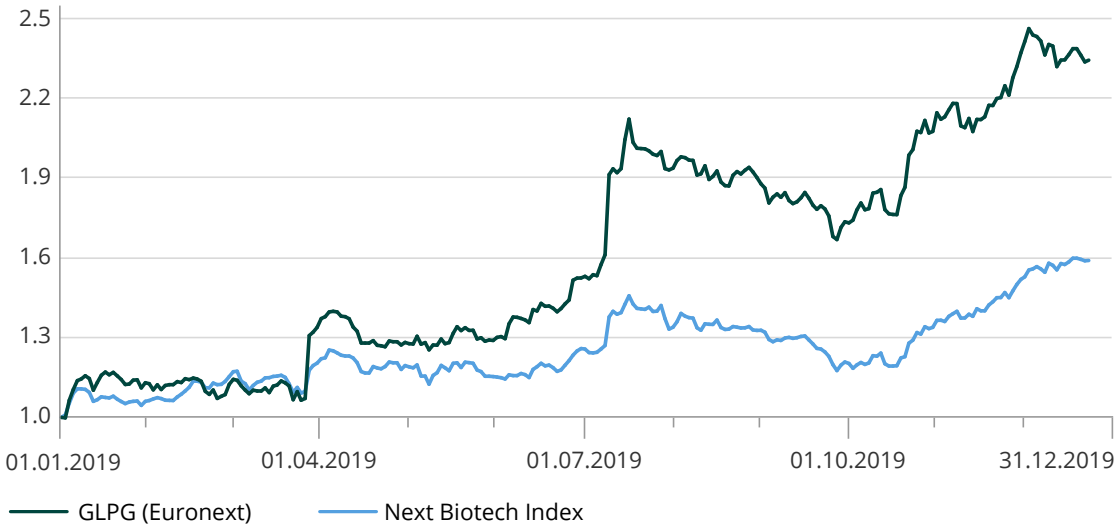
Galapagos NV (ticker: GLPG) has been listed on Euronext Amsterdam and Brussels since 6 May 2005 and on the Nasdaq Global Select Market since 14 May 2015. Galapagos NV forms part of the Bel20 index (top 20 listed companies) on Euronext Brussels, the AEX Index (top 25 listed companies) on Euronext Amsterdam,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

The Galapagos share in 2019

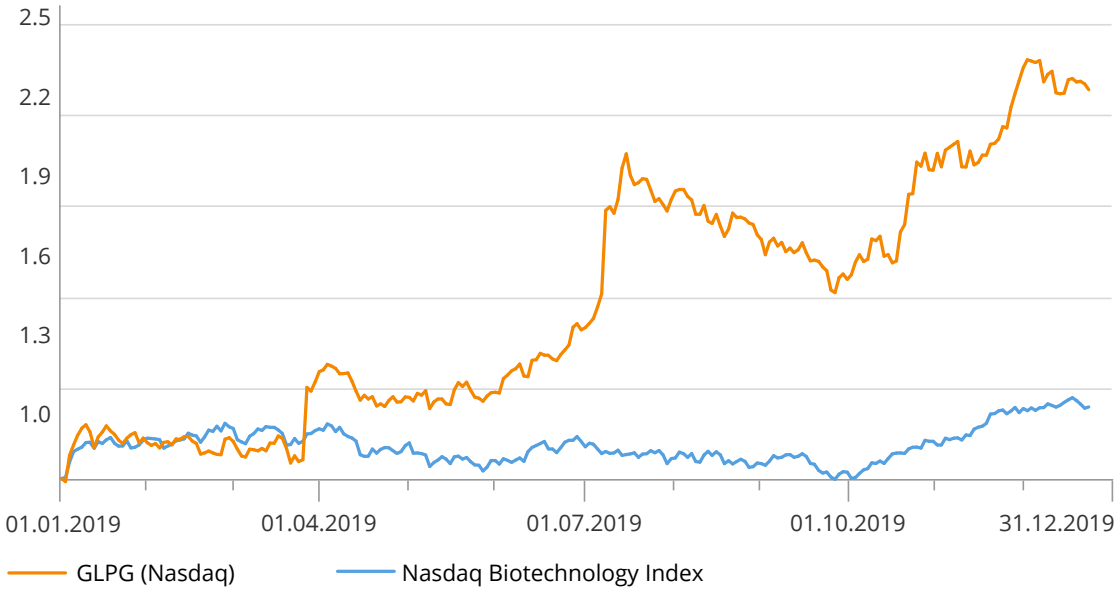


In 2019, the average daily trading volume on Euronext was 453,484 shares and €57.9 million turnover. The daily trading volume on Nasdaq in 2019 was 131,202 ADSs and $18.7 million turnover.

Galapagos vs Next Biotech Index in 2019



Galapagos vs Nasdaq Biotechnology Index



Investor relations activities

We currently have sell-side coverage from >20 analysts and in 2019 we attracted additional sell-side analyst coverage.

Our IR team hosted 8 investor visits of >70 investors to our Mechelen operations, presented at 20 conferences in 2019 in Europe and the U.S. and did several broker-organized and self-organized roadshows throughout the U.S., Europe, and Asia during which we met with >500 investors.

We presented 2018 Full Year, and Q1, Half Year, and Q3 2019 results, our Annual R&D Update, and conference presentations via webcasts.

The main topics of discussion with investors included the filgotinib development programs and commercial strategy, the revised filgotinib agreement with collaboration partner Gilead, our new R&D collaboration agreement with Gilead, our Phase 3 plans with GLPG1690 in IPF patients, our ROCCELLA global Phase 2b trial with collaboration partner Servier in osteoarthritis, and our Toledo program for inflammation.

Overview statutory results of Galapagos NV

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

Galapagos NV's operating income in 2019 amounted to €1,324.3 million compared to €513.1 million in 2018. This increase is due to internally generated intangible assets – being capitalized R&D expenses – which contributed by €114.9 million more to operating income than previous year, and due to €683.9 million higher turnover due to increased milestone revenues and upfront payments under the new collaboration agreement with Gilead. Other operating income amounted to €21.7 million, including €6.5 million of grants recognized for R&D projects, €5.9 million of recharges to subsidiaries and €8.7 million recuperation of withholding taxes for scientists.

The operating costs of 2019 amounted to €930.5 million compared to €654.6 million in 2018. Services and other goods increased substantially to €444.1 million compared to €299.8 million in 2018, primarily due to increased internal and external subcontracting for our preclinical studies and clinical trials as well as increased fees for insourced personnel.

Material purchases increased slightly from €6.2 million in 2018 to €7.5 million in 2019.

Personnel costs in 2019 amounted to €52.2 million compared to €33.4 million in 2018. The number of employees at Galapagos NV at the end of 2019 amounted to 361 as compared to 261 at the end of 2018, excluding insourced personnel.

Depreciation increased to €403.3 million in 2019, compared to €305.7 million in 2018, and related primarily to amortization of R&D expenses.

Galapagos NV's 2019 financial income decreased to €27.5 million compared to €35.7 million in 2018, while financial costs increased to €64.0 million compared to €21.3 million in 2018. This can mainly be explained by currency exchange losses on U.S. dollar in 2019, as compared to non-cash currency exchange gains on U.S. dollar in 2018.

Tax income recorded in 2019 of €21.6 million as compared to €11.3 million tax income in 2018, related to tax incentives for investments in intangible fixed assets.

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

Investments in fixed assets in 2019 amounted to €9.8 million, excluding the internally generated assets. They consisted mainly of costs for new laboratory and IT equipment, as well as investments in intangible assets, being software and licenses.

Other receivables include mainly the receivable for tax incentives amounting to €67.0 million in 2019 and €48.2 million in 2018.

Galapagos NV's cash position at the end of 2019 amounted to €5,759.6 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 2019 closed with a profit of €379.0 million compared to a loss of €115.7 million in 2018. The non-consolidated annual accounts of Galapagos NV show accumulated losses of €80.5 million as at 31 December 2019; we refer to the Going concern statement for justification for the application of the valuation rules under the going concern assumption.

In 2019, Galapagos NV made use of one financial instrument in relation with the deal with Gilead i.e. a hedging instrument, but financial instruments are not actively used.

Disclaimer and other information

This report contains all information required by Belgian law.

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

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

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

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

A digital version of this report, including the statutory financial statements of Galapagos NV, is available on our website, www.glpg.com.

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

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

Forward-looking statements

This report contains forward-looking statements, all of which involve certain risks and uncertainties. These statements are often, but are not always, made through the use of words or phrases such as "believe," "anticipate," "expect," "intend," "plan," "seek," "estimate," "may," "will," "could," "stand to," "continue," as well as similar expressions. Forward-looking statements contained in this report include, but are not limited to, statements made in the "Letter from the management", the information provided in the section captioned "Galapagos in 2020", guidance from management regarding the expected operational use of cash during financial year 2020, statements regarding the expected timing, design and readouts of ongoing and planned clinical trials (i) with filgotinib in ulcerative colitis, Crohn's disease, psoriatic arthritis, ankylosing spondylitis and other indications (ii) with GLPG1690 and GLPG1205 in IPF and with GLPG1690 in SSc, (iii) with GLPG1972 in osteoarthritis, and (iv) with GLPG3312, GLPG3970, and GLPG4399 in inflammation, statements relating to interactions with regulatory authorities and the potential approval process for filgotinib and statements relating to the build-up of our commercial organisation. We caution the reader that forward-looking statements are not guarantees of future performance. Forward-looking statements may involve known and unknown risks, uncertainties and other factors which might cause our actual results, financial condition and liquidity, performance or achievements, or the development of the industry in which we operate, to be materially different from any historic or future results, financial conditions, performance or achievements expressed or implied by such forward-looking statements. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with such forward-looking statements, they may not be predictive of results or developments in future periods. Among the factors that may result in differences are that our expectations regarding our 2020 revenues and financial results and our 2020 operating expenses may be incorrect (including because one or more of our assumptions underlying our revenue or expense expectations may not be realized), the inherent uncertainties associated with competitive developments, clinical trial and product development activities and regulatory approval requirements (including that data from our clinical research programs in rheumatoid arthritis, Crohn's disease, ulcerative colitis, psoriatic arthritis, ankylosing spondylitis, idiopathic pulmonary fibrosis, osteoarthritis, and other inflammatory indications may not support registration or further development of our product candidates due to safety, efficacy, or other reasons), our reliance on collaborations with third parties (including our collaboration partner for filgotinib and GLPG1690, Gilead, and our collaboration partner for GLPG1972, Servier), estimating the commercial potential of our product candidates and the uncertainties relating to the impact of the COVID-19 pandemic. A further list and description of these risks, uncertainties and other risks can be found in our Securities and Exchange Commission filing and reports, including in our most recent annual report on Form 20-F filed with the SEC and our subsequent filings and reports filed with the SEC. We also refer to the "Risk Factors" section of this report. Given these uncertainties, the reader is advised not to place any undue reliance on such forward-looking statements. These forward-looking statements speak only as of the date of publication of this document. We expressly disclaim any obligation to update any such forward-looking statements in this document to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements, unless specifically required by law or regulation.

R&D

Research & Development

Pioneering for patients

Our broad pipeline and powerful drug discovery engine

We discover and develop small molecule medicines with novel modes of action, several of which show promising patient results and are currently in late-stage development in multiple diseases with high unmet medical need. Our highly flexible discovery platform is applicable across many therapeutic areas and our pipeline comprises programs ranging from discovery to Phase 3 and registration phase in inflammation, fibrosis, osteoarthritis, and other indications.

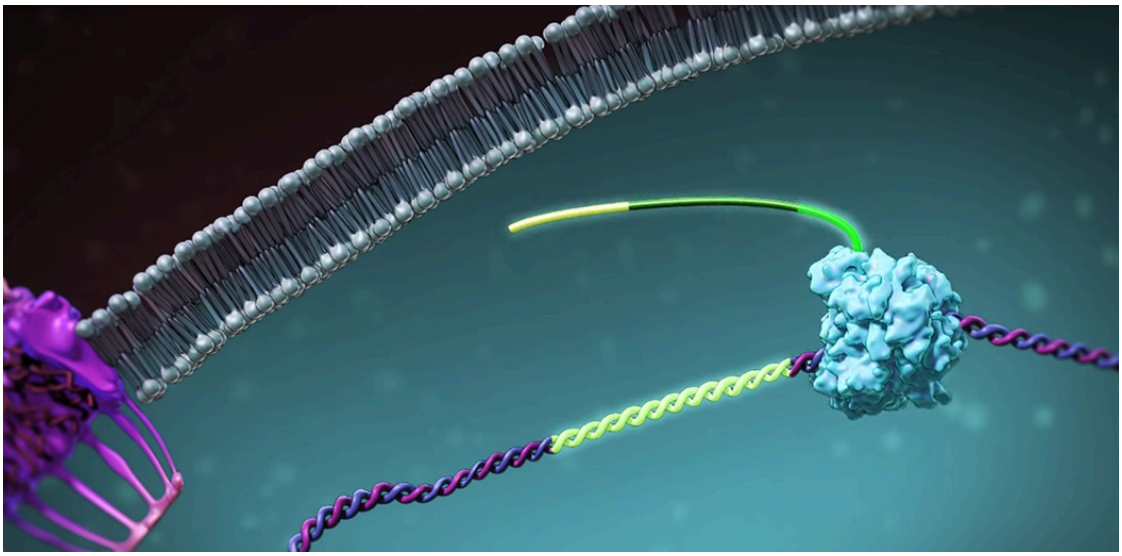
Our clinical pipeline includes: JAK1 inhibitor filgotinib, which is currently filed for approval in RA in the U.S., Europe, and Japan, in Phase 3 trials in UC, CD, and PsA, and in Phase 2 trials in multiple additional indications; autotaxin inhibitor GLPG1690, which is currently in the ISABELA 1 & 2 pivotal trials for idiopathic pulmonary fibrosis (IPF) and the NOVESA Phase 2 proof-of-concept trial in systemic sclerosis (SSc) for which recruitment was completed end of 2019; GLPG1205, a GPR84 inhibitor which completed recruitment in the PINTA Phase 2 proof-of-concept trial in IPF in early 2020; GLPG1972, an ADAMTS-5 inhibitor for which we completed patient recruitment in the ROCCELLA global Phase 2b trial in OA patients in June 2019; and the Toledo molecules GLPG3312, GLPG3970, and GLPG4399, aimed at a novel class of targets we discovered and currently in preclinical and Phase 1 development. Almost exclusively these programs are based on inhibiting targets which were identified using our proprietary target discovery platform.

We have collaborations with Gilead for filgotinib, GLPG1690, and other pipeline assets, with Servier for GLPG1972, with Evotec and Fibrocor for early stage fibrosis programs and with AbbVie in the field of cystic fibrosis (CF). The following table highlights key aspects of our development program indication areas at the beginning of 2020:

Our clinical pipeline

area	preclinical	phase 1	phase 2	phase 3	approval
filgotinib	multiple indications, submitted for RA				
IPF/fibrosis	in ph3 and ph2				
osteoarthritis	ph2b underway				
Toledo	ph1 programs				
inflammation/fibrosis/other	>30 programs				

Flexible target discovery platform



Watch the video on our YouTube channel

Our target discovery platform provides a significant and substantial competitive advantage as it:

- closely mimics the *in vivo* situation through the use of primary human cells with relevant trigger and readout for a specific disease phenotype
- identifies possible points to intervene in a disease pathway by knocking down an individual protein in these pathways; and
- enables us to rapidly analyze all of the druggable genes and select pharmaceutically tractable protein targets directly by their ability to regulate key disease biology

A proof of success of this unique approach is demonstrated with filgotinib which acts on JAK1, a target whose role in the specific disease was discovered by us using our discovery platform. Further proof of this approach was shown in 2017 with autotaxin inhibitor GLPG1690 in IPF patients.

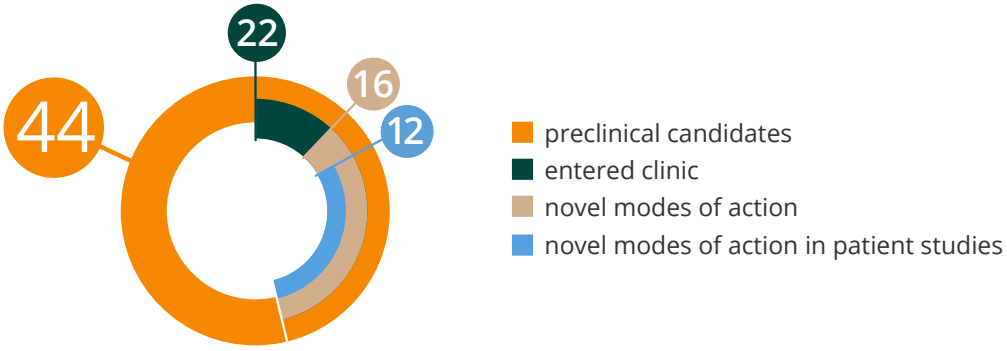
The human genome consists of tens of thousands of genes which code for the proteins that make up the human body. Nearly all chronic diseases and disorders are caused by a disruption in the normal function of certain proteins. The main goal of the industry is to discover and develop molecules that alter the activity of these proteins so that normal function returns and the cause of the disease is minimized or eliminated. One of the main obstacles in discovering new drugs is to understand exactly which of the body's tens of 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. Our approach to target discovery is unique as our discovery platform focuses on target identification using primary human cells, which we believe provides a good system to study the effect that a protein might have on the disease in the human body.

In order to study proteins in human cells, we take advantage of the distinctive properties of adenoviruses. Adenovirus is the virus that causes the common cold and has the capability to infect almost every type of human cell. The adenoviruses we work with have been engineered to act as a shuttle vehicle, allowing the delivery of specific pieces of DNA into human cells. Additionally, these viruses have been made replication incompetent, meaning they do not replicate in the human cell they infect, and so do not interfere with the processes in the

cell. We engineered the viruses to carry small pieces of DNA, specific for individual human genes. When the virus enters the cell, this DNA piece leads to the production of a short sequence of RNA that is processed in the cell to become "short interfering RNA," or siRNA, which specifically interferes with the mRNA of the protein it was designed for. By using these viruses, we can cause the cells to block, or "knock-down," the production of a certain protein, mimicking what a small molecule drug does in the human body. We built a collection with these adenoviruses, now in excess of 20,000 viruses, that addresses around 6,000 druggable genes.

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

This discovery approach provides starting points for the discovery and development of drugs with new modes of action. Since 2009, we have generated 44 preclinical candidates. Of these, 22 have entered first-in-human clinical development, 16 of which have novel modes of action, and 12 entered into patient studies.

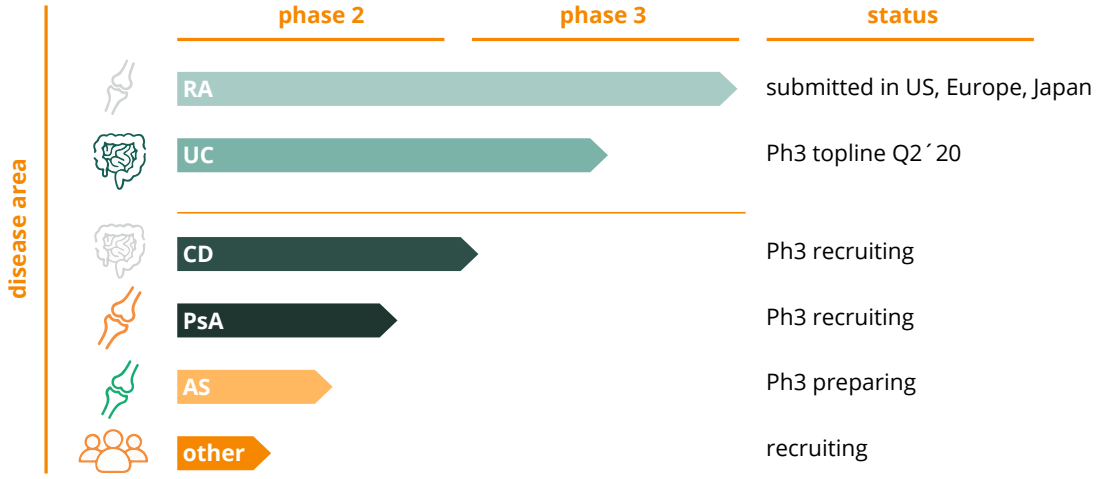


In addition to our pipeline of molecules in the clinic, we have multiple discovery programs which are advancing toward clinical development. Further to targets and molecules in RA, IBD, and fibrosis, we are exploring new modes of action in AS, PsA, IBD, AtD, lupus, IPF, SSc, nonalcoholic steatohepatitis, type 2 diabetes, hepatitis B, osteoarthritis and polycystic kidney disease.

Filgotinib in inflammation

We have a collaboration agreement with Gilead to develop and commercialize filgotinib in multiple diseases. Filgotinib is currently under regulatory review in the United States, Europe, and Japan, and in Phase 3 clinical trials in UC, CD, and PsA, with a Phase 3 in AS expected to start in 2020. Gilead completed trials with filgotinib in Sjögren's disease and cutaneous lupus erythematosus and is working with us to evaluate next steps in those disease areas. In addition, Gilead is running Phase 2 trials with filgotinib in uveitis, small bowel Crohn's disease, and fistulizing Crohn's disease. The following graphic represents the broad filgotinib program. At the time of publication of this report, it was decided to pause the recruitment of ongoing filgotinib trials in connection with the coronavirus pandemic.

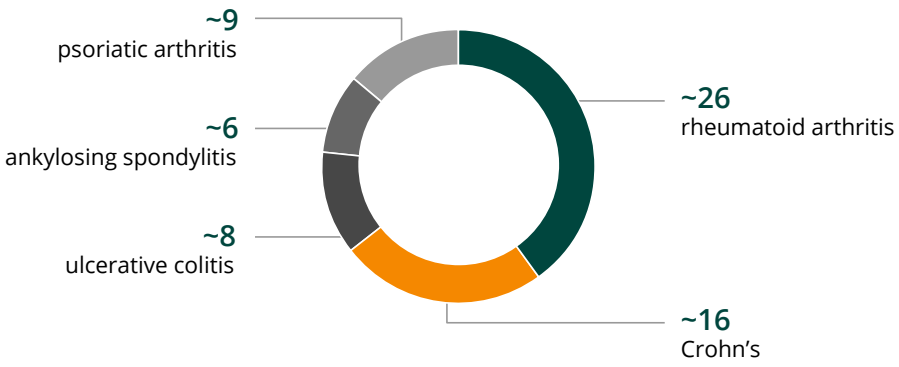
Our filgotinib program



RA: rheumatoid arthritis CD: Crohn's disease UC: ulcerative colitis AS: ankylosing spondylitis PsA: psoriatic arthritis

The market for drugs that treat inflammatory diseases is considerable and growing. We estimate that the inflammation market could grow to approximately $65 billion by 2027, driven by new drugs filling the current unmet need for oral, monotherapy treatments with a rapid response, and higher efficacy maintained over time. RA remains the largest single market indication, which we estimate to be approximately $26 billion, with the other main markets representing a larger combined opportunity than RA:

Inflammation market in ~2027, $B



Source: Galapagos estimates, Decision Resources Group

The Phase 2 and 3 data observed with filgotinib in RA and the Phase 2 data in CD, AS, and PsA thus far, indicate the potential of filgotinib to substantially improve treatment standards in these and other inflammatory conditions. American College of Rheumatology (ACR) scores in Phase 2 and 3 trials in RA patients were significantly greater for filgotinib compared with placebo, and CDAI remission and SES-50 scores are similarly promising with filgotinib in a Phase 2 trial in CD patients who are naive to TNF therapy, and tolerability and safety data were consistently favorable across those trials. Following an interim futility analysis of the Phase 2b/3 SELECTION trial in UC patients, the independent Data Monitoring Committee recommended the trial to proceed into the Phase 3 portion of the study. ACR and enthesitis scores were encouraging with filgotinib in PsA in the EQUATOR Phase 2 trial, while spine mobility and function were significantly improved with filgotinib in AS patients in the TORTUGA Phase 2 trial. Filgotinib is highly selective for JAK1, resulting in favorable tolerability so far, including low rates of infection and low rates of venous thrombotic events (VTEs) reported in all trials.

Filgotinib in RA

RA is a chronic autoimmune disease that affects approximately more than three million patients in the United States and Europe. RA is characterized by inflammation and degeneration of the joints. Patients suffer from pain, stiffness, and restricted mobility due to a persistent inflammation of multiple joints, ultimately resulting in irreversible damage of the joint cartilage and bone. The market for RA treatments in the U.S., EU5 and Japan was worth $28 billion in 2018, with 60% of patients treated with disease-modifying anti-rheumatic drugs (DMARDs), including injectable, biological therapies.[3]

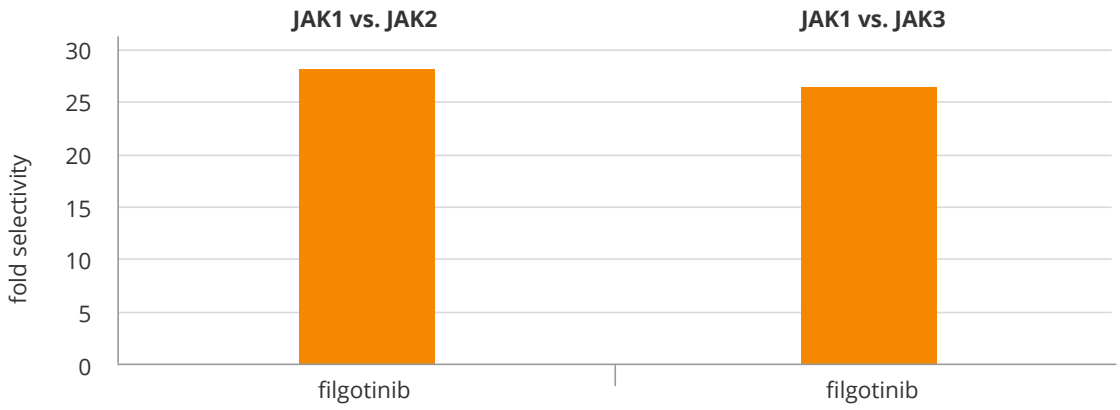
Despite there being many approved agents, considerable unmet need exists, as only one in five patients achieve full remission in the first year.

Oral therapies targeting the Janus kinase (JAK) signaling pathway are approved to treat inflammatory diseases; some JAK inhibitors, however, are associated with a range of side effects, including pulmonary embolisms and aberrations in low-density lipoprotein (LDL, cholesterol) and red blood and NK cell counts. We discovered JAK1 in an inflammation target discovery assay in 2003 and subsequently developed filgotinib as a JAK1 specific small molecule inhibitor. We demonstrated that filgotinib has a nearly 30-fold selectivity for JAK1 over JAK2 and for JAK1 over JAK3. These findings were independently corroborated by Dr. Iain McInnes at the 2017 Annual Meeting of the ACR.

[3] Sources: Decision Resources Group, Global Data, Galapagos Custom Research

Filgotinib selectivity

High selectivity for JAK1



Source: Galapagos human whole blood assay

Source: Galapagos biochemical assay

DARWIN Phase 2b program

We reported positive results from the DARWIN 1 & 2 Phase 2b dose-range finding clinical trials in 2015 and these findings were published in the *Annals of Rheumatological Diseases* (Westhovens *et al.* 2016 and Kavanaugh *et al.* 2016).

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

We and our collaboration partner Gilead reported findings from DARWIN 3 at 156 weeks of treatment at ACR 2019. The data showed that filgotinib maintained its promising activity levels and that it had a favorable tolerability profile. Data in DARWIN 3 were consistent with the risk/benefit profiles reported in DARWIN 1 and 2, and were presented by Kavanaugh *et al.* at the 2019 Annual Meeting of the ACR.

Below is an overview of selected adverse events for filgotinib observed in DARWIN 3:

event per 100 PYE	filgotinib 50-200 mg DARWIN 3 week 156
patient year exp.	2,203
serious infection	1.0
Herpes zoster	1.5
DVT/ PE	2/2,203* 0.1
deaths	0.2

Data on file; DVT/PE = deep venous thrombosis/pulmonary embolism
* one single patient experiencing DVT and PE

FINCH Phase 3 program

The safety and efficacy of 100 mg and 200 mg filgotinib once daily have been investigated in the FINCH clinical Phase 3 program which was initiated in August 2016 and which includes four Phase 3, randomized, multicenter studies in patients with moderate to severe RA.

The studies were designed to characterize the efficacy and safety of filgotinib in several key patient populations following the typical RA treatment pathway. These included:

- Patients who had an inadequate response to methotrexate (MTX) (FINCH 1)
- Patients with difficult-to-treat RA and an inadequate response to biologic disease-modifying antirheumatic drugs (csDMARD) (FINCH 2)
- Methotrexate-naïve patients (FINCH 3)
- Eligible patients could also roll-over into a long-term extension study (FINCH 4)

In both rat and dog toxicology studies in the preclinical phase, filgotinib induced adverse effects on the male reproductive system. Consequently, Gilead and Galapagos are performing dedicated male patient semen analysis trials in inflammation (RA, CD, UC, AS, and PsA) patients, called MANTA and MANTA-RAy, concurrent to all Phase 3 programs. These randomized, double-blind, placebo-controlled trials are intended to be combined to meet the requirement of 200 adult male inflammation patients with a treatment phase of up to 26 weeks. Recruitment into these trials is, at time of publication of this report, paused in light of the COVID-19 pandemic.

FINCH 1 results

The study achieved its primary endpoint for both doses of filgotinib in the proportion of patients achieving an American College of Rheumatology 20 percent response (ACR20) compared to placebo at week 12.

The proportion of patients achieving ACR50 and ACR70 response was also significantly greater for filgotinib compared with placebo at week 12, for both doses. Patients receiving filgotinib 100 mg or 200 mg had a statistically significant reduction in the Health Assessment Questionnaire Disability Index (HAQ-DI) at week 12 compared with those receiving placebo. The proportions of patients achieving clinical remission (DAS28(CRP) < 2.6) and low disease activity (DAS28(CRP) ≤ 3.2) at week 12 were significantly higher for patients in both filgotinib arms compared with placebo. When comparing low disease activity rates at week 12, filgotinib 200 mg was non-inferior to adalimumab. Filgotinib 100 mg and 200 mg also significantly inhibited the progression of structural damage at week 24 as assessed by change from baseline in modified total Sharp score (mTSS) compared with placebo.

Topline FINCH 1 efficacy[4] data are summarized in the table below:

	filgotinib 200 mg +MTX (n=475)[&]	filgotinib 100 mg +MTX (n=480)[&]	adalimumab 40 mg +MTX (n=325)[&]	placebo +MTX (n=475)[&]
ACR20 (%)	76.6***	69.8***	70.8	49.9
ACR50 (%)	47.2***	36.3***	35.1	19.8
ACR70 (%)	26.3***	18.5***	14.2	6.7
DAS28(CRP) ≤ 3.2 (low disease activity) (%)	49.7***[$]	38.8***	43.4	23.4
DAS28(CRP) < 2.6 (clinical remission) (%)	33.9***[¥#]	23.8***[£#]	23.7	9.3
HAQ-DI change	-0.69***	-0.56***	-0.61	-0.42
mTSS change	0.13***	0.17***	0.16	0.38

& Number of patients randomized to each treatment group and who received at least one dose of study drug
ACR20/50/70 represents American College of Rheumatology 20%/50%/70% improvements.
*** p <0.001, compared with placebo
$ p <0.001, non-inferiority to adalimumab
£ p <0.01, non-inferiority to adalimumab
¥ p <0.01, superiority to adalimumab
Comparison not adjusted for multiplicity

FINCH 2 results

Filgotinib achieved its primary endpoint in the FINCH 2 trial in the proportion of patients achieving an American College of Rheumatology 20 percent response (ACR20) at week 12. Also at weeks 12 and 24, the proportion of patients achieving ACR50 and ACR70 response, low disease activity, and clinical remission were significantly higher for patients receiving once-daily filgotinib 100 mg or 200 mg compared to patients receiving placebo. The clinical efficacy and quality of life outcomes assessed at week 12 and week 24 were presented at the Annual ACR meeting 2019 (Genovese *et al.*) and the FINCH 2 results were published in *The Journal of the American Medical Association, JAMA* (Genovese *et al.* 2019).

Topline efficacy data are summarized in the table below:

non-responder imputation	week 12			week 24		
	placebo (n=148)	filgotinib 100 mg (n=153)	filgotinib 200 mg (n=147)	placebo (n=148)	filgotinib 100 mg (n=153)	filgotinib 200 mg (n=147)
ACR20 (%)	31.1	57.5***	66.0***	34.5	54.9***	69.4***
ACR50 (%)	14.9	32.0***	42.9***	18.9	35.3**	45.6***
ACR70 (%)	6.8	14.4*	21.8***	8.1	20.3**	32.0***
DAS28(CRP) < 2.6 (clinical remission) (%)	8.1	25.5***	22.4***	12.2	26.1**	30.6***
DAS28(CRP) ≤ 3.2 (low disease activity) (%)	15.5	37.3***	40.8***	20.9	37.9**	48.3***

ACR20/50/70 represents American College of Rheumatology 20%/50%/70% improvements.
* p <0.05, compared to placebo
** p <0.01, compared to placebo
*** p <0.001, compared to placebo

[4] All efficacy time points assessed at Week 12 except mTSS which was assessed at Week 24

FINCH 3 results

The study achieved its primary endpoint in the proportion of patients achieving an American College of Rheumatology 20 percent response (ACR20) at week 24. The proportion of patients achieving the primary endpoint of ACR20 response at week 24 was significantly higher for filgotinib 200 mg plus MTX and filgotinib 100 mg plus MTX compared with MTX alone.

The proportion of patients achieving ACR50, ACR70, and clinical remission (DAS28(CRP) < 2.6) at week 24 was also significantly higher for patients receiving once-daily filgotinib 100 mg or 200 mg plus MTX compared with patients receiving MTX alone. Additionally, those who received filgotinib experienced greater reduction in the Health Assessment Questionnaire Disability Index (HAQ-DI) compared with those receiving MTX alone at week 24. Filgotinib 200 mg monotherapy inhibited the progression of structural damage at week 24 compared with MTX alone as assessed by modified total Sharp score (mTSS).

Topline FINCH 3 efficacy[5] data are summarized in the table below:

	filgotinib 200 mg +MTX (n=416)[&]	filgotinib 100 mg +MTX (n=207)[&]	filgotinib 200 mg monotherapy (n=210)[&]	MTX (n=416)[&]
ACR20 (%)	81.0***	80.2*	78.1	71.4
ACR50 (%)	61.5***	57.0**	58.1**[#]	45.7
ACR70 (%)	43.8***	40.1***	40.0***[#]	26.0
DAS28(CRP) < 2.6 (clinical remission) (%)	54.1***	42.5***	42.4***[#]	29.1
HAQ-DI change	-0.94***	-0.90**	-0.89*[#]	-0.79
mTSS change	0.20	0.22	-0.04**[#]	0.52

MTX, methotrexate
& Number of patients randomized to each treatment group and who received at least one dose of study drug
ACR20/50/70 represents American College of Rheumatology 20%/50%/70% improvements.
* p < 0.05 compared with MTX
** p <0.01, compared with MTX
*** p <0.001, compared with MTX
# Comparison not adjusted for multiplicity

FINCH safety data

We and Gilead also announced interim safety information from four studies of the investigational compound filgotinib for the treatment of rheumatoid arthritis. The data include 24 week results of the Phase 3 FINCH 1, 2, and 3 trials in patients with RA and the pooled analyses from these 3 FINCH trials were presented at the Annual ACR meeting 2019 (Winthrop *et al*). In this pooled analysis, filgotinib was well-tolerated, no new safety concerns were identified, and the safety results were consistent with selective JAK1 inhibition. Adverse events of MACE and DVT/PE were rare and occurred in similar number among all treatment groups. Herpes zoster reactivation was not increased in the filgotinib groups compared with the other treatment groups. The data highlight the favorable safety and tolerability profile of filgotinib as monotherapy and in conjunction with MTX/csDMARD in RA.

[5] Efficacy assessed at Week 24 for all endpoints

Week 24 safety data from the FINCH 1, 2, and 3 studies are aggregated and summarized in the table below. Data from 3,452 patients are reported, including 2,088 patients who received filgotinib:

	Placebo/ csDMARD	adalimumab	filgotinib	filgotinib	filgotinib	filgotinib
			100 mg	200 mg	200 mg	total
		+MTX 40 mg EOW	+MTX/ csDMARD	+MTX/ csDMARD		
	(n=1039) no. (%)	(n=325) no. (%)	(n=840) no. (%)	(n=1038) no. (%)	(n=210) no. (%)	(n=2088) no. (%)
serious infections[&]	10 (1.0)	8 (2.5)	13 (1.5)	13 (1.3)	3 (1.4)	29 (1.4)
Herpes zoster[&]	4 (0.4)	2 (0.6)	5 (0.6)	6 (0.6)	1 (0.5)	12 (0.6)
DVT/PE[&]	3 (0.3)	0 (0)	0 (0)	1 (0.1)[μ]	0 (0)	1 (<0.1)
death[@]	2 (0.2)	0 (0)	1 (0.1)	3 (0.3)	0 (0)	4 (0.2)
malignancy excluding NMSC[&]	4 (0.4)	1 (0.3)	1 (0.1)	0 (0)	0 (0)	1 (<0.1)
MACE[&]	5 (0.5)	1 (0.3)	2 (0.2)	2 (0.2)	1 (0.5)	5 (0.2)

MTX, methotrexate; EOW, every other week; csDMARD, conventional synthetic disease-modifying antirheumatic drug; DVT, deep venous thrombosis; PE, pulmonary embolism; NMSC, non-melanoma skin cancer; MACE, major adverse cardiac events

& Treatment-emergent events

μ Excludes one retinal vein occlusion

@ All events

Applications for approval of filgotinib in RA

Gilead announced acceptance of a Marketing Authorisation Application (MAA) by the European Medicines Agency in August 2019, submission of a New Drug Application (NDA) to the Japanese Ministry of Health, Labor, and Welfare (MHLW) in October 2019, and submission of an NDA (under priority review) to the United States Food & Drug Administration (FDA) in December 2019. We and our collaboration partner Gilead expect decisions on potential approvals in all these geographies in the course of 2020.

Commercialization of filgotinib in RA

If approved by the European Commission for RA indications, we expect to launch commercial sales activities in Belgium, The Netherlands, and Luxembourg where we are solely responsible for commercialization, and in France, Italy, and Spain where we will lead commercial sales responsibilities in RA, pursuant to the parties' joint commercialization of filgotinib in those countries. We are advanced in our preparations to launch in these countries in the course of 2020, pending approval of filgotinib. Gilead will launch commercial sales activities in RA in Germany and the UK, the remaining of the eight countries in which we and Gilead will equally split profits from filgotinib commercial activities, pursuant to the parties' joint commercialization of filgotinib in those countries. Gilead will be responsible for the commercial launches in all territories outside these eight European countries, should filgotinib be approved in these territories. See details on the Gilead collaboration in the Notes to the consolidated financial statements.

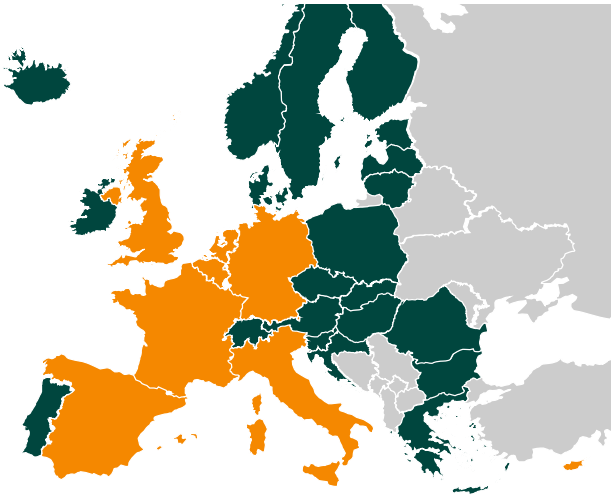
European commercial footprint

2020 – 2021 filgotinib

- Benelux
- France, Italy, Spain
- UK, Germany

2022 – 2023

- Roll out in rest of Europe
- Future products



Filgotinib in IBD, which includes UC and CD

Current treatments for IBD are dominated by anti-TNF agents, with new biologic agents gaining market share.

We observed high activity and a favorable tolerability profile in a Phase 2 trial with filgotinib in CD, as reported in *The Lancet* (Vermeire *et al.* 2016). The profile we saw with filgotinib in this CD patient trial indicates that the product candidate may show activity and tolerability in UC patient trials as well.

Should filgotinib be approved commercially for IBD indications, Galapagos will be lead commercial sales responsible for the UK, Germany and the Benelux countries, and Gilead will be lead commercial sales responsible for France, Italy and Spain. All other countries will be Gilead's commercial sales responsibility.

Global SELECTION Phase 2b/3 program in UC

UC is an inflammatory bowel disease resulting in ulcerations and inflammation of the colon and rectum. In 2018, nearly 2 million patients were diagnosed with UC in the U.S., EU5 and Japan, and the total market for UC treatments in the acute and maintenance settings was worth $6 billion in the U.S., EU5 and Japan in 2018.[6]

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.

Gilead initiated the global SELECTION Phase 2b/3 trial in UC with filgotinib in December 2016. SELECTION investigates efficacy and safety of 100 mg and 200 mg filgotinib once-daily compared to placebo in 1,300 patients with moderately to severely active disease including those with prior antibody therapy failure. Men and women in SELECTION were randomized to receive placebo, 100 mg or 200 mg filgotinib. Due to preclinical findings with filgotinib regarding semen parameters, in the United States, males may receive 200 mg if they failed at least one anti-TNF therapy and vedolizumab, a monoclonal anti-integrin antibody marketed by Takeda. Adjacent to the filgotinib Phase 3 programs, we and Gilead are conducting dedicated male semen analysis studies in CD and UC patients (MANTA) and in RA, PsA, and AS patients (MANTA-RAy).

[6] Sources: Decision Resources Group, Global Data, Galapagos Custom Research

In May 2018, Gilead and we announced that an independent Data Monitoring Committee (DMC) conducted a planned interim futility analysis of SELECTION after 350 patients completed the induction period in the Phase 2b portion of the trial. The DMC recommended that the study could proceed into Phase 3 as planned at both the 100 mg and 200 mg once-daily dose level in biological-experienced and biological-naive patients.

Gilead announced completion of recruitment for SELECTION in 2019, and topline results are expected in the second quarter of 2020.

FITZROY Phase 2 and global DIVERSITY Phase 3 program in CD

CD is an IBD of unknown cause, resulting in chronic inflammation of the gastrointestinal (GI) tract with a relapsing and remitting course. In 2018, nearly 1.5 million patients were diagnosed with CD in the U.S., EU5 and Japan, and the total market for CD treatments in the acute and maintenance settings was worth $16 billion in the U.S., EU5 and Japan in 2018.[7]

Today, only 10% of CD patients on treatment achieve prolonged clinical remission. There are currently no highly effective oral therapies approved for CD and, similar to RA, treatment is dominated by injectable, biological treatments including anti-TNF therapies. Anti-TNF agents have improved the management of CD; however, not all patients respond to these drugs, and secondary loss of response is reported in up to 50% of patients per year in placebo-controlled trials. There continues to be a considerable unmet need with these existing treatments. Dysregulation of the JAK signaling pathway has also been associated with CD, and this suggests that filgotinib, with its high selectivity for JAK1, is a highly attractive candidate for the treatment of CD. It is hypothesized that by inhibiting JAK1, unwanted effects such as anemia may be reduced. This is of particular importance to IBD patients, who frequently experience fecal blood loss.

Our FITZROY Phase 2 trial evaluated the efficacy and safety of once-daily filgotinib in 174 patients with moderate to severe active CD and mucosal ulceration. Patients recruited were either anti-TNF naive or anti-TNF failures. As reported in *The Lancet* (Vermeire *et al.* 2016), the FITZROY trial achieved the primary endpoint of clinical remission at week 10 and filgotinib demonstrated a favorable tolerability profile consistent with the DARWIN trials in RA.

Gilead initiated the Phase 3 DIVERSITY trial with filgotinib in CD in November 2016. The DIVERSITY Phase 3 trial investigates the efficacy and safety of 100 mg and 200 mg filgotinib once-daily compared to placebo in patients with moderate to severe active disease including those with prior antibody therapy failure. Gilead will recruit approximately 1,300 patients from the United States, Europe, Latin America, Canada, and Asia/Pacific regions. Men and women in the DIVERSITY trial will be randomized to receive placebo, 100 mg or 200 mg filgotinib. Due to preclinical findings with filgotinib regarding semen parameters, in the United States, males may receive 200 mg if they failed at least one anti-TNF therapy and vedolizumab. Adjacent to the filgotinib Phase 3 programs, we and Gilead are conducting dedicated male semen analysis studies in CD and UC patients (MANTA) and in RA, PsA, and AS patients (MANTA-RAy). At the time of publication of this report, it was decided to pause recruitment for DIVERSITY in connection with the corona virus pandemic.

In March 2017, Gilead initiated a Phase 2 trial in small bowel CD and a Phase 2 trial in fistulizing CD. Recruitment for these studies has also been paused in connection with the corona virus pandemic.

[7] Sources: Decision Resources Group, Global Data, Galapagos Custom Research

Filgotinib in psoriatic arthritis

PsA is an inflammatory form of arthritis, affecting up to 30% of psoriasis patients. In 2018, 3.5 million patients suffered from PsA in the U.S., EU5 and Japan and the market for PsA treatments was worth nearly $7 billion in 2018 in these seven major markets.[8]

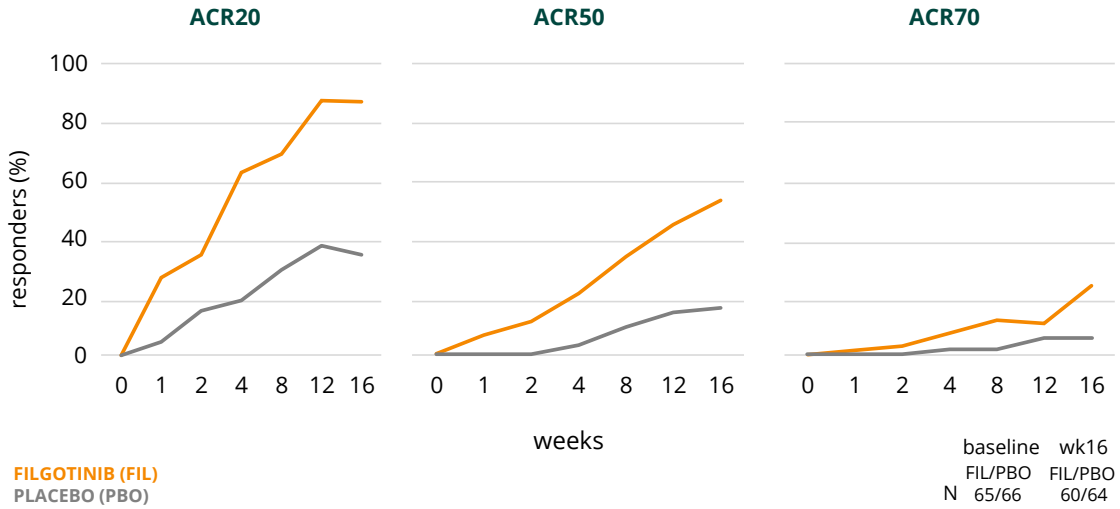
PsA can cause swelling, stiffness and pain in and around the joints and cause nail changes and overall fatigue. Studies show that delaying treatment for PsA as little as six months can result in permanent joint damage. Early recognition, diagnosis and treatment of PsA are critical to relieve pain and inflammation and help prevent joint damage. Despite the availability of a number of treatment options, few current treatments effectively relieve the enthesitis (inflammation of the tendons or ligaments) and symptoms in the joints and the skin.

EQUATOR Phase 2 program with filgotinib in PsA

The EQUATOR Phase 2 trial was a multi-center, randomized, double-blind, placebo-controlled trial to assess the safety and efficacy of filgotinib in adult patients with moderate to severe active PsA. 131 patients were randomized in the trial in a 1:1 ratio to receive 200 mg filgotinib or placebo once-daily administered for 16 weeks. EQUATOR was recruited in eight European countries.

In May 2018, Gilead and we announced that the EQUATOR trial achieved its primary endpoint of improvement in the signs and symptoms of PsA at Week 16, as assessed by ACR20 score. There was an ACR20 response of 80% for filgotinib versus 33% for placebo (p<0.001). The ACR50 and ACR70 responses at week 16 were also significantly higher for filgotinib versus placebo (ACR50: 48% for filgotinib versus 15%, p<0.001; ACR70: 23% versus 6%, p<0.01).

Durable response in EQUATOR PsA Ph2

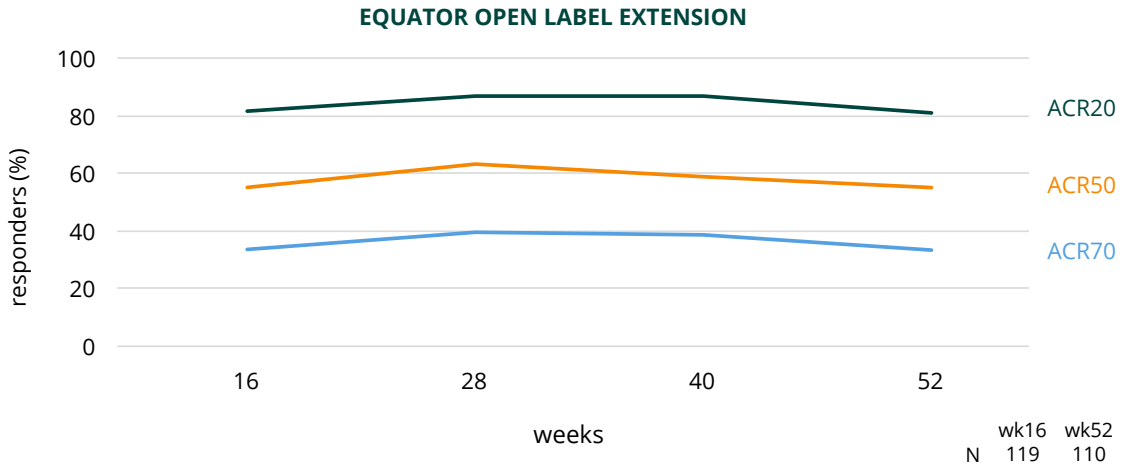


Source: Coates *et al.* ACR 2019

[8] Sources: Decision Resources Group, Global Data, Galapagos Custom Research

This efficacy response was sustained in the open label extension of EQUATOR, up to 52 weeks:

Durable response in EQUATOR PsA Ph2



Source: Coates *et al.* ACR 2019

Filgotinib was generally well-tolerated in the EQUATOR trial, with no new safety signals observed and similar laboratory changes compared to those reported in previous trials with filgotinib in RA patients. The adverse event rate was similar in both groups with mostly mild or moderate events reported. There was one serious infection in the filgotinib group, a patient who experienced pneumonia with a fatal outcome. One other patient receiving filgotinib developed herpes zoster. There were no cases of opportunistic infection, tuberculosis, thromboembolism, or malignancy. The full results of EQUATOR were published in *The Lancet* and presented in a plenary session at ACR 2018 (Mease *et al.* 2018), and a safety update through 52 weeks was presented at ACR2019 (Coates *et al.* 2019).

TEAEs of special interest	incidence # of pts (%) FIL 200 mg, n=65 wk 0-16	incidence # of pts (%) placebo, n=66 wk 0-16	rate/100 PYE # of events FIL 200 mg, PYE=160 wk 0-52
all serious infections	1 (1.5)	–	1.9 (3)
opportunistic infections	–	–	–
herpes zoster	1 (1.5)	–	0.6 (1)
malignancies	–	–	0.6 (1)
deep vein thrombosis	–	–	–
pulmonary embolism	–	–	–
major cardiac events (adjudicated)	–	–	0.6 (1)
deaths	1 (1.5)	–	0.6 (1)

Global PENGUIN Phase 3 program with filgotinib in PsA

In December 2019, Gilead dosed the first patient in the PENGUIN Phase 3 program in PsA. The PENGUIN program investigates the efficacy and safety of 100 mg and 200 mg filgotinib once-daily compared to placebo. PENGUIN 1 will compare the efficacy and safety of filgotinib, adalimumab, and placebo in approximately 1000 patients with active PsA who are naive to bDMARD therapy. PENGUIN 2 will measure efficacy and safety of filgotinib vs placebo

in 390 patients with active PsA who have an inadequate response or are intolerant to bDMARD therapy. The primary endpoint of each trial is ACR20 response at Week 12, with multiple secondary endpoints on signs and symptoms of PsA up to week 24 in PENGUIN 1, and week 16 in PENGUIN 2.

Other indications with filgotinib

Ankylosing spondylitis (AS)

AS, a systemic, chronic, and progressive inflammatory arthritis, is one of the most common rheumatic diseases across the globe, affecting nearly 2 million patients in the U.S., Europe, and Japan in 2018. The total market for AS treatments was worth $3 billion in 2018 in the seven major markets.[9]

AS primarily affects the spine and sacroiliac joints and progresses into severe inflammation that fuses the spine, leading to permanent painful stiffness of the back. Currently, there is no known cure for AS, but there are treatments and medications available to reduce symptoms and manage pain. Recent studies show that the newer biologic medications can potentially slow disease progression in some patients; however, patients respond to different medications with varying levels of effectiveness. Thus, it takes time to find the most effective course of treatment.

TORTUGA was a multi-center, randomized, double-blind, placebo-controlled, Phase 2 trial to assess the safety and efficacy of filgotinib in adult patients with moderate to severe active AS. The trial was conducted in Belgium, Bulgaria, Czech Republic, Estonia, Poland, Spain and Ukraine. In total, 116 patients were randomized in a 1:1 ratio to receive filgotinib 200 mg or placebo once-daily for 12 weeks.

In September 2018, Gilead and we announced that the TORTUGA trial achieved its primary efficacy endpoint in adults with moderately to severely active AS. In the trial, patients treated with filgotinib achieved significantly greater improvements in AS Disease Activity Score, the primary endpoint, at week 12, with a mean change from baseline of -1.5 versus -0.6 for those treated with placebo ($p<0.0001$). More patients receiving filgotinib also achieved an Assessment in AS Response of at least 20% improvement compared to those treated with placebo (76% versus 40%, $p<0.0001$).

Adverse events were generally mild or moderate in severity and were reported in an equal proportion of patients in the filgotinib and placebo groups. Laboratory changes were consistent with those previously reported for filgotinib, and no new safety signals were observed in the trial. There was one treatment-emergent serious adverse event reported for a patient receiving filgotinib who experienced pneumonia and recovered after hospital-based antibiotic treatment. One patient randomized to filgotinib, with an inherited risk for thrombosis, experienced a non-serious deep venous thrombosis after completing the course of study drug. No deaths, malignancies, hepatic events, opportunistic infections or cases of herpes zoster were observed in the study. The full results of the TORTUGA trial were reported in *The Lancet* (Van der Heijde *et al.* 2018).

We expect that our collaboration partner Gilead will initiate a Phase 3 program with filgotinib in AS during the course of 2020.

Additional indications

In the course of 2017, Gilead initiated clinical trials with filgotinib in Sjögren's disease, cutaneous lupus erythematosus, lupus membranous nephropathy, and uveitis. In 2019, Gilead reported completion of the trials in Sjögren's disease and cutaneous lupus erythematosus, and that they are no longer recruiting for lupus membranous nephropathy.

[9] Sources: Decision Resources Group, Global Data, Galapagos Custom Research

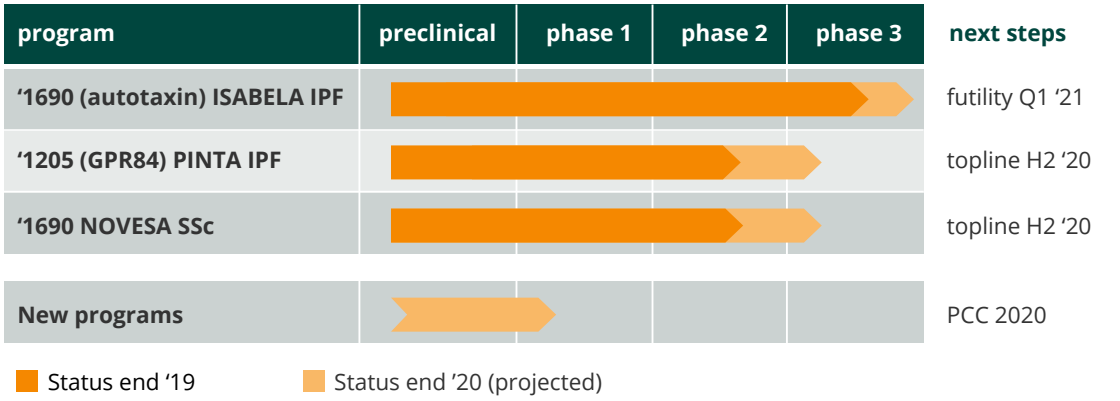
Our fibrosis portfolio

We are building a fibrosis portfolio with different modes of action, with an initial focus on IPF and aim to expand to other forms of organ and skin fibrosis. To this end, we are currently working on a number of drug candidates with distinct novel mechanisms of action, which are fully proprietary to us. In IPF, we believe that having multiple mechanisms of action within our own portfolio of candidates allows the exploration of combinations of therapies. Last year we expanded clinical research into SSc, and we plan to explore additional fibrotic indications with our earlier stage compounds. At the time of publication of this report, it was decided to temporarily pause the start of Phase 1 studies, given de COVID-19 pandemic.

Our IPF portfolio and expected clinical development in 2020:

Building an IPF & fibrosis portfolio

Two toplines in H2 '20, ISABELA futility in Q1 '21



About IPF

IPF is a chronic, relentlessly progressive fibrotic disorder of the lungs that typically affects adults over the age of 40. In 2018, 232,000 patients were diagnosed with IPF in the U.S., EU5 and Japan,[10] and this population is expected to grow, in part thanks to improved diagnosis. Furthermore, prevalence is expected to increase with the aging population and worsening air pollution. The clinical prognosis of patients with IPF is poor, as the median survival at diagnosis is two to four years. Currently, no therapies have been found to cure or stop the progression of IPF. The current treatment strategy aims to slow disease progression and improve quality of life. Lung transplantation may be an option for appropriate patients with progressive disease and minimal comorbidities.

Regulatory agencies have approved Esbriet (marketed by Roche/Genentech) and Ofev (marketed by Boehringer Ingelheim) for the treatment of mild to moderate IPF. Both Esbriet and Ofev have been shown to slow the rate of functional decline in IPF and are gaining ground as the standard of care worldwide. Combined sales of both drugs reached $2.1 billion in 2018.[11] These regulatory approvals represent a major breakthrough for IPF patients; yet neither drug stops the decline in lung function, and the disease in most patients on these therapies continues to progress. Moreover, the adverse effects associated with these therapies are considerable (e.g., diarrhea and liver function test abnormalities with Ofev; nausea and rash with Esbriet). Therefore, there is still a large unmet medical need as IPF remains a major cause of morbidity and mortality.

[10] Sources: Decision Resources Group, Global Data, Galapagos Custom Research

[11] Sales figures from Roche (pirfenidone; Esbriet®) and Boehringer Ingelheim (nintedanib; Ofev®)

We estimate that the market of approved IPF drugs could grow to $5 billion by 2025.

Our IPF trials

GLPG1690

Our most advanced IPF asset is our product candidate GLPG1690, a potent and selective inhibitor of autotaxin (ATX), for which Gilead in-licensed ex-European rights in July 2019 and which is currently in Phase 3.

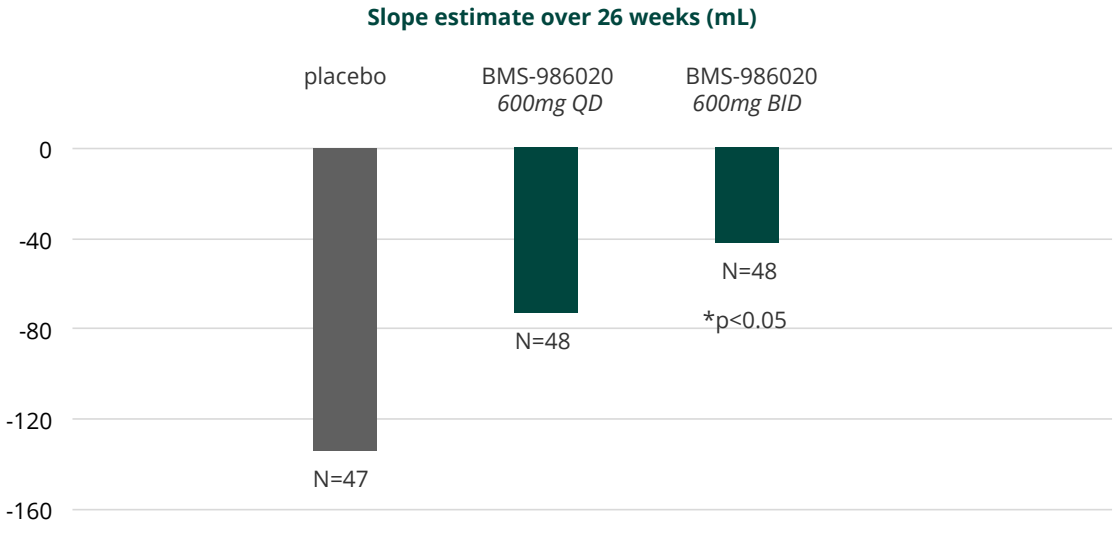
We have received orphan drug designation for GLPG1690 in IPF from the FDA and the European Commission.

We identified ATX as a potential target for IPF, after finding the target using an inflammation assay in our target discovery platform. We evaluated GLPG1690 in a preclinical lung fibrosis model (bleomycin-treated mice) and observed effects on reducing the fibrotic score, numerically favoring GLPG1690 over Esbriet.

Pharmacology and translational studies published by other parties since then suggest that ATX may also play a role in metabolic disease, arthritic pain, oncology, and lung disease. A publication by Palmer *et al.* published in *Chest* in 2018 on the Phase 2 trial data with BMS-986020, a high-affinity LPA1 antagonist developed by Bristol Meyers Squib, showed that BMS-986020 had activity in reducing loss of Forced Vital Capacity in mL (FVC) in IPF patients. LPA1 acts downstream of autotaxin in the biology of IPF, supporting further evaluation of ATX inhibition.

In the course of 2019, BMS published data from the Phase 2 trial with BMS-986020 demonstrating that this compound slowed the rate of FVC decline in a dose-dependent manner, with significance versus placebo. The study was terminated due to off-target effects linked to the compound. However, the reduction in slope estimate over 26 weeks (shown below) indicates that this pathway may be effective in impacting the course of IPF and further validates our approach with GLPG1690.

BMS validation of ATX pathway in patients

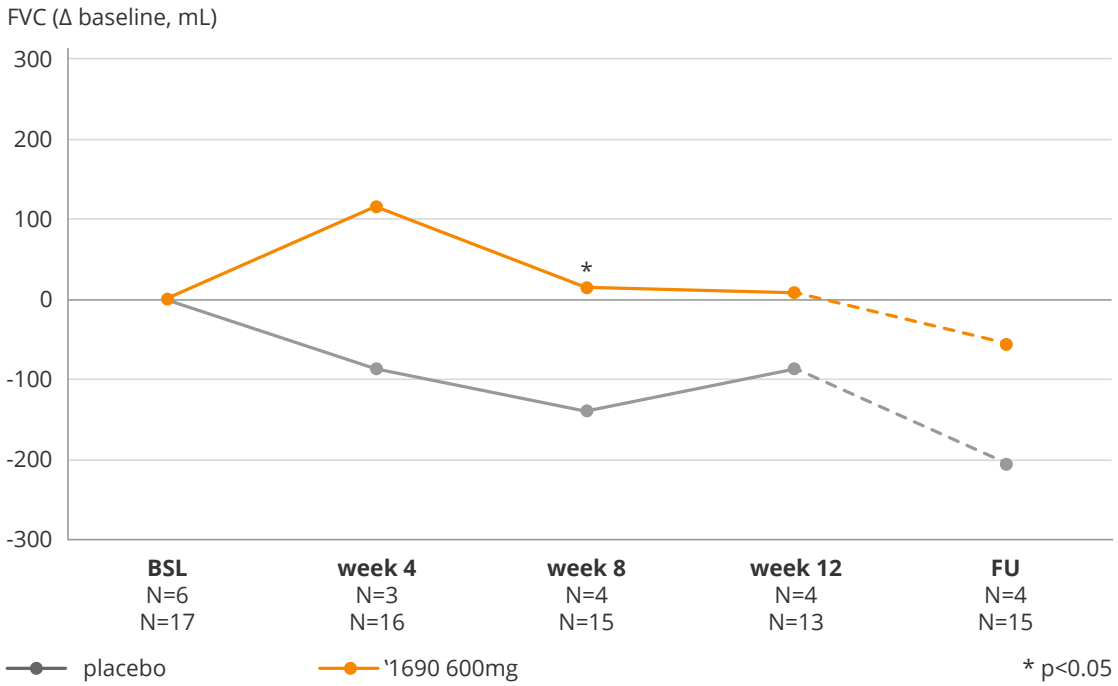


In August 2017, we announced positive topline results for our Phase 2a FLORA trial in IPF patients. This randomized, double-blind, placebo-controlled trial in 23 IPF patients investigated a once-daily 600 mg oral dose of GLPG1690 or placebo of whom 17 received GLPG1690 and six received placebo. The primary objectives of the trial

included the assessment of safety, tolerability, pharmacokinetics and pharmacodynamics of GLPG1690 in an IPF patient population. Secondary objectives included the evaluation of lung function, changes in disease biomarkers, functional respiratory imaging (FRI), and quality of life. The IPF diagnosis was confirmed by central reading.

Over the 12-week period, patients receiving GLPG1690 showed an FVC increase of 8 mL, while patients on placebo showed an FVC reduction of 87 mL (mean from baseline):

FVC: stabilization by '1690

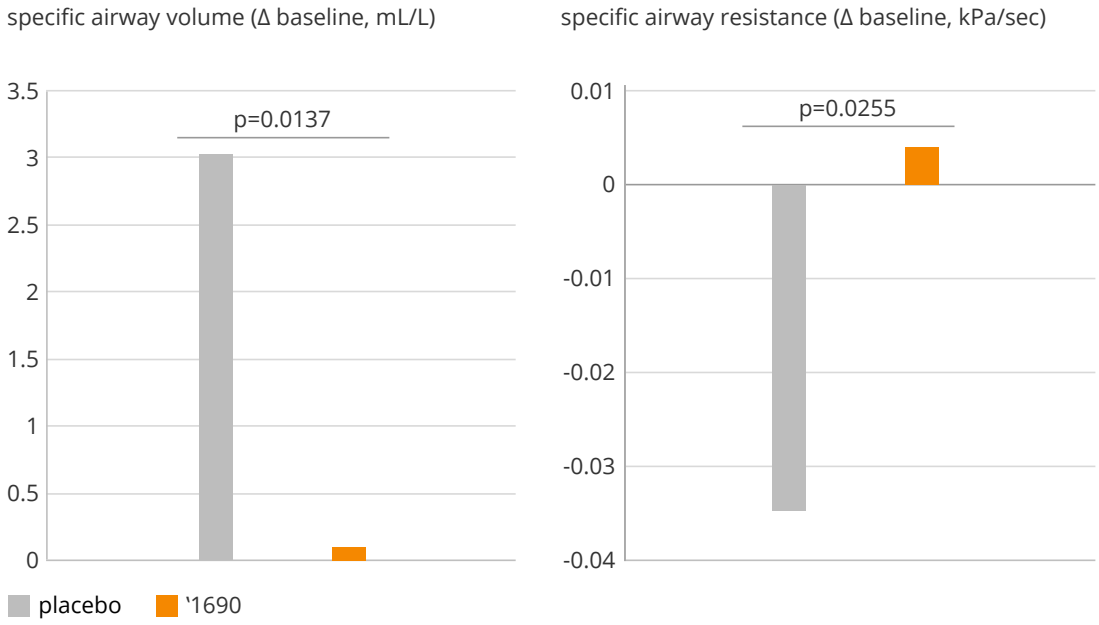


FU: follow-up

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

FRI: airway volume & resistance

Significant difference between '1690 & placebo



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

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

The full FLORA results were published in *The Lancet Respiratory* (Maher *et al.* 2018).

Following the encouraging results from the FLORA trial, in 2018 we announced the design of our worldwide Phase 3 program, ISABELA, based on feedback from the FDA and EMA. The ISABELA Phase 3 program consists of two identically designed trials, ISABELA 1 & 2, and plan to enroll a total of 1,500 IPF patients combined. Recruitment will be worldwide, with a significant proportion of patients in the U.S. and Europe. The program is intended to support application for a broad label in IPF in both the NDA and Market Authorization Application (MAA) submissions in, respectively, the U.S. and EU. Patients continue on their standard of care and are randomized to one of two doses of GLPG1690 or placebo. The primary endpoint is the rate of decline of FVC (in mL) until week 52. Secondary assessments include respiratory-related hospitalizations, mortality, quality of life, safety and tolerability.

All patients will continue on their treatment until the last patient in their respective trial has completed 52 weeks of treatment. Therefore, some patients will remain in the study for substantially longer than 52 weeks. This approach will allow assessment of less frequent clinical events that are otherwise difficult to assess in conventional clinical studies of one-year duration.

The following is an overview of the ISABELA trial design:

Phase 3 program ISABELA 1&2

- 1,500 IPF patients total in two identical Phase 3 studies
- Patients remain on standard of care throughout
- Global program with U.S. & EU component
- Primary endpoint: FVC at Week 52
- Secondary endpoints: hospitalizations, mortality, quality of life, safety/tolerability

First patient dosing in ISABELA was announced in December 2018, and as of early 2020, nearly all centers were opened and >800 patients were randomized. We announced that a futility analysis for the ISABELA program is expected to read out in Q1 2021.

Since closing of our collaboration agreement with Gilead in 2019, Galapagos and Gilead share the costs for ISABELA 1 & 2. Galapagos will be responsible for commercial sales of GLPG1690 in Europe, should the candidate be approved; Gilead will be responsible for all commercial activities ex-Europe. See also further details on the Gilead collaboration in the Notes to the consolidated financial statements.

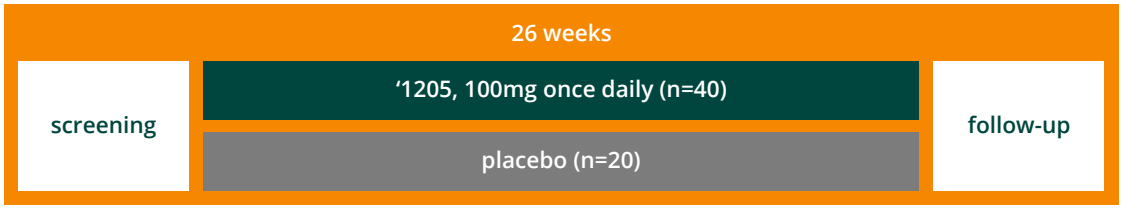
GLPG1205

The second product candidate for IPF in our pipeline is GLPG1205, currently in a Phase 2 trial called PINTA.

GLPG1205 is a small molecule selectively inhibiting GPR84, a target discovered by us. GLPG1205 showed a reduction in signs and symptoms in IPF animal models and has shown favorable tolerability in healthy volunteers and UC patients in previous trials.

PINTA is a randomized, double-blind, placebo-controlled trial investigating a 100mg once-daily oral dose of GLPG1205. The drug candidate or placebo will be administered for 26 weeks in up to 60 IPF patients. Patients may remain on their local standard of care as background therapy. The primary objective of the trial is to assess the change from baseline (FVC in mL over 26 weeks compared to placebo. Secondary measures include FRI, safety, tolerability, pharmacokinetics and pharmacodynamics, time to major events, changes in functional exercise capacity, and quality of life. IPF diagnosis will be confirmed by central reading. Recruitment for PINTA took place in Europe and the Middle East.

PINTA Phase 2 in IPF



- 60 IPF patients on local standard of care
- Primary endpoint: forced vital capacity (FVC) at Week 26
- Secondary endpoints: safety, tolerability, broad range of measurements, incl. FRI
- Recruitment in Europe & Middle East

The first patient dosing was announced in October 2018, and recruitment was completed in early 2020, with topline results from this trial expected in H2 2020.

Our fibrosis trials

Systemic sclerosis (SSc)

SSc is a severe autoimmune disease. One of the most visible manifestations is hardening of the skin. In 2018, 135,000 patients were diagnosed with SSc in the U.S., EU5 and Japan.[12]

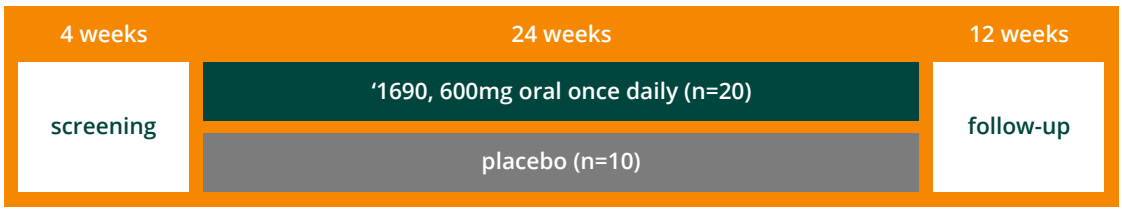
Broadly speaking, there are two types of SSc: limited cutaneous SSc, where skin involvement is limited, and diffuse cutaneous SSc. In diffuse cutaneous SSc, which represents about 35% of the SSc patient population, skin thickening affects several body parts, and patients have a higher risk of developing fibrosis of various internal organs, such as the lung. SSc has one of the highest mortality rates among rheumatic diseases.

Currently, there are no approved disease-modifying drugs to treat this disease. Hence, SSc represents a significant unmet medical need. Current standard of care mainly consists of immunosuppressive drugs and other symptom-alleviating therapies such as methotrexate or cyclophosphamide, and aims to avoid cutaneous fibrosis, interstitial lung disease and renal crisis.

Early 2019, we initiated the NOVESA trial, a double-blind, placebo-controlled Phase 2a trial evaluating the efficacy, safety and PK/PD of GLPG1690 in up to 30 patients with diffuse cutaneous SSc.

We have received orphan drug designation for GLPG1690 in SSc from the FDA and the European Commission.

NOVESA Phase 2a in SSc



[12] Sources: Decision Resources Group, Global Data, Galapagos Custom Research

- 30 patients with progressive diffuse (multi-organ) SSc
- Recruitment in U.S. & 5 EU countries
- Primary endpoint: modified Rodnan Skin Score at week 24
- Secondary & exploratory endpoints: safety, tolerability, broad range of measures (FVC, QoL, CRISS)

The primary endpoint of NOVESA is the modified Rodnan skin score (mRSS) at week 24. The mRRS measures the skin thickness as a surrogate measure of disease severity and mortality, with an increase in thickness associated with involvement of internal organs and increased mortality. Secondary objectives and exploratory endpoints include FVC, quality of life, and other scores.

We completed recruitment for NOVESA in December 2019 and expect topline results in H2 2020.

Our fibrosis partnerships further strengthen the fibrosis pipeline

In January 2019, we announced a global collaboration with Fibrocor focused on a small molecule inhibitor program (in the lead optimization phase) against a novel target for IPF and other indications. We are responsible for the further development and commercialization of the program. In January 2020, we further expanded our collaboration with Fibrocor under which we received an exclusive option to in-license a total of four additional novel target programs after they reached the lead optimization phase.

In February 2019, we announced a global collaboration with Evotec focused on a novel small molecule program (in preclinical development) for the treatment of fibrotic diseases of the liver and other organs. Under the terms of the agreement, we are responsible for the further development and commercialization of the program.

Our OA program

Sometimes called degenerative joint disease or degenerative arthritis, OA is the most common chronic condition of the joints. OA can affect any joint, but it occurs most often in the knees, hips, lower back and neck, the small joints of the fingers, and the bases of the thumb and big toe. In 2018, about 93 million patients were diagnosed with OA in the U.S., EU5 and Japan.[13]

In normal joints, a firm, rubbery material called cartilage covers the end of each bone. Cartilage provides a smooth, gliding surface for joint motion and acts as a cushion between the bones. In OA, the cartilage breaks down, causing pain, swelling and problems moving the joint. As OA worsens over time, bones may break down and develop growths called spurs. Bits of bone or cartilage may chip off and float around in the joint. In the body, an inflammatory process occurs and cytokines (proteins) and enzymes are formed which further damage the cartilage. In the final stages of OA, the cartilage wears away and bone rubs against bone, leading to joint damage and more pain.

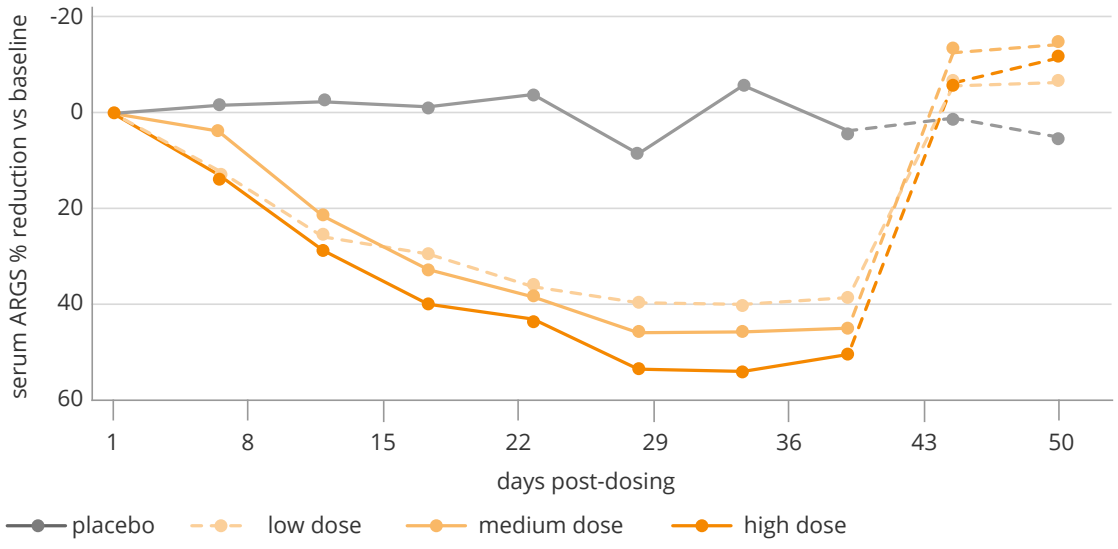
Although OA occurs in people of all ages, it is most common in people older than 65 years. Common risk factors include obesity, previous joint injury, over-use of the joint, and weak thigh muscles. One in two adults will develop symptoms of knee OA during their lives. One in four adults will develop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

GLPG1972/S201086, also referred to as GLPG1972, is a drug candidate developed by us under our collaboration agreement with Servier. GLPG1972 acts on ADAMTS-5, a key aggrecanase involved in the breakdown of aggrecan in joint cartilage. ADAMTS-5 has been validated in the literature in both animal models and human explants, and ARGS, a byproduct of the cartilage breakdown action of ADAMTS-5, has been shown to be elevated in the joints of OA patients.

In a Phase 1b trial in OA patients in the U.S., GLPG1972 reduced the ARGS neo-epitope, a cartilage breakdown biomarker measured in the serum, by over 50% over a four-week period:

Strong reduction of ARGS

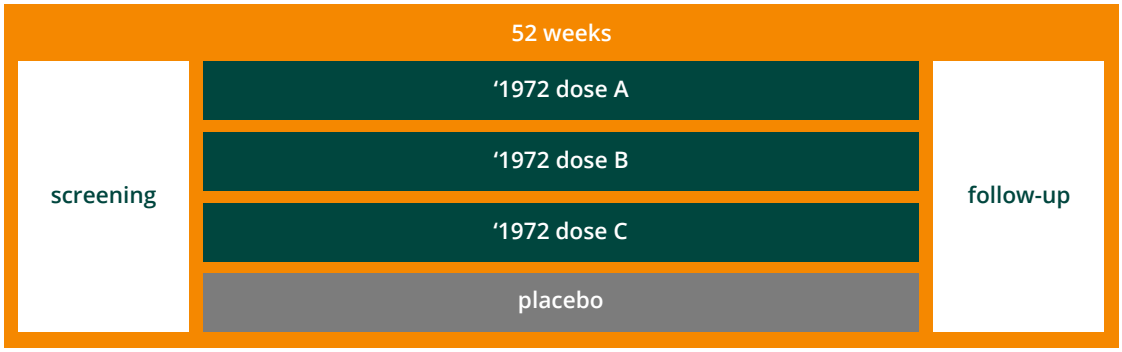
'1972 Ph1b study in OA patients



[13] Sources: Decision Resources Group, Global Data, Galapagos Custom Research

Based on these results, we and our collaboration partner Servier advanced GLPG1972 to a Phase 2b trial, ROCCELLA, the start of which was announced in June 2018.

ROCCELLA Phase 2b trial



- 850 patients with knee osteoarthritis, recruited globally
- Primary endpoint: reduction in cartilage loss at week 52
- Secondary endpoints: change in structural and clinical parameters, safety/tolerability

ROCCELLA is a multiregional, randomized, double-blind, placebo-controlled, dose ranging trial evaluating the efficacy and safety of three different once-daily oral doses of GLPG1972 in patients with knee OA. The trial is planned to recruit approximately 850 patients in up to 15 countries. We are responsible for ROCCELLA in the U.S., where we retain full commercial rights, and Servier is running the trial in all other countries.

The primary objective of ROCCELLA is to evaluate the efficacy of at least one dose of GLPG1972 compared to placebo in reducing cartilage loss after 52 weeks of treatment. Cartilage thickness will be measured using quantitative magnetic resonance imaging of the central medial tibiofemoral compartment of the target knee. Secondary objectives include safety and tolerability, several additional measures of structural progression, changes in bone area, pain, function, stiffness, and patient global assessment.

We and Servier completed recruitment of ROCCELLA in June 2019, and we expect topline data in H2 2020.

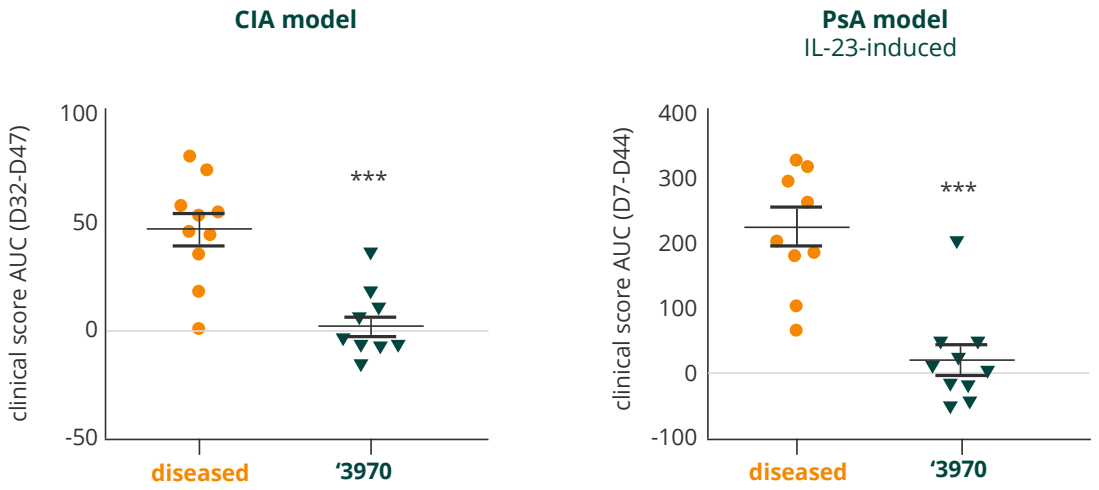
Under the terms of agreement with Servier, we are eligible to receive milestones and single-digit royalties on potential commercial sales by Servier for GLPG1972. Gilead has an option to in-license the U.S. commercial rights for GLGP1972 following completion of the ROCCELLA trial. See also further details on the collaboration with Gilead in the Notes to the consolidated financial statements.

Our Toledo program

'Toledo' is a code name for a novel target class discovered by us. Molecules inhibiting this target family effectuate a dual mode of action on inflammation by stimulating anti-inflammatory cytokines and inhibiting pro-inflammatory cytokines. We have observed unprecedented activity in various inflammatory preclinical models with compounds targeting this class.

Below are the results for Toledo compound, GLPG3970, in two preclinical models, each demonstrating a different mechanism of arthritis:

Efficacy in arthritis models with '3970



***p < 0.001

Robust efficacy demonstrated across preclinical models of arthritis

Source: internal data on file

The development strategy for Toledo is to advance multiple Toledo candidates across different selectivity profiles, and to test these in a broad panel of *in vivo* disease models targeting a number of indications.

We are now executing on a broad program to discover and develop multiple series of compounds acting on the Toledo class of targets, aimed at activity across numerous conditions, with a key focus on inflammation.

We initiated our first Phase 1 trial with GLPG3312 in early 2019 to evaluate the efficacy, safety, tolerability, and pharmacokinetics and pharmacodynamics of GLPG3312 in healthy volunteers. Later in the year we announced the start of a Phase 1 trial with the second Toledo compound, GLPG3970. We expect to launch multiple proof-of-concept patient trials in the second half of 2020 and expect to report topline data from our first patient study towards the end of the year.

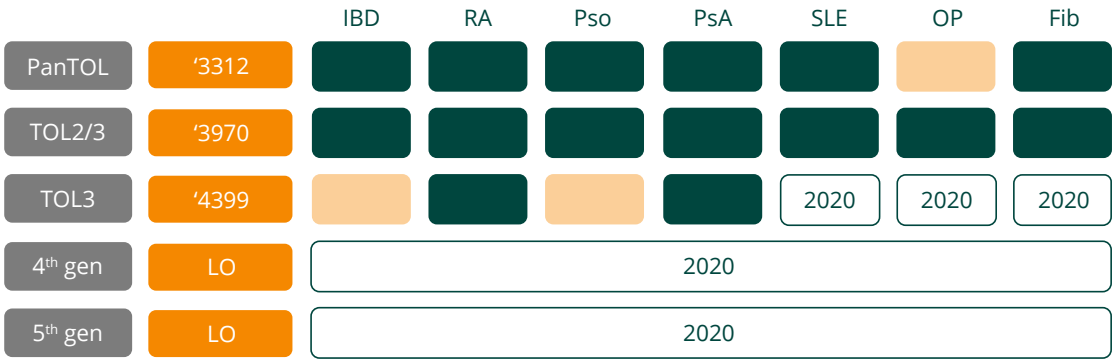
The graph below shows the current status of our Toledo program. The different disease areas that we are currently investigating are IBD, RA, psoriasis (Pso), systemic lupus erythematosus (SLE), OA, osteoporosis (OP), and fibrosis (Fib). The first generation Toledo compound, GLPG3312, has delivered promising preclinical results in IBD,

RA, Pso, PsA, SLE, and Fib. The second generation compound, GLPG3970, has shown promising preclinical results in IBD, RA, Pso, SLE, OP and Fib. The third-generation compound, GLPG4399, has shown promising results in RA and Pso, with preclinical readouts in SLE, OP, and Fib expected in the course of 2020. A fourth and fifth generation are currently in the lead optimization (LO) stage. At the time of publication of this report, it was decided to temporarily pause the start of Phase 1 studies, given de COVID-19 pandemic.

Our Toledo development strategy

- Develop multiple candidates across different profiles
- Test in broad panel of *in vivo* disease models
- Run multiple PoC trials in patients in parallel to maximize potential

Toledo: robust activity in *in vivo* models



Green: preclinical activity; orange: insufficient preclinical activity
IBD: inflammatory bowel disease; RA: rheumatoid arthritis; Pso: psoriasis; PsA: psoriatic arthritis; SLE: systemic lupus erythematosus; OP: osteoporosis; Fib: fibrosis

Gilead has an option to in-license the ex-European commercial rights to each of the Toledo molecules following completion of Phase 2 trials. See also further details in the Notes to the consolidated financial statements.

Early, deep pipeline

Beyond our Toledo programs, we continue to invest in our early stage pipeline that we built from our pool of validated targets and that we are advancing toward clinical development. Within our early stage portfolio, 15 programs are in lead optimization, five programs are evaluated in preclinical proof-of-concept studies and five are in Phase 1 development. Three molecules are part of our Toledo portfolio. In addition to targets and molecules in RA, IBD and fibrosis, we are exploring new modes of action in AS, PsA, AtD, lupus, nonalcoholic steatohepatitis, type 2 diabetes, hepatitis B, osteoarthritis, and polycystic kidney disease.

30
validated targets

15
programs in LO

5
PCCs

‘4471 – inflammation
‘4399 – inflammation
‘4259 – inflammation
‘4124 – fibrosis
‘4059 – metabolic

5
Ph1 programs

‘3312 – inflammation
‘3970 – inflammation
‘3667 – inflammation

‘555 – inflammation
‘2737 – kidney disease

Other partnered programs

MOR106

MOR106 is a human monoclonal antibody designed to selectively target IL-17C. We discovered IL-17C as a target for atopic dermatitis (AtD) and it has been shown to be distinct from other members of the IL-17 cytokine family, playing an important and pro-inflammatory role in certain skin disorders. MOR106 potently inhibits the binding of IL-17C to its receptor and thus inhibits its biological activity.

MOR106 arose from an alliance between us and MorphoSys, in which both companies contributed their core technologies and expertise and equally shared costs and benefits. In July 2018, we and MorphoSys announced that we entered into a collaboration regarding MOR106 with Novartis.

In October 2019, Novartis, MorphoSys and Galapagos jointly announced the end of the clinical development program of MOR106 in atopic dermatitis. The analysis of the program detected a low probability to meet the primary endpoint of this study. The decision was based on a lack of efficacy and not on safety concerns.

On 17 December 2019, Novartis sent us a termination notice, informing us of its decision to terminate the agreement in its entirety. The notice period for such termination is still ongoing, but we expect that such termination will become effective later this year.

CF program

Cystic fibrosis (CF) is a rare, life-threatening, genetic disease affecting the lungs and the digestive system, with 66,000 patients being diagnosed with CF in 2018 in the U.S., EU5 and Japan.[14]

Despite the approval of several drugs, there is need for better therapies to improve pulmonary function for a large majority of the patient population. Though many pediatric patients have normal lung function at the time of diagnosis, physicians generally believe that earlier treatments can have downstream benefits for the patient by slowing the deterioration in lung function.

In October 2018, we and AbbVie announced a restructuring of our CF alliance. AbbVie took over all programs in CF and will continue the development of a combination therapy for CF.

AbbVie obtained exclusive worldwide rights to the current CF drug candidate portfolio developed by the two companies in the course of the collaboration. The portfolio includes all potentiator and corrector candidates for CF, with the exception of GLPG1837 and a specific arrangement for GLPG2737. We retain rights to these two compounds for use outside the field of CF.

AbbVie is responsible for all future activities and bears all costs associated with the portfolio in CF going forward.

We are eligible to receive up to $175 million in additional milestone payments from AbbVie pending completion of certain development, regulatory, and commercial achievements in CF by AbbVie, as well as royalties ranging from the single digits to the low teens. AbbVie is eligible for future milestone payments and tiered single digit royalties on future global commercial sales of GLPG2737, if approved, in indications outside CF.

[14] Sources: Decision Resources Group, Global Data, Galapagos Custom Research

Risk factors

Description of the risks of which investors should be aware

Pioneering for patients

Risks related to product development, regulatory approval and commercialization

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

We are heavily dependent on the success of our product candidate filgotinib. We are also dependent on the success of our other product candidates, such as GLPG1690, GLPG1205, GLPG1972, GLPG3312, GLPG3970, GLPG3667, GLPG0555 and GLPG2737. Filgotinib is currently under regulatory review for approval in the United States (priority review), Europe and Japan for the treatment of RA and is not approved anywhere globally. In addition, we are heavily investing in our early stage product pipeline, including our Toledo early stage compounds, and these drug candidates must undergo rigorous preclinical and clinical testing, the results of which are uncertain and could substantially delay or prevent the drug candidates from reaching the market.

We cannot give any assurance that any product candidate will successfully complete clinical trials or receive regulatory approval, which is necessary before it can be commercialized.

Our business and future success is substantially dependent on our ability to develop successfully, obtain regulatory approval for, and then successfully commercialize our product candidate filgotinib and our other product candidates. We are not permitted to market or promote any of our product candidates before we receive regulatory approval from the FDA, the EMA or any other comparable regulatory authority, and we may never receive such regulatory approval for any of our product candidates. We cannot give any assurances that our clinical trials for filgotinib or our other product candidates will be completed in a timely manner, or at all. If filgotinib or any other product candidate is not approved and commercialized, we will not be able to generate any product revenues for that product candidate.

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

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

The rates at which we complete our scientific studies and clinical trials depend on many factors, including, but not limited to, patient enrolment. Patient enrolment is a significant factor in the timing of clinical trials and is affected by many factors including competing clinical trials, clinicians' and patients' perceptions as to

the potential advantages of the drug being studied in relation to other available therapies and the relatively limited number of patients. Any of these occurrences may harm our clinical trials and by extension, our business, financial condition and prospects.

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

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

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

Filgotinib, if approved, may have a labeling statement warning for male patients. In preclinical studies, filgotinib induced adverse effects on the male reproductive system. Adjacent to the filgotinib Phase 3 programs, we and Gilead are conducting dedicated male semen analysis studies in CD and UC patients (MANTA) and in RA, PsA, and AS patients (MANTA-RAy).

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

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

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

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

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

Risks related to our financial position and need for additional capital

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

Since our inception, and with the exception of the year 2019, we have incurred significant operating losses. We expect to continue incurring significant research, development and other expenses related to our ongoing operations, and to continue incurring operating losses for the foreseeable future. We cannot be sure to generate revenues from sales of products as none of our products in development have been approved yet. Because of the numerous risks and uncertainties associated with pharmaceutical product development, we are unable to predict the timing or amount of expenses and when we will be able to achieve or maintain profitability, if ever.

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

For further reference on financial risks in particular, see note 31 of the notes to the consolidated financial statements.

Risks related to our reliance on third parties

We are heavily dependent upon our collaboration arrangements with Gilead and certain other third parties for the development and commercialization of our products and there can be no assurance that these arrangements will deliver the benefits we expect.

In July 2019, we entered into a 10-year global research and development collaboration with Gilead. In connection with our entry into the option, license and collaboration agreement, we received an upfront payment of $3.95 billion and a €960 million ($1.1 billion) equity investment from Gilead. Under the option, license and collaboration agreement, we will fund and lead all discovery and development autonomously until the end of the relevant Phase 2 clinical study. After the completion of the Phase 2 clinical study (or, in certain circumstances, the first Phase 3 study), Gilead will have the option to acquire an exclusive commercial license to that program in all countries outside of Europe. If the option is exercised, we and Gilead will co-develop the compound and share costs equally. In addition, we are heavily dependent on Gilead for its further development of our product candidate filgotinib. In connection with entering into the option, license and collaboration agreement in July 2019, we amended certain terms of our existing agreement with Gilead governing filgotinib. These arrangements are fundamental to the achievement of our strategy and there can be no assurance that they will deliver the benefits we expect. Gilead may not devote sufficient resources or give sufficient priority to the programs in respect of which it acquires a commercial license pursuant to the option, license and collaboration agreement or to the filgotinib program. Furthermore, Gilead may not be successful in the further development and commercialization of filgotinib or other programs for which it acquires a commercial license, even when they do devote resources and prioritize their efforts for such programs.

In addition, the terms of the collaboration with Gilead and any collaboration or other arrangement that we may establish may not ultimately prove to be favorable to us or may not be perceived as favorable, which may negatively impact the trading price of the ADSs or our ordinary shares. In addition, pursuant to the collaboration with Gilead, we are entitled to certain option payments and tiered royalties, and milestone payments on certain products. There can be no assurance that such payments will be sufficient to cover the cost of development of the relevant product candidates.

We are subject to a number of additional risks associated with our dependence on our collaborations with third parties, the occurrence of which could cause our collaboration arrangements to fail. In particular, the collaboration we entered into in July 2019 is managed by a set of joint committees comprised of equal numbers of representatives from each of us and Gilead. Conflicts may arise between us and Gilead, such as conflicts concerning the interpretation of clinical data, the achievement of milestones, the interpretation of financial provisions or the ownership of intellectual property developed during the collaboration, and there can be no assurance that the joint committees will be able to resolve any such conflicts. If any such conflicts arise, Gilead could act in a manner adverse to our best interests. Any such disagreement could result in one or more of the following, each of which could delay or prevent the development or commercialization of product candidates subject to the collaboration arrangements, and in turn prevent us from generating sufficient revenues to achieve or maintain profitability:

- reductions or delays in the payment of milestone payments, royalties or other payments we believe are due;
- actions taken by Gilead inside or outside our collaboration which could negatively impact our rights or benefits under our collaboration including termination of the collaboration for convenience; or
- unwillingness on the part of Gilead to keep us informed regarding the progress of its development and commercialization activities or regulatory approval or to permit public disclosure of the results of those activities.

In addition to our collaboration with Gilead, we have a collaboration with Servier for GLPG1972, which will also be subject to the aforementioned risks. We may also enter into future collaborations which will give rise to similar risks, although our ability to enter into such collaborations may be limited given the scale of our collaboration with Gilead.

If our global research and development collaboration with Gilead or other collaborations on research and development candidates do not result in the successful development and commercialization of products or if Gilead or another one of our collaboration partners terminates its agreement with us, we may not receive any future research funding or milestone or royalty payments under the collaboration. If we do not receive the funding we expect under these agreements, our development of our product candidates could be delayed and we may need additional resources to develop product candidates.

We may not be successful in establishing future development and commercialization collaborations, particularly given the scale of our collaborations with Gilead, and this could adversely affect, and potentially prohibit, our ability to develop our product candidates.

Developing pharmaceutical products, conducting clinical trials, obtaining regulatory approval, establishing manufacturing capabilities and marketing approved products are expensive. Accordingly, we have sought and may in the future seek to enter into collaborations with companies that have more resources and experience. In the future, however, our ability to do so may be limited given the scale of the 10-year global research and development collaboration that we entered into with Gilead in July 2019. If Gilead declines to exercise its option and we are otherwise unable to obtain a collaboration partner for our product candidates, we may be unable to advance the development of our product candidates through late-stage clinical development and seek approval in any market. In situations where we enter into a development and commercial collaboration arrangement for a product candidate, we may also seek to establish additional collaborations for development and commercialization in territories outside of those addressed by the first collaboration arrangement for such

product candidate. If any of our product candidates receives marketing approval, we may enter into sales and marketing arrangements with third parties with respect to otherwise unlicensed or unaddressed territories. Furthermore, there are a limited number of potential collaboration partners, and we expect to face competition in seeking appropriate collaboration partners. If we are unable to enter into any development and commercial collaborations and/or sales and marketing arrangements on acceptable terms, or at all, we may be unable to successfully develop and seek regulatory approval for our product candidates and/or effectively market and sell approved products, if any.

We rely on third party suppliers for which a reliable supply of materials is required in order to avoid delays in the drug discovery and development process. Most goods and services are provided by several different suppliers, which mitigates the risk of loss of key suppliers.

Expanding the suppliers' network can be time consuming as all source suppliers are subject to rigorous ethical and quality control standards. Our suppliers are required to adhere to contractual terms that include anti-bribery and anti-corruption provisions. Our general terms and conditions of purchase also contain a specific clause on anti-bribery and anti-corruption. They can be found on our website.

We have relied on and plan to continue to rely on contract research organizations, or CROs, to monitor and manage data for our preclinical and clinical programs. We and our CROs also rely on clinical sites and investigators for the performance of our clinical trials in accordance with the applicable protocols and applicable legal, regulatory and scientific standards. If CROs do not successfully carry out their contractual duties or obligations or meet quality standards, regulatory requirements or expectations, our clinical trials may be extended, delayed or terminated and we may not be able to obtain regulatory approval for or successfully commercialize our product candidates. We do retain responsibility for all our studies and are required to and have put in place measures to manage, oversee, and control our studies, including the CRO selection process, audits, strong focus on deliverables, timelines, roles & responsibilities, and oversight of conduct of the studies.

We rely on clinical data and results obtained by third parties that could ultimately prove to be inaccurate or unreliable. If the third-party data and the results that we rely on prove to be inaccurate, unreliable or not applicable to our product candidates, we could make inaccurate assumptions and conclusions about our product candidates and our research and development efforts could be materially adversely affected.

Risks related to our competitive position

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

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

Risks related to our intellectual property

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

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

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

Pharmaceutical patents and patent applications involve highly complex legal and factual questions, which, if determined adversely to us, could negatively impact our patent position. Our success will depend in part on our ability to operate without infringing the intellectual property and proprietary rights of third parties. We cannot guarantee that our business, products and methods do not or will not infringe the patents or other intellectual property rights of third parties. There is significant litigation activity in the pharmaceutical industry regarding patent and other intellectual property rights. Such litigation could result in substantial costs and be a distraction to management and other employees.

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

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

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

Risks related to our organization, structure and operation

Our future success depends on our ability to retain the members of our executive committee and to attract, retain and motivate qualified personnel. If we are not successful in attracting and retaining highly qualified personnel, we may not be able to successfully implement our business strategy. Attractive development and training programs, adequate remuneration and incentive schemes and a safe and healthy work environment mitigate this risk.

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

We are currently further building our marketing and sales organization. To the extent any of our product candidates for which we maintain commercial rights is approved for marketing, if we are unable to establish marketing and sales capabilities or enter into agreements with third parties to market and sell our product candidates, we may not be able to effectively market and sell any product candidates, or generate product revenues.

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

We have to comply with applicable data privacy laws, including the European General Data Protection Regulation, or GDPR, which imposes strict obligations and restrictions on the collection and use of personal data. In the ordinary course of our business, we collect and store sensitive data. Many third party vendors that support our business processes also have access to and process sensitive information. Although we have taken preventative measures and set up procedures regarding data processing, data breaches, loss of data and unauthorized access could still occur. These could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, including the GDPR, and significant regulatory penalties, disrupt our operations and damage our reputation.

Despite our efforts to monitor social media and comply with applicable rules, there is a risk that the use of social media by us or our employees to communicate about our drug candidates or business may cause us to be found in violation of applicable requirements. In addition, our employees may knowingly or inadvertently make use of social media in ways that may not comply with our social media policy or other legal or contractual requirements, which may give rise to liability, lead to the loss of trade secrets, or result in public exposure of sensitive information. Furthermore, negative posts or comments in social media could seriously damage our reputation, brand image, and goodwill.

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

Legal, political and economic uncertainty surrounding the planned exit of the U.K. from the European Union, or EU, may be a source of instability in international markets, create significant currency fluctuations, adversely affect our operations in the U.K. and pose additional risks to our business, revenue, financial condition, and results of operations.

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

Being active in research and development in Belgium, France and the Netherlands, we have benefited from certain research and development incentives. If the Belgian and/or the French and/or the Dutch government decide to eliminate, or reduce the scope or the rate of, the research and development incentive benefit, either of which it could decide to do at any time, our results of operations could be adversely affected.

As a company active in research and development in Belgium, we also expect to benefit from the "innovation income deduction" in Belgium. The innovation income deduction regime allows net profits attributable to revenue from among others patented products (or products for which the patent application is pending) to be taxed at a lower effective rate than other revenues. The effective tax rate can thus be reduced up to 4.4% (3.75% as of 1 January 2020). At the end of 2019 we had €224.7 million of carryforward innovation income deduction in Belgium.

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

We have received several technological innovation grants to date, to support various research programs from an agency of the Flemish government to support technological innovation in Flanders. In 2019 we have also received a grant from the National Institute for Health and Disability Insurance. If we fail to comply with our contractual obligations under the applicable technological innovation grant agreements, we could be forced to repay all or part of the grants received.

We annually establish a detailed budget that is submitted to the board of directors for review and approval. Our performance compared to the budget is continuously monitored by our executive committee and is discussed with the board of directors at least once per quarter. For the establishment of our financial information, we have processes and methods in place that enable the preparation of consolidated financial statements for our annual

and quarterly reporting. Our management reporting systems – which include an advanced integrated ERP system – secure the generation of consistent financial and operational information, allowing management to follow-up our performance on a daily basis.

Our business may be adversely affected as a result of computer system failures. We may suffer data leaks or become the target of cyber-attacks, as a result of which our financial assets, confidential information and/or intellectual property may be materially negatively impacted. We may not be able to successfully protect our computer systems against unauthorized access by third parties.

In order to successfully commercialize and market our products in the future, we may need to implement additional enterprise resource management systems, which is a complex process that may cause us to face delays. We may also need to implement computer systems, such as additional global enterprise research systems, or ERP systems, in which we have limited experience and which may prove a complex process that could cause delays in our commercialization process.

The occurrence of unforeseen or catastrophic events, including extreme weather events and other natural disasters, man-made disasters, or the emergence of epidemics, depending on their scale, may cause different degrees of damage to the national and local economies and could cause a disruption in our operations and have a material adverse effect on our financial condition and results of operations. Man-made disasters, pandemics, and other events connected with the regions in which we operate could have similar effects. For example, the impact of COVID-19 on our business is uncertain at this time and will depend on future developments, but prolonged closures may disrupt our operations and the operations of our agents, contractors, consultants or collaborators, which could negatively impact our business, results of operations and financial condition. Further, uncertainty around these and related issues could lead to adverse effects on the economy of the United States and other economies, which could impact our ability to develop and commercialize our products and raise capital going forward.

Market risks relating to the Galapagos shares

We have identified the following major market risks:

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

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

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

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

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

- **Reputational damage**
  High ethical standards are maintained throughout the entire organization at all levels. Laws and guidelines are complied with. Our suppliers are required to adhere to contractual terms which include anti-bribery and anti-corruption provisions. In addition, our external consultants are required to comply with our Code of Business Conduct and Ethics and U.S. Foreign Corrupt Practices Act Policy.

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

General statement about Galapagos' risks

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

CSR report

Improving lives

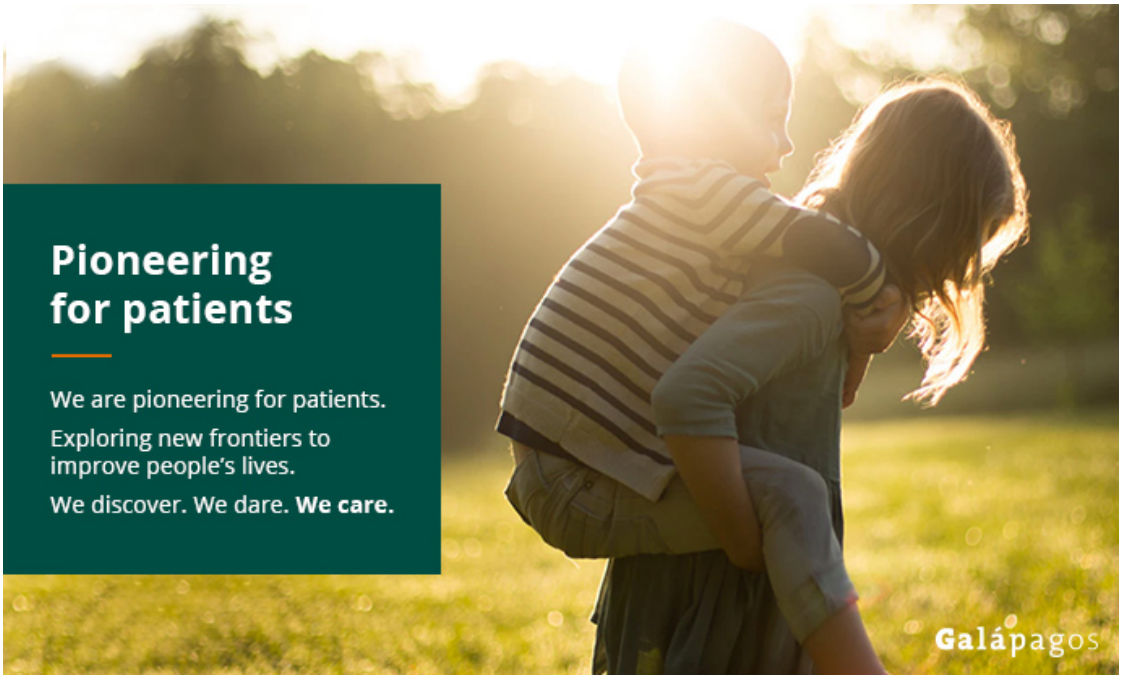
Pioneering for patients

Our commitment

Our commitment to Corporate Social Responsibility (CSR) is intrinsically linked to our core mission: to discover and develop novel modes of action medicines for diseases with large unmet medical needs, primarily in inflammation and fibrosis, with the aim to improve the lives of patients worldwide.

On a daily basis, our goal is to make a valuable and sustainable contribution to society with our discovery, clinical development and commercialization efforts. Filgotinib, GLPG1690, GLPG1205, and GLPG1972 are clinical examples of how our approach to finding novel medicines may be able to make a difference for patients in a range of disease areas. Our unique target discovery approach addresses the root cause of the disease rather than just treating the symptoms, and we have a substantial, growing pipeline of novel candidate medicines in inflammation, fibrosis and beyond. In this way, we aim to make a sustainable positive contribution to society.

We and our collaboration partner Gilead expect to receive approval for our first innovative product, filgotinib in RA, in the U.S., Europe, and Japan in 2020, and make it available to patients worldwide.



Implementing our CSR initiatives

Since our foundation 20 years ago, we focus on the discovery and development of innovative medicines to treat severe diseases with high unmet medical needs.

Based on our core mission, in 2018, we defined the four material aspects of our corporate responsibility and sustainability efforts through engaging with internal and external stakeholders across our different locations. These material aspects help us to identify and prioritize the sustainability issues that matter most to our business in terms of growth, risk and goals, and to our stakeholders, including patients, investors, analysts, employees and suppliers. The four material aspects have remained the four pillars that defined our CSR strategy and action plans in 2019 and ensure that we report on the most interesting and relevant matters. We also regularly re-evaluate the reporting aspects for materiality to ensure they continue to be current and complete.

The four priority topics and material CSR aspects that we put forward are:

Improving people's lives

- Science and innovation management
- Building partnerships to bring innovation to patients
- Access to our candidate medicines

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Our employees are the strength behind Galapagos

- Building a strong corporate culture
- Human capital management
- Employees engagement

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Conducting business ethically and responsibly

- Manage our operations with ethics and integrity
- Our Code of Business Conduct and Ethics

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We care about the environment, health and safety

- Environmental policy
- Eco-efficient operations
- Employee well-being

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To standardize our data collection, we use the Sustainable Development Goals (SDGs), also known as the Global Goals, as our reference framework to link the material aspects to our areas of engagement. The SDGs were adopted by all United Nations Member States in 2015 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030. This CSR report provides the non-financial information required by articles 96 § 4 and 119 § 2 of the Belgian Companies Code (and as from 1 January 2020, articles 3:6 § 4 and 3:32 § 2 of the New Belgian Companies Code). For a discussion on risks, please see the section called Risk Factors in this Annual Report.

We have identified eight key SDG goals where we believe we can make a difference. The table below links our material aspects and engagement areas to selected aspects of the SDG framework:

Good health and well-being
Health and improving lives through our breakthrough medicines are at the core of what we do

Quality education
We invest in our employees and foster an inclusive, open and supportive work environment across our seven locations in Europe and the U.S.

Gender equality
We cultivate a corporate culture where we strive for gender equality

Decent work and economic growth
We celebrated our 20th anniversary as a company and currently employ >1,000 people across our seven locations in Europe and the U.S.

Industry, innovation and infrastructure
Our mission is to bring innovative medicines to patients suffering from severe diseases in areas of high unmet medical needs in a social and sustainable way

Reduced inequalities
We aim to develop a balanced workforce across a number of criteria, including gender, nationality, ethnicity, experience and disability

Climate action
We value our planet and take initiatives to safeguard the environment and incorporate greener practices across our organization

Partnerships for the goals
We embrace internal and external partnerships to work towards our mission to bringing much needed innovation to patients

As part of our commitment to CSR, we monitor new developments and practices and will consider implementing new priority goals that could further enhance our CSR activities in the future. In addition, we recently engaged a dedicated Learning & Talent specialist, who will further streamline our CSR initiatives and ensure our CSR strategy is executed successfully throughout the group, with a key focus on diversity and human capital management.

Our commitment and areas of engagement are described below in the discussion of the four materials aspects, which are also linked to the eight SDGs that we consider important to the company.

Material aspect 1: Improving people's lives

We strive to discover, develop, and eventually commercialize breakthrough medicines with novel modes of action, addressing disease areas of high unmet medical need. At the core of our mission is the improvement of the lives of patients suffering from severe diseases with medicines that offer novel treatment options.

We are pioneering for patients.

Our broad product pipeline comprises programs ranging from discovery to Phase 3 clinical trials in inflammation, fibrosis, osteoarthritis, and other indications. Together with our collaboration partner, Gilead, we are currently in the registration phase for filgotinib in RA. An NDA was submitted to the regulatory authorities in the U.S., Europe and Japan in 2019, and if approved, we expected to launch filgotinib in 2020, providing an important new treatment option for RA patients worldwide.

There is a real need for medicines with novel mechanisms of action that address the underlying cause of disease. There are many diseases for which there is no approved therapy today and many more diseases for which current therapies leave room for improvement in patient outcomes. New mechanism of action medicines offer the opportunity for alternative new clinical options for caregivers and patients. At the same time, they potentially decrease the burden for society, including by lowering healthcare costs.

We create value through science

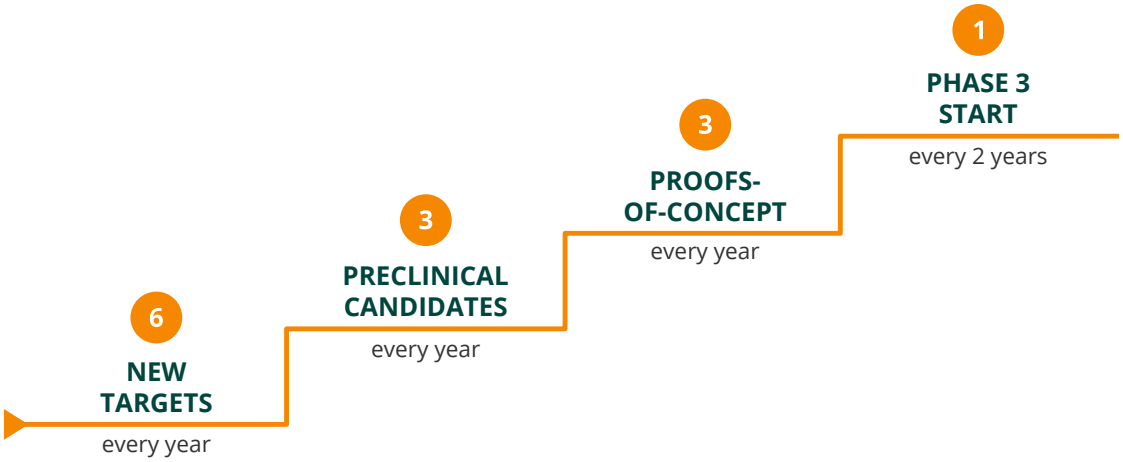
Work at Galapagos, visit www.workatgalapagos.com ›

Our highly flexible target and drug discovery platform has been applied across many therapeutic areas, and our deep pipeline today covers a range of diseases, with a focus on inflammation and fibrosis candidate drugs across all stages of development. Pending potential approval, we expect to make our first product available to patients with RA during the course of this year.

We think big

Work at Galapagos, visit www.workatgalapagos.com ›

R&D goal – Maintaining an active portfolio of around 30 projects



We continue to invest heavily in R&D and aim to initiate a Phase 3 trial every other year, while conducting at least three to four proof-of-concept trials, delivering at least three preclinical product candidates and at least six new validated targets annually. The impact of the ongoing COVID 19 pandemic on our R&D efforts at the time of publication of this report is described here.

€427M

Research and Development Expenses in 2019

+32% vs 2018

Based on our powerful drug discovery engine, we are building a deep, early pipeline of novel product candidates to ensure continued innovation, with potential benefits to patients, healthcare professionals and society.

30
validated targets

15
programs in LO

5
PCCs

‘4471 – inflammation
‘4399 – inflammation
‘4259 – inflammation
‘4124 – fibrosis
‘4059 – metabolic

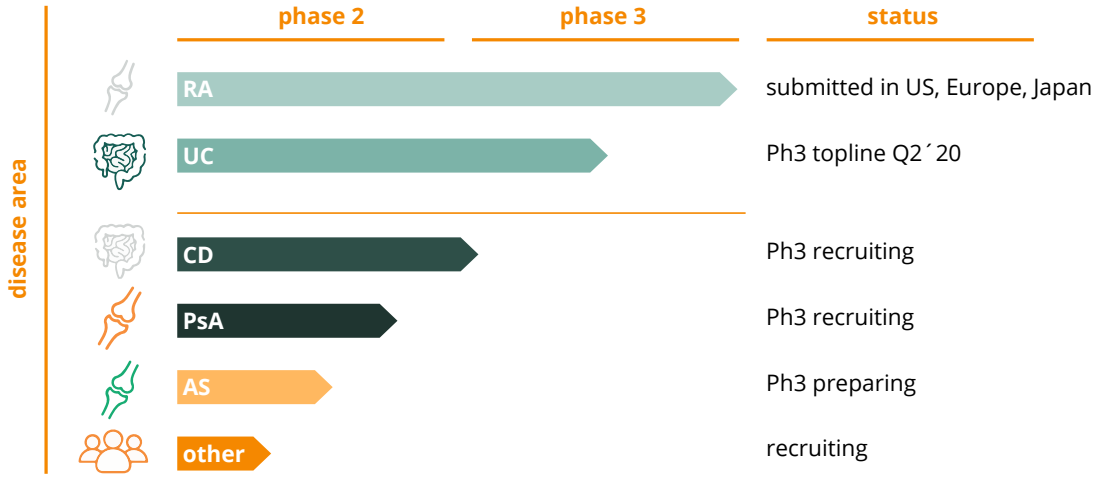
5
Ph1 programs

‘3312 – inflammation
‘3970 – inflammation
‘3667 – inflammation

‘555 – inflammation
‘2737 – kidney disease

We aim to select promising programs for internal development and commercialization and establish ourselves as a fully integrated biopharmaceutical company. With filgotinib and its potential for five launches in the next four years, we are well on track to deliver innovative medicines to patients. At the time of publication of this report, it was decided to pause the recruitment of ongoing filgotinib trials in connection with the coronavirus pandemic.

Filgotinib: potential for 5 launches in next 4 years



RA: rheumatoid arthritis CD: Crohn's disease UC: ulcerative colitis AS: ankylosing spondylitis PsA: psoriatic arthritis

Accelerating innovation through collaborations

We have a number of collaborations with leading pharmaceutical companies to significantly enhance our R&D efforts and pursue innovation to the benefit of patients. We are very proud of the transformative R&D collaboration with Gilead that we entered into in 2019. This collaboration should enable us to substantially boost our pipeline of novel product candidates.

To further strengthen our fibrosis pipeline, in 2019, we entered into collaborations with Fibrocor and Evotec, to jointly work on innovative approaches to treat severe fibrotic diseases.

We evaluate new opportunities to add to our pipeline on a continuous basis in order to bring innovation to patients.

Access to our candidate medicines

In pursuit of the development and commercialization of novel medicines that have the potential to improve people's lives, we encourage patients to participate in clinical trials whenever possible. These clinical trials are critical to gather the information (or data) needed to evaluate investigational products and seek their approval by health authorities, such as the FDA and the EMA.

Information about ongoing clinical trials for our investigational drugs is available on clinicaltrials.gov, a service of the U.S. National Institutes of Health that provides details on clinical trials conducted worldwide.

Next to the information on clinicaltrials.gov, there are several patient information portals where more information regarding Galapagos related Phase 3 studies can be found. For instance, as sponsor of the Phase 3 study with GLPG1690 in IPF, Galapagos has launched the ISABELA information portal.

ISABELA, innovative program in IPF

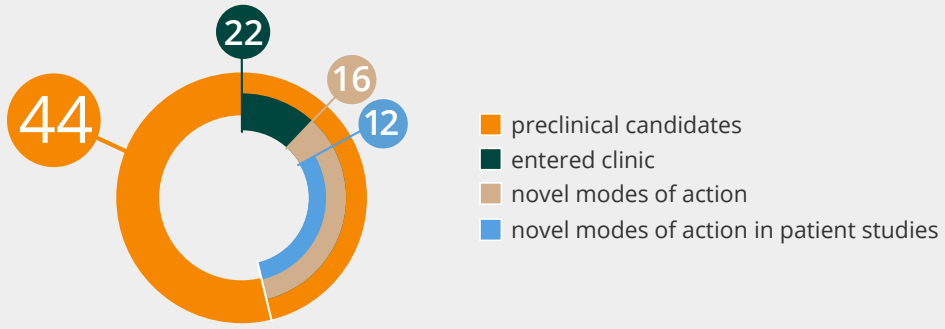
Our partner Gilead launched study information portals regarding the Phase 3 studies with filgotinib in Crohn's disease (DIVERSITY) and ulcerative colitis (SELECTION).

In some rare cases, patients are unable to participate in clinical trials and have exhausted all available treatment options. In these cases, Galapagos has a policy in place to assess whether the investigational product can be offered to a patient outside of a clinical trial, through a program called "expanded access". Expanded access is also often referred to as "compassionate use". A full copy of our Expanded Access Policy can be found on our website.

Actions in 2019

- We delivered 6 new validated targets, compared to our goal of 6
- We nominated 3 new preclinical candidates, all with a novel mechanism of action, compared to our goal of 3
- We conducted 6 proof-of-concept trials, compared to our goal of 6
- We conducted >30 clinical trials involving >1,800 patients and healthy volunteers
- We submitted 1 product candidate (filgotinib) for regulatory review in the U.S., Europe and Japan, compared to our goal of 1
- We received 220 inquiries to our Medical Info portal, of which the large majority requested more information on inclusion in the ISABELA trials with GLPG1690

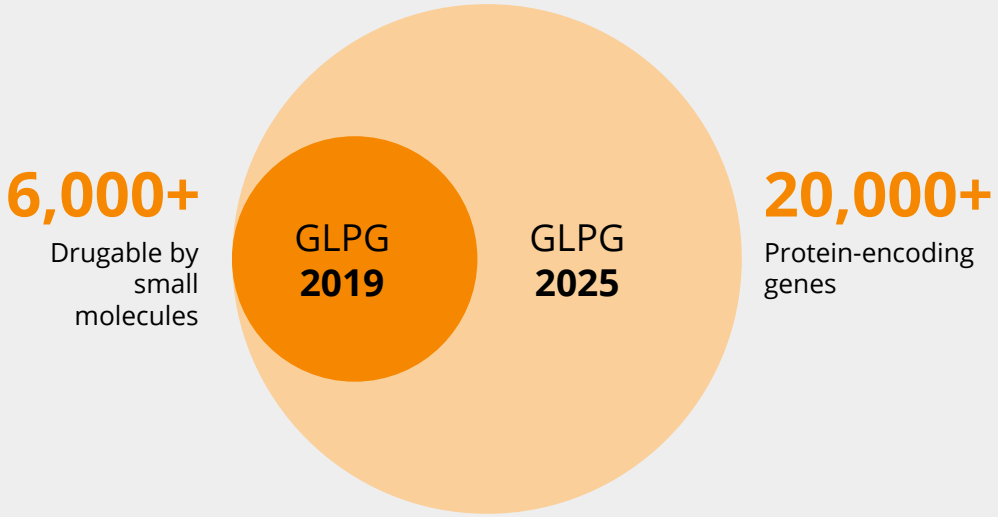
These successes brought us to 44 preclinical candidates since 2009, most of which have novel modes of action. Of these 22 have entered the clinic, 16 of which with novel modes of action.



Future ambitions

- Continue to focus on innovation and further expand R&D capabilities to support the planned clinical trials in 2020
- Fully recruit the ISABELA trials with GLPG1690
- Report topline results of ongoing clinical trials in UC, IPF, SSc and OA
- Start a Phase 3 trial in AS with filgotinib together with Gilead
- Further broaden our R&D efforts beyond inflammation and fibrosis, including metabolic and kidney diseases with high unmet medical needs
- Invest in our target discovery capabilities, in order to broaden our pool targets, which in turn, should deliver more validated targets and proof-of-concepts on a yearly basis
- Continue to seek win-win collaborations to bolster the early-stage pipeline
- Pending potential approval, we expect to launch our first innovative product, filgotinib in RA in the U.S., Europe and Japan, with collaboration partner Gilead
- Continue the build-out of a European commercial organization to bring innovation to patients in need for breakthrough medicines

Expand our target & drug workspace



In order to increase our chances to find novel targets, we will expand our target workspace, and not only use the selected pool of 6,000 drugable genes, but the complete protein-coding genome of over 20,000 genes.

€5.78B

Current Financial Investments, cash and cash equivalents at end 2019

A strong balance sheet to ensure future growth

Material aspect 2: Our employees are the strength behind Galapagos

Attracting, developing, and retaining human capital is key to our success in developing novel mechanism of action drugs that can make a difference for patients. The key to achieve this is to make Galapagos the coolest place to work.

'*Make it Happen*' is core to our corporate culture and we continue to make sure this aspect is protected and managed as we continue to grow as an organization.

We are dedicated to ensuring diversity of our workforce and are committed to foster an inclusive, open and supportive work environment across our locations in Europe and the U.S.

With the goal to execute multiple clinical trials in 2020 and the anticipated commercialization of our first product, our organization continues to expand, build capability and expertise, and we are committed to maintaining our corporate DNA.

Gender Equality

We strive for gender equality across multiple dimensions, including talent attraction, female leadership and talent pipeline development, equal pay and gender pay parity, instilling an inclusive culture, and rigorous implementation of sexual harassment policies. We are committed to supporting gender equality through policy development, representation, and transparency.

For example, in February, we celebrated the International Day of Women and Girls in Science, endorsing equal access to, and participation in science for women and girls. The talent and dedication of the 60% of our R&D colleagues who are women is essential to helping patients now and in the future.

Galapagos is proud to be included the **2020 Bloomberg Gender-Equality Index**
The list encompasses 325 companies headquartered in 42 countries and regions, across 11 sectors

Diversity

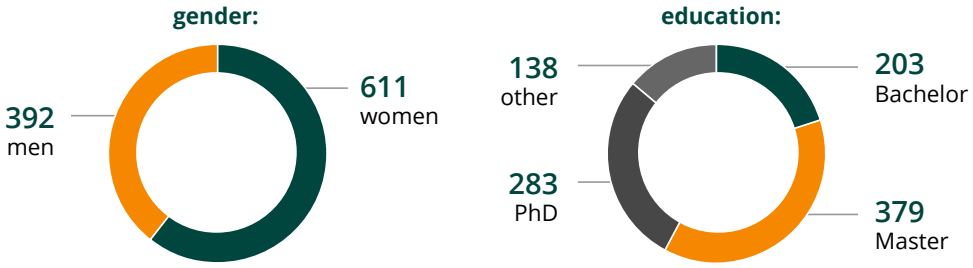
We aim to continue to develop an inclusive and diverse workforce as our business further grows and evolves towards an integrated, global biopharma company. We strive for diversity across gender, nationality, ethnicity, experience level, and disability.

But no matter how diverse we are, we all have the same purpose of pursuing medical breakthroughs to improve people's lives.

Our group in numbers

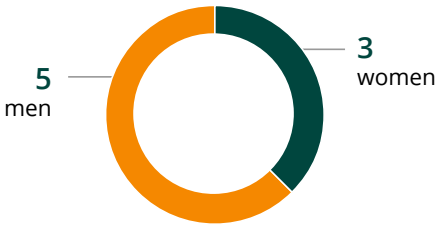
Number of employees Galapagos group

1,003



Average age: 41	**Number of employees older than 45:** 359	**Nationalities:** 39
Average years of service: 4.6	**Employee turnover:** 5.6%	**New hires in 2019:** 279

Board of directors



- Our board of directors currently comprises eight members of whom three are female (we refer to the section Board of directors of our Annual Report 2019 for further information on each board member)
- We attracted 279 new employees in 2019, an increase of 38% versus 2018
- We continue to attract people with various backgrounds and now have 39 different nationalities within the Galapagos group

Human capital management

At Galapagos, we believe our strong culture is critical to our business success. Our spirit of challenging ourselves without fear of failure underpins our work. While this bold attitude is naturally in our DNA – and we recruit exceptional people who are the right fit – we have defined our culture in a behavioural framework.

- We **act as a pioneer** and are optimistic in our ambitions, motivated by innovation and attracted by the unknown.
- We positively **embrace change** and adapt to circumstances. Failing on occasion doesn't deter us; it's how we pick ourselves up that matters.
- We challenge ourselves and, in doing so, **raise the bar** of what is possible.
- Together, we want to create value and improve lives through science – and we find ways to **make it happen**.

As Galapagos grows and changes, and new people from different backgrounds join our adventure, we want to ensure our culture evolves in the right way. We are developing structured, integrated systems and practices that ensure we are all heading in the same direction on our path of discovery – because our culture transcends everything we do.

We offer our employees the platform to grow, develop, fail, learn and succeed. Our ambitious business strategy offers great opportunities to enhance skills & competencies with the aim to continue delivering innovative science and breakthrough medicines. We honor our successes, whilst constantly raising the bar and allowing room for trial & error to drive innovation. We encourage our people to take ownership, be entrepreneurial and make a difference.

At Galapagos, we offer a competitive remuneration package that aims to reward, recognize, develop and retain our employees in the most relevant way. We have policies in place to ensure the well-being of our employees and offer different forms of leave and flexible working conditions to ensure a proper work-life balance.

We aim to ensure an inclusive, open, and supportive professional work environment across our international locations. We organize regular engagement meetings across all our business units to inspire and align the fast-growing teams behind our vision and ambition. We hold regular informal lunch meetings with executive committee members for new and long-time employees across the different sites.

We listen to our people through formal and informal channels established to ensure adequate anonymity and psychological safety. Surveys are conducted to evaluate our actions, impact and agility of our people processes. These and other indicators allow us to consider actions to optimize our work environment and enhance employee experience.

Our involvement with local communities and charities

We are approaching the moment that we bring our first drug to the market. Delivering innovative medicines to transform patients' lives is our ultimate goal.

We also want to be part of the community in which we work and live. Since 2018, that has been the idea behind our annual Company Day, which includes tailor-made programs for each of the Galapagos sites, involving a range of charity organizations.

Walk

We walked with home care residents, active and dependent elderly people, and people with a disability.

One to one support

We participated in one-on-one activities organized by care centers for the elderly and organizations that fight against the exclusion of the most fragile people in society (e.g. female victims of human trafficking, handicapped people).

Visit

We visited residential care centers and helped organizing a fun day-out for the residents.

For the handy (wo)men

We painted, cleaned, baked pancakes, assembled furniture and organized other fun activities with residents and care givers of centers for children and adults with physical and mental disabilities.

Entertainment

We organized indoor and outdoor activities for residents of care centers for children and adults with disabilities and dementia.

Be creative

We decorated the rooms and held a cooking workshop for emergency shelters that welcome people in need and that help people to stay clear or get out of prostitution.

Close to nature

In Montreuil, we cleared the wasteland, cleaned the waste and prepared the soil for plantation. In the first flower farm of Paris, we will grow young plants together with the neighborhood residents in a local greenhouse.

We promote a career in science

We actively engage in promoting science and a career in science. Each year, we organize company visits and internships for high school and bachelor students at our sites in Leiden, Mechelen and Romainville. Especially the internships offer students first-hand experience with working in a biopharma environment, show them how scientific research has the potential to impact patients' lives.

Actions in 2019

- We engaged with local communities to 'give back to society'
- We celebrated our 20th anniversary in July 2019 with our staff, partners and other stakeholders
- Our fast-paced growth has steered us to further improve our candidate-employee experiences, which started with a revamped talent-scouting model. Insourced recruitment with a team of talent acquisition and sourcing specialists was set up, raising the quality of our process to attract and assess talent globally, and hire a diverse complementary mix of talents fitting well with the DNA of the company
- We created a new global career site: 'call for purpose' to send the right message to candidates and to make it more easy for potential talents to apply to interesting careers. We also refreshed our job stand in line with our employer brand and participated in career fairs
- An onboarding application was deployed to handhold employees across ranks, to smoothly yet effectively internalize the company values and set the tone to help them succeed in their roles.
- Following the Gilead transaction, we implemented a company-wide bonus plan to incentivize and retain our employees and share in the success of the company
- 5.6% turnover of employees for the Galapagos group, excluding the termination of temporary and consultancy contracts
- Our Rewards Centre of Expertise accomplished new avenues by establishing the Global mobility teams to support our international hires. This has been a key step to support our commercialization ambitions in the big 5 EU markets & Benelux
- There were extensive grading & benchmarking efforts to review & ensure that our total rewards offerings were competitive and fair. We aimed to drive a collective mindset to achieve our ambitions in a sustainable way
- Our performance management processes were enhanced to foster frequent dialogues between the manager and direct reports as well as with peers. The clear intent to empower each employee, has contributed to a smoother approach for personal growth and it has strengthened our culture to have open and honest conversations to drive performance.
- 85% of all staff participated in the Performance Boost sessions to improve the quality and maturity of performance & coaching conversations. In addition, an anytime feedback tool was entrusted to all our employees to help them broaden their perspectives and sharpen their skills

Future ambitions

Talent Acquisition: The focus on talent will become even more proactive. We are building talent pipelines for now and the future, making sure our DNA remains intact. With growth in the markets, we will also have our talent acquisition specialists support Local4Local hires, in alignment with our hiring strategy & principles. We further aim to sharpen this axis by preparing interviewing guides for hiring managers, by putting in place a referral program, by deploying focused employer branding initiatives in the new operating countries.

Talent Development: Our ambition is to create opportunities for our leaders to role model key behaviors, embody corporate values and create the context for their teams to excel. Several transformation initiatives that are personal and leadership centric are envisaged to embark on agile and continuous learning. The talent philosophy and strategy will be further clarified to better support our leadership and teams towards collective capability enhancement. Internal Talent pipelines and succession plans will be refined where appropriate to support the company growth.

Embracing Technology: We are embarking on a journey to adopt cutting edge and digital solutions to boost candidate and employee experience. Deployment of empowering people processes by continuous improvement and streamlining, investing in the scalability and consistency of our processes across the whole organization will be instrumental to success.

Material aspect 3: Conducting business ethically and responsibly

At Galapagos, our core business is the discovery and development of drugs with novel modes of action, and we prioritize ethical behavior in all its aspects.

We believe that ethical behavior is particularly important and inherent to our business: preclinical and clinical testing, access to our investigational medicines through our clinical trials, expanded access to drugs currently in development for patients who are not eligible to enroll in clinical trials, and our codes of ethical conduct.

To ensure our business is compliant with regulatory and corporate policies, and that we conduct business in an ethical way, we have developed a **Compliance and Ethics Program** that is available on our company intranet.

Animal welfare in drug development

It is not possible to examine the complex interactions in a living organism solely by use of modeling and *in vitro* studies. *In vivo* studies remain essential in discovery, development and production of new medicines. Moreover, regulatory authorities worldwide require that new products have been evaluated in both animals and humans in order to ensure the quality, efficacy and safety of these products before granting approval.

However, Galapagos explicitly forbids animal neglect or cruelty. We have implemented practices that demonstrate our commitment and responsibility to reduce and replace non-clinical testing involving use of animals to the extent possible, and we will continue to promote and further implement alternative methods. For non-clinical development studies, including those that assess efficacy and safety of our product candidates, we firmly stand behind the "Three Rs" strategy: Refinement, Reduction, and Replacement. The 3Rs principle is based on the premise that animals should be used only if a scientist's best efforts to find a non-animal alternative have failed, and that when animals are needed, only the most humane methods should be used on the smallest number of animals required to obtain valid information.

To illustrate this point, we make more frequent use of *in silico* (computer modelling) and *in vitro* (cellular testing) designs and approaches. Examples are the implementation of DEREK software, *in vitro* micronucleus assays to evaluate genotoxicity, and *in vitro* hERG assays to evaluate cardiotoxicity. Other improvements include the implementation of PCLS precision cut (liver /lung), imaging for longitudinal studies, the definition of humane endpoints, the review of procedures by the ethical committees and animal welfare committees. Our focus on animal welfare triggers a continuous improvement of, amongst others, the housing conditions of animals, accurate anesthesia or analgesia of animals, refinement of euthanasia methods, better enrichment of the animal environment (food, games, social activities), zootechnical registry reporting anomalies, and the use of statistical methods in order to reduce the number of animals.

In addition, we follow Directive 2010/63/EU in Europe with regards to animal testing. The requirement to be compliant with Directive 2010/63/EU forms part of the pre-assessment and selection process of the European laboratories that we use for non-clinical testing, and we monitor animal welfare in the European laboratories we engage with on a regular basis.

We also follow the national regulations defining high standards for animal welfare for our internal studies in France (GLPG internal facility) and Croatia (Fidelta internal facility). We systematically submit our projects to the National Authorities for ethical approval, and are regularly inspected in order to maintain the highest accreditations.

Outside of the European Union, we require compliance with local animal welfare regulations in laboratories. In the U.S., for example, we only work with laboratories that are accredited by the Association for Assessment and Accreditation of Laboratory Animal Care.

Our clinical trials ethics

Galapagos sponsors and conducts clinical trials in accordance with the applicable international standards. The fundamental guidelines are the Declaration of Helsinki (and its amendments) and the Good Clinical Practice (including amendments), as well as Good Pharmacovigilance Practice guidelines of the International Council for Harmonisation. Our adherence to these internationally recognized guidelines ensures the rights, safety and well-being of participants in our clinical trials. Other international guidelines like The Belmont Report, Council for Coordination of International Medical Congresses guidelines, The Nuremberg Code, United National Educational, Scientific and Cultural Organization's (Declaration on Bioethics and Human Rights) also form the ethical foundation for our trial activities. We comply with laws and regulation in the countries/regions in which we are conducting our trials, including the U.S. Code of Federal Regulations and the EU Directive on Clinical Trials.

Furthermore, we uphold our own internal procedures and standards for clinical trials, irrespective of the country in which the trial is conducted, and we only conduct clinical trials in countries where we intend to market our drugs.

Overall, it is our policy that the interest, safety, and well-being of trial subjects and patients will always supersede those of science, commerce, as well as those of society.

Our trials are only initiated if they are scientifically and medically justified and when they are externally validated by clinical experts. Moreover, they will always be reviewed by local health authorities and ethical committees before initiation. Trial participants (or the legally authorized representative) must give written consent after being properly informed of the trial, including of its risks and potential benefits. Participants are duly informed that they are able to withdraw from the trial at any time, without any explanation, and then will receive appropriate standard care.

We or our representatives conduct regular site monitoring visits to ensure that clinical trials are conducted in accordance with the applicable approved study protocol.

Any adverse events are monitored and reported to authorities and ethical committees as needed, and appropriate actions are taken when needed.

Our trials ensure proper indemnification of participants in case a product candidate or trial procedure causes bodily harm.

We favor transparency and make results from our clinical trials conducted in patients available independent of the outcome – to patients, physicians, and researchers, with full consideration for protection of patient data privacy and commercial confidentiality. We report the outcome in accordance with the CONSORT Statement, or Consolidated Standards of Reporting Trials, designed to improve transparency around clinical trials.

We publish our trials on the appropriate clinical trial registries (clinicaltrials.gov and the EudraCT Trial Registry) in a timely manner. We attempt to publish results in peer-reviewed journals in accordance with Good Publication Practice and the International Committee of Medical Journal Editor's Uniform Requirements for Manuscripts Submitted to Biomedical Journals, and at relevant scientific meetings and congresses. As a publicly listed company we also have the obligation to communicate trial results by other means to the investor community, such as via press releases.

Our code of business conduct and ethics

We have established a Code of Business Conduct and Ethics (the "Code") that outlines the binding principles of business conduct and ethical behavior that is expected from all our staff and third parties working on behalf of Galapagos.

Galapagos' board of directors is responsible for administering the Code. The board of directors has delegated day-to-day responsibility for administering and interpreting the Code to our General Counsel who has been appointed as our Compliance Officer under this Code.

We expect our directors, officers and employees to exercise reasonable judgment when conducting our business. We encourage our directors, officers and employees to refer to this Code frequently to ensure that they are acting within both the letter and the spirit of this Code.

We expect our employees and third-party suppliers to conduct business with integrity, ethics and respect for human rights. We expect them to turn away from conflicts of interest, corruption and fraud. Our Code of Business Conduct and Ethics is a mandatory training and is available on our website: www.glpg.com/charters-and-codes.

Our suppliers are required to adhere to contractual terms that include anti-bribery and anti-corruption provisions. We have a purchase policy in place that includes selection criteria for the qualification of our suppliers in line with CSR aspects (and this ranges from, for example, no child labor to selecting coffee suppliers who work with respect for farmers and the environment). Our general terms and conditions of purchase also contain a specific clause on anti-bribery and anti-corruption, and we aim to implement a CSR questionnaire for hotels as part of our travel policy.

Actions in 2019

- With regard to animal welfare, we took initiatives and decisions that support our 3Rs philosophy, and included this in our selection process for non-clinical partners
- 92% of our employees completed the training on our Code of Business Conduct and Ethics
- During the onboarding process, we emphasize the importance and compliance with our Code of Business Conduct and Ethics

Future ambitions

- We will continue evaluating our procedures with regard to animal welfare by way of an internal Galapagos Animal Welfare committee, for all our internal facilities
- The Animal Welfare committee reports directly to the CEO of Galapagos, and in addition to its advisory role, will regularly organize audits to assess the animal study practices
- The task of the Animal Welfare committee is to further exchange and agree on best practices across all sites, to develop key policies and SOPs, to define KPIs and monitor the effort and progress, and to communicate on our ethical values, internally and externally

Material aspect 4: We care about the environment, health, and safety

Our mission is to bring innovative medicines with novel modes of action to patients suffering from severe diseases in the most sustainable way and with respect for our planet. We are committed to safeguarding the earth by keeping our environmental impact to a minimum, reducing waste, and handling it in a safe and responsible way.

We operate in a highly regulated sector and are subject to a strict set of laws and regulations related to the impact on the environment, well-being of employees, safety, and management of laboratory waste. We perform internal and external audits to monitor compliance with these rules and regulations.

We have implemented an Environmental, Health, and Safety (EHS) framework based on ISO 45001 and ISO 14001, and have established an EHS group department responsible for the development of an annual action plan to promote well-being and safety at work. Management guarantees the implementation of this action plan and our EHS efforts are anchored in the shared responsibility of our staff to ensure a safe, healthy and environmentally friendly work environment: every employee is responsible for protecting people and the environment in and around his or her workplace.

We have no production sites, we do not own buildings, and our facilities have only minor environmental liabilities such as waste handling and emissions from fume hoods. Nonetheless, we aim to reduce our environmental impact further, for example by recycling and replacing paper by digital means to the extent possible.

We maintain safety monitoring records, in compliance with applicable legislation. We treat our dangerous waste in accordance with local laws, and we ensure that training of employees takes place on all handling of hazardous materials, laboratory and other safety aspects, and on other relevant policies for conducting our business.

We also take practical initiatives to eliminate accidents and illness, and to provide a safe work environment and business processes.

We have bikes at our facilities in Mechelen and Leiden for our employees who need to commute between the buildings on site. We have implemented green car options in our company car fleet in Mechelen and expect the green car options to be implemented in other sites as well to further stimulate our employees to select a company car with low environmental impact.

Actions in 2019

- We further established EHS key performance indicators for internal monitoring and external reporting
- We implemented procedural documents for EHS processes (ProDocs) in waste management, chemical, biological, and radiation safety
- We performed risk assessments in the biology and chemical labs in Mechelen and performed workplace ergonomics assessments for the full site in Mechelen
- We performed risk assessments for individual biology labs in Leiden
- We implemented a new green, hybrid car policy in Mechelen
- We have bikes at our facilities in Mechelen and Leiden for transport between the buildings
- We implemented a shuttle service between the train station and our site in Mechelen that is free for our employees
- There were no safety incidents reported, no recordable injury counts, no fatalities, and no days away from work reported due to safety issues in 2019
- >80% of our staff completed a training on compliance on newly introduced QA and EHS ProDocs

Future ambitions

- We will implement four new corporate EHS goals related to the transport of hazardous goods, emergency preparedness, competences measurement and management of collective and personal protective equipment
- We aim to select new taxi and shuttle services in Belgium that comply with our environmental policy
- We are working on a contract with an electric cable supplier to make recharging car batteries available for our employees
- We aim to execute on a workplace strategy to further optimize and improve the workspace at our facilities across the different locations
- We are building new sites in Mechelen and Leiden:
  - For which the design and concept take into account the various parameters that are being assessed to obtain a Breeam and Well status;
  - That will operate in an eco-efficient way (for example a green roof);
  - That are located close to railway stations to motivate our employees to commute by public transport
- In order to protect and increase the bee population, we aim to install beehives on the roof of our building in Mechelen, and the beehives will be relocated to our new building in Mechelen

CSR at Galapagos – Summary

Material Aspect 1: Improving people's lives

SDG

Areas of engagement

- We are pioneering for patients and our mission is to discover and develop innovative medicines that address high unmet medical needs
- Our science and innovation is based on our flexible target discovery, page 0 platform
- We commit to an ambitious R&D goal of maintaining an active portfolio of 30 projects
- We are building a deep early-stage R&D pipeline
- Pending potential approval, we expect to launch our first drug, filgotinib, page 0 in RA, page 0, in 2020, with additional indications to follow in the coming years
- We aim to bring our innovation to patients suffering from severe diseases, includig in IPF, page 0
- We accelerate innovation through win-win partnerships

Go to chapter, page 74

Material Aspect 2: Our employees are the strength behind Galapagos

SDG

Areas of engagement

- We strive for gender equality
- We aim to continue to develop an inclusive and diverse workforce
- We have implemented a program that is designed to reward, recognize and retain employees
- Our involvement in local communities and charities

Go to chapter, page 80

Material Aspect 3: Conducting business ethically and responsibly

SDG

Areas of engagement

- Animal welfare in drug development
- Our clinical trials ethics
- Access to our medicines
- Our code of business conduct and ethics

Go to chapter, page 87

Material Aspect 4: We care about the environment, health and safety

SDG

Areas of engagement

- We strive for a minimal environmental impact
- We are compliant with our sector rules and regulations
- We go digital as much as possible
- We established a company-wide EHS framework

Go to chapter, page 90

Corporate governance

Corporate governance
at Galapagos in 2019

Pioneering for patients

Galapagos' corporate governance policies

For the reporting year beginning on 1 January 2019, the Belgian Corporate Governance Code 2009 (the "2009 Code") (which can be consulted on www.corporategovernancecommittee.be) was our reference code. Galapagos NV's board of directors approved a corporate governance charter (which is available on our website, www.glpg.com). The corporate governance charter applies in addition to the law, Galapagos NV's articles of association and the corporate governance provisions included in the Belgian Companies Code and the 2009 Code.

For the reporting year beginning on 1 January 2019, the board of directors strove to comply with the rules of the 2009 Code as much as possible. At the same time, the board of directors is of the opinion that certain deviations from the provisions of 2009 Code were justified, in view of our activities, our size and the specific circumstances in which we operate. In such cases, which are mentioned in this corporate governance statement, we apply the "comply or explain" principle. Reference is made to the Remuneration of non-executive directors of Galapagos NV section below.

New legal framework for Belgian companies

On 28 February 2019, a new Belgian Companies Code (the "New Belgian Companies Code") was approved by the Belgian Parliament. For existing companies like Galapagos NV, there is a transition regime providing for a staggered applicability of the new provisions. Certain parts of the new code apply to us as of 1 January 2020. The full transition must be completed by the earlier of (i) the next extraordinary shareholders' meeting that amends our articles of association or (ii) 1 January 2024. On the date of this report, our articles of association have not yet been amended. The extraordinary shareholders' meeting, to be held on 28 April 2020, shall decide on such amendment. Each reference in this report to the Belgian Companies Code is still a reference to the Belgian Companies Code of 7 May 1999, except where expressly stated differently.

In light of the New Belgian Companies Code, the Belgian Corporate Governance Committee adopted a new Corporate Governance Code (the "2020 Code") (which can be consulted on www.corporategovernancecommittee.be). The 2020 Code was published on 9 May 2019. The 2020 Code applies compulsorily to reporting years beginning on or after 1 January 2020. Our board of directors has adopted the 2020 Code for the reporting period beginning on 1 January 2020. Subject to approval of the new articles of association by the extraordinary shareholders' meeting of 28 April 2020, our board of directors will approve an updated corporate governance charter. Each reference in this report to the Corporate Governance Code is still a reference to the 2009 Code, except where expressly stated differently.

Proposal to adopt a two-tier governance structure

Under the New Belgian Companies Code, the executive committee in accordance with article 524*bis* of the Belgian Companies Code has been abolished. The New Belgian Companies Code introduces (among other things) a two-tier system, with two new governance bodies: the supervisory board and the management board. The supervisory board is responsible for the general policy and strategy of the company and has all powers which are specifically reserved for it under the New Belgian Companies Code. The supervisory board also supervises the management board. The management board exercises all powers which are not reserved for the supervisory board in accordance with the New Belgian Companies Code.

The 2020 Code requires companies to make an explicit choice for one of the governance structures provided for in the New Belgian Companies Code. The board of directors invites the shareholders of Galapagos NV to approve the introduction of a two-tier governance structure at the occasion of the extraordinary shareholders' meeting, to be held on 28 April 2020.

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

Board of directors of Galapagos NV

Composition of Galapagos NV's board of directors

Onno van de Stolpe – Please refer to the Composition of Galapagos NV's executive committee for a biography.

Rajesh Parekh, MA, DPhil has served as the Chairman of our board of directors since 2004. Dr. Parekh is a General Partner at Advent Life Sciences LLP, which he joined in 2006. During an academic career at Oxford University, he co-founded Oxford GlycoSciences PLC, where he served as Chief Scientific Officer and Chief Executive Officer from 1988 until its sale to Celltech Group PLC (now UCB SA) in 2003. He has founded or served on the boards of several life sciences companies in the United States and Europe including Avila Therapeutics, Inc., EUSA Pharma (Europe) Limited, Biocartis NV, Amsterdam Molecular Therapeutics (AMT) Holding NV (now uniQure), Aura, Inc., Itara Ltd., Cellnovo SA, Artax, Inc., and Project Paradise Limited. He was also a member of the supervisory board of the Novartis Venture Fund. Dr. Parekh currently serves as a member of the board of directors of Advent Venture Partners, Advent Life Sciences LLP, Aleta, Inc., Alpha Anomeric SA, Amphista Therapeutics Ltd., Arrakis, Inc., Aura Biosciences, Capella BioSciences Ltd., Levicept Limited, PE Limited, Pheno Therapeutics Ltd., Tridek-One Therapeutics SAS, and Zikani, Inc. 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.

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

Katrine Bosley has served as a member of our board of directors since 2013. Ms. Bosley served as the President, Chief Executive Officer and member of the board of directors of Editas Medicine, Inc. from June 2014 to March 2019. Prior to joining Editas, she was the Entrepreneur-in-Residence at The Broad Institute from 2013 to 2014. From 2009 to 2012, she was President, Chief Executive Officer and member of the board of directors of Avila Therapeutics, Inc., which was acquired by Celgene Corporation in 2012. She served as President, Celgene Avilomics Research at Celgene in 2012. Prior to her time at Avila Therapeutics she was Vice President, Strategic Operations at Adnexus, a Bristol-Myers Squibb R&D Company, and was Vice President, Business Development at Adnexus Therapeutics, Inc. before that. Ms. Bosley joined Adnexus Therapeutics from Biogen Idec, Inc. where she had roles in business development, commercial operations and portfolio strategy in the United States and Europe.

Ms. Bosley graduated from Cornell University with a B.A. in Biology. She served on the board of the Biotechnology Innovation Organization and currently serves on the boards of Genocea Biosciences, Inc., and of the Massachusetts Eye and Ear Institute. Ms. Bosley also serves as chairman of the board of Arrakis Therapeutics.

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

Peter Guenter has served as a member of our board of directors since 30 April 2019. Mr. Guenter has been Chief Executive Officer of Almirall since 1 October 2017. Prior to joining Almirall, he worked at Sanofi for 22 years, most recently as Executive Vice President Diabetes and Cardiovascular Global Business Unit. During his tenure at Sanofi, he held many senior positions including Vice President Eastern Europe and Northern Europe, Vice President Business Management and Support, General Manager Germany, Senior Vice President Europe, Executive Vice President Global Commercial Operations and Executive Vice President General Medicine and Emerging Markets. He was a member of Sanofi's Executive Committee from 2013 till August 2017. Before joining Sanofi, he held different positions in sales and marketing at Smith Kline and Ciba Geigy. Mr. Guenter is currently also a member of the board of the European Federation of Pharmaceutical Industries and Associations (EFPIA). He is a Belgian citizen and holds a Master's Degree in Physical Education from the Faculty of Medicine and Health Sciences, University of Ghent.

Daniel O'Day has served as a member of our board of directors since 22 October 2019. Daniel O'Day joined Gilead in 2019 to lead the biopharmaceutical company, which has more than 11,000 employees around the world. Prior to Gilead, Mr. O'Day served as the chief executive officer of Roche Pharmaceuticals. His career at Roche spanned more than three decades, during which he held a number of executive positions in the company's pharmaceutical and diagnostics divisions in North America, Europe and Asia. During his time at Roche, Mr. O'Day demonstrated vision and leadership, helping to engineer the acquisitions of Flatiron Health and Foundation Medicine in 2018. He served as a member of the company's Corporate Executive Committee, as well as on a number of public and private boards, including Genentech. Mr. O'Day is currently the Chairman and Chief Executive Officer of Gilead Sciences, Inc. and a member of the board of directors of Pharmaceutical Research and Manufacturers of America (PhRMA). Mr. O'Day is a U.S. citizen and holds a bachelor's degree in biology from Georgetown University and an MBA from Columbia University in New York.

Linda Higgins, Ph.D. has served as a member of our board of directors since 22 October 2019. Linda Slanec Higgins, Ph.D., joined Gilead Sciences, Inc. in 2010 and is currently Sr. Vice President Research, External Innovation. In her first nine years at Gilead she led Biology, significantly expanding the therapeutic area scope and capabilities of the department. She previously served as the President & CEO of InteKrin Therapeutics and as Head of Research at Scios, Inc., a Johnson & Johnson company, where she provided leadership for drug discovery, preclinical development, and translational medicine. Dr. Higgins is passionate about biopharmaceutical discovery and development, and has been dedicated to excellence in applied scientific research since 1991. She has led projects and departments in multiple therapeutic areas including CNS, fibrosis, inflammation, cardiovascular, virology, and oncology. Dr. Higgins built many of these as new areas at Scios and Gilead. Dr. Higgins is a U.S. citizen and earned an A.B. in Behavioral Physiology from Kenyon College, a Ph.D. in Neurosciences from the University

of California, San Diego School of Medicine, and completed postdoctoral training in Molecular Genetics at the Howard Hughes Medical Institute at the University of California, Berkeley. She has authored over 50 original peer reviewed scientific papers and invited reviews and is an inventor on over a dozen patents.

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. On 31 December 2019, the board of directors consisted of eight members, four of whom are independent within the meaning of article 526*ter* of the Belgian Companies Code (and as from 1 January 2020, article 7:87 of the New Belgian Companies Code).

The directors are appointed by the shareholders' meeting upon the proposal of the board, for a renewable term of up to four years. When a position on the board becomes vacant, the other directors may temporarily fill the mandate until the shareholders' meeting appoints a new director. The nomination and remuneration committee nominates, for the approval of the board, candidates to fill vacancies and advises on proposals for appointment originating from shareholders, in each case taking into account Galapagos' needs and the selection criteria determined by the board.

Except for Mr. Van de Stolpe, all board members are non-executive directors.

In 2019, the following persons were members of the board: Dr. Parekh (Chairman), Mr. Van de Stolpe (CEO), Dr. Cautreels (until 30 April 2019), Mr. Rowe, Ms. Bosley, Dr. Mummery (until 30 April 2019), Dr. Kerr, Mr. Guenter (from 30 April 2019), Mr. O'Day (from 22 October 2019), and Dr. Higgins (from 22 October 2019). Mr. Rowe, Ms. Bosley, Dr. Kerr and Mr. Guenter were appointed as independent directors within the meaning of article 526*ter* of the Belgian Companies Code (and as from 1 January 2020, article 7:87 of the New Belgian Companies Code).

In 2019, the board thus consisted of (i) three women (except between 30 April 2019 and 22 October 2019 when the board consisted of two women) and (ii) four men until 22 October 2019 and five men from 22 October 2019, representing four different nationalities and different age categories.

Name	Nationality	Year of birth
Onno van de Stolpe	Dutch	1959
Raj Parekh	British	1960
Werner Cautreels[(1)]	Belgian	1952
Howard Rowe	British and U.S.	1969
Katrine Bosley	U.S.	1968
Christine Mummery[(1)]	British and Dutch	1953
Mary Kerr	British	1961
Peter Guenter[(2)]	Belgian	1962
Daniel O'Day[(3)]	U.S.	1964
Linda Higgins[(3)]	U.S.	1962

(1) Until 30 April 2019
(2) From 30 April 2019
(3) From 22 October 2019

During 2019, Galapagos NV complied with the Law of 28 July 2011 with respect to gender diversification in the board of directors, and the board will continue to monitor future compliance. In proposing candidates, particular consideration is given to diversity in gender, age, nationality, educational and professional background, as well as complementary skills, knowledge and experience. The profiles of all board members are included in this report and available on www.glpg.com.

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. During its meetings in 2019, the board dealt with matters pertaining to, among other things, our strategy and growth, the strategic transaction with Gilead, the evaluation of other business development opportunities, convening of the shareholders' meetings and preparation of resolutions to be submitted for approval to the shareholders, and review and approval of our financial reporting.

In 2019, the board of directors held four regular meetings, nine meetings by telephone conference to discuss specific matters and two meetings in the presence of a notary (relating to the issuance of Warrant Plan 2019 and Warrant Plan 2019 RMV and relating to the closing of the Gilead transaction). The first meeting in the presence of a notary was attended by Dr. Cautreels and Mr. Van de Stolpe via telephone conference; all other directors were represented by proxy. The second meeting in the presence of a notary was attended by Mr. Van de Stolpe, Mr. Guenter and Dr. Kerr via telephone conference; all other directors were represented by proxy. The attendance rate for the other meetings was as follows: Dr. Parekh: 92%; Mr. Van de Stolpe: 85%; Dr. Cautreels: 100%; Mr. Rowe: 100%; Ms. Bosley: 85%; Dr. Mummery: 67%; Dr. Kerr: 92%; Mr. Guenter: 80%; Mr. O'Day: 100%; and Dr. Higgins: 100%. The overall attendance rate was 90%. In addition, certain board members also attended a number of review meetings with scientific staff of the group.

The board of directors acts as a collegial body. A formal evaluation of the board and its committees was initiated in December 2017 and was completed in March 2018. Each board member provided feedback through individual assessment forms. The results were presented on an aggregate basis by the secretary of the board and served as a basis for discussion by the full board. This evaluation specifically addressed the functioning of the board, the size and composition of the board, the interaction between the board and the executive management, and the functioning of the audit committee and the nomination and remuneration committee.

Committees

Executive committee

Composition of Galapagos NV's executive committee

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

Bart Filius, MBA has served as our Chief Financial Officer since December 2014 and as our Chief Operating Officer since September 2017. Prior to that, Mr. Filius worked over 13 years at Sanofi SA, where he was the Chief Financial Officer of Sanofi Europe during the last three years. Earlier at Sanofi, he was the Country Manager and Chief Financial Officer of Sanofi in the Netherlands. Before that, he was Vice President for Mergers & Acquisitions, during which time he led and completed the divestiture of various franchises. Prior to joining Sanofi, he was a strategy consultant at Arthur D. Little. Mr. Filius has an MBA degree from INSEAD and a bachelor's degree in business from Nyenrode Business University. In May 2019, Mr. Filius was elected as non-executive director in the supervisory board of ProQR NV.

Piet Wigerinck, Ph.D. joined us in April 2008 as SVP Development and was appointed Chief Scientific Officer in 2012. Under his leadership, we have developed a large pipeline of novel mechanism of action drug candidates. He has supervised multiple successful proof-of-concept patient studies, including filgotinib, GLPG1690, and MOR106. Prior to his tenure at Galapagos, Dr. Wigerinck was Vice President, Drug Discovery, Early Development and CM&C at Tibotec-Virco Comm. VA (a subsidiary of Johnson & Johnson Services, Inc.). Under his leadership at Tibotec, TMC114 (Prezista™) and TMC435 (Olysio™) were selected and moved forward into clinical trials. Dr. Wigerinck played a key role in Tibotec's expansion into novel diseases such as Hepatitis C and advanced several compounds into Phase 1 and Phase 2 clinical trials. Dr. Wigerinck has over 30 years of R&D experience in the pharmaceutical industry and biotechnology. He holds a Ph.D. from the KU Leuven and is inventor on more than 25 patent applications. In May 2018, Dr. Wigerinck was elected as an independent board member of Ipsen SA in France.

Andre Hoekema, Ph.D. is responsible for M&A, licensing and Intellectual Property at Galapagos as our Chief Business Officer. He joined Galapagos in March 2005 from Invitrogen Corporation, where he was Managing Director of Corporate Development Europe. He brings 20 years of biotech experience from positions at Molecular Probes Europe BV (Managing Director), Crucell NV (Director of Business Development), DSM Life Sciences NV and Syngenta MOGEN BV (Research and Project Management) and Genentech, Inc. (R&D). Dr. Hoekema has a Ph.D. degree from Leiden University and is the inventor of over 20 series of patent applications, resulting in 15 patents issued in the United States. Dr. Hoekema currently also serves as a member of the supervisory board of Mimetas BV and has previously served as a member of the supervisory board of VitalNext BV.

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

Michele Manto was appointed Chief Commercial Officer in January 2020. He joined Galapagos in September 2017 as Senior Vice President Commercial Operations to build and lead Galapagos' commercial organization and capabilities. Previously, Mr. Manto held various commercial leadership roles at AbbVie, most recently as General Manager, Global Marketing Rheumatology and as General Manager in the Netherlands. Prior to this, he led AbbVie's commercial activities and launches in rheumatology, gastroenterology and dermatology in Germany and other European countries. He started his professional career as a management and strategy consultant at McKinsey & Company. Mr. Manto holds an MBA from INSEAD and a degree in engineering from the Politecnico of Milan.

About the executive committee of Galapagos NV

The tasks of the executive committee include the following matters: the research, identification and development of strategic possibilities and proposals which may contribute to our development in general, management of the group, the supervision of the actual performance of the business compared to its strategic goals, plans and budgets, and the support of the CEO with the day-to-day management of Galapagos.

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

On 31 December 2019, the executive committee consisted of five people: Mr. van de Stolpe (CEO, also executive director), Mr. Filius (CFO and COO), Dr. Wigerinck (CSO), Dr. Hoekema (CBO), and Dr. Abi-Saab (CMO), representing four different nationalities and different age categories.

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

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

On 23 January 2020, we announced the appointment of Mr. Michele Manto as Chief Commercial Officer and member of the executive committee, effective 1 January 2020.

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

Audit committee

The role of the audit committee is to follow up on financial reporting and verification of financial data, safeguard the integrity of our financial reporting, verify and follow up on the internal control mechanisms, evaluate and verify the effectiveness of the risk assessment systems, follow up on the internal and external audit activities, review, monitor and evaluate the independence and performance of the external auditor and inform the board on the results of the statutory audit. The audit committee also reviews corporate social responsibility initiatives, as included in the CSR-report, which contains the non-financial information as required by articles 96 § 4 and 119 § 2 of the Belgian Companies Code (and as from 1 January 2020, articles 3:6 § 4 and 3:32 § 2 of the New Belgian Companies Code).

At the end of 2019, the audit committee consisted of the following three directors: Mr. Rowe (chairman), Dr. Kerr and Mr. Guenter. Mr. Guenter replaced Dr. Cautreels on the audit committee as from 18 June 2019. All members of the audit committee are non-executive directors, the majority of whom are independent within the meaning of article 526*ter* of the Belgian Companies Code (and as from 1 January 2020, article 7:87 of the New Belgian Companies Code). The chairman is an independent non-executive director. All members of the audit committee have extensive experience in the life sciences industry. Mr. Rowe has relevant expertise in financial matters (including general accounting and financial reporting) and in matters of audit, internal control and risk control. The other members have extensive experience in these matters as well.

In 2019, the audit committee held nine meetings, in which it dealt with matters pertaining to, among other things, audit review, risk management, monitoring financial reporting, and the monitoring of Sarbanes-Oxley compliant internal and external audit systems. The audit committee acts as a collegial body. The overall attendance at the audit committee meetings in 2019 was 90%. Dr. Kerr's attendance rate was 78% and Mr. Guenter's attendance rate was 83% whereas the other committee member's attendance rates were all 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 2019, the nomination and remuneration committee consisted of the following three non-executive directors: Dr. Parekh (chairman), Ms. Bosley and Mr. Rowe, the majority of whom are independent directors. The committee has the necessary expertise in the area of remuneration policy.

The nomination and remuneration committee meets at least twice per year. In 2019, the nomination and remuneration committee held six meetings, dealing with, among other things, matters pertaining to grants of warrants, RSUs and bonuses, the nomination and remuneration of directors, the nomination and remuneration of members of the executive committee, salary increases and the legislative changes to the remuneration rules. The nomination and remuneration committee acts as a collegial body. The overall attendance rate at the nomination and remuneration committee meetings in 2019 was 100%. The CEO attended the meetings of this committee when the remuneration of the other members of the executive committee was discussed.

Composition of board committees (excluding the executive committee)

	Audit committee	Nomination and remuneration committee
Onno van de Stolpe		
Raj Parekh		*
Howard Rowe(1)	*	•
Katrine Bosley(1)		•
Mary Kerr(1)	•	
Peter Guenter(1)	•	
Daniel O'Day		
Linda Higgins		

• denotes committee membership
* denotes committee chairmanship
(1) denotes qualification as an independent director within the meaning of article 526*ter* of the Belgian Companies Code (and as of 1 January 2020, article 7:87 of the New Belgian Companies Code)

Galapagos NV's share capital and shares

Share capital increases and issue of shares by Galapagos NV in 2019

On 1 January 2019, the share capital of Galapagos NV amounted to €294,599,712.11 represented by 54,465,421 shares. In the course of 2019 there were four capital increases resulting from the exercise of warrants under employee warrant plans, resulting in the issuance of 754,605 new shares, an increase of the share capital by €4,082,413.05 and an increase of the issuance premium account by €13,085,809.23. In addition, on 23 August 2019, Gilead Therapeutics A1 Unlimited Company subscribed to 6,828,985 new shares at a price of €140.59 per share pursuant to the closing of the share subscription agreement of 14 July 2019. This resulted in a share capital increase of €36,944,808.85 and an increase of the issuance premium account by €923,142,192.30. Finally, on 6 November 2019, Gilead Therapeutics A1 Unlimited Company exercised initial warrant A, resulting in the issuance of 2,617,791 new shares at an issuance price of €140.59 per share, an increase in the share capital by €14,162,249.31 and an increase of the issuance premium account by €353,872,987.38.

At the end of 2019, the share capital of Galapagos NV amounted to €349,789,183.32 represented by 64,666,802 shares.

On 10 April 2019, the board of directors issued 1,699,690 warrants (after acceptance by the beneficiaries) within the framework of the authorized capital, for the benefit of the directors and an independent consultant of Galapagos NV, and of employees of the group under new warrant plans ("Warrant Plan 2019" and "Warrant Plan 2019 RMV").

The offer of warrants to the directors and to the members of the executive committee under Warrant Plan 2019 was approved by the annual shareholders' meeting of 30 April 2019. The warrants issued under Warrant Plan 2019 and Warrant Plan 2019 RMV have a term of eight years and an exercise price of €95.11.

On 22 October 2019, the extraordinary shareholders' meeting approved the issuance of two warrants for the benefit of Gilead Therapeutics A1 Unlimited Company, called the initial warrant A and the initial warrant B. These warrants entitle the holder thereof to subscribe, during the entire term of the respective warrant, upon each exercise of a warrant, for a maximum number of shares that is sufficient to bring the shareholding of Gilead and its affiliates to 25.1% and 29.9%, respectively, of the actually issued and outstanding shares after the exercise of the relevant warrant (rounded down to the nearest whole share). The initial warrant A has a term of one year and an exercise price of €140.59 per share. The initial warrant B has a term of five years and an exercise price per share equal to the greater of (i) 120% multiplied by the arithmetic mean of the 30-day daily volume weighted average trading price of Galapagos' shares as traded on Euronext Brussels and Euronext Amsterdam, and (ii) €140.59.

Number and form of Galapagos shares

Of the 64,666,802 shares of Galapagos NV outstanding at the end of 2019, 9,382,267 were registered shares and 55,284,535 shares were dematerialized shares. All shares are issued and fully paid up and are of the same class.

Rights attached to Galapagos shares

Each share (i) entitles its holder to one vote at the shareholders' meetings; (ii) represents an identical fraction of the share capital and has the same rights and obligations and shares equally in the profit of Galapagos NV; and (iii) gives its holder a preferential subscription right to subscribe to new shares, convertible bonds or warrants in proportion to the part of the share capital represented by the shares already held. The preferential subscription right can be restricted or cancelled by a resolution approved by the shareholders' meeting, or by the board of directors subject to an authorization of the shareholders' meeting, in accordance with the provisions of the New 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 consists of two parts. A general authorization for capital increases up to 20% of the share capital at the time of convening the shareholders' meeting of 22 October 2019 (i.e. €67,022,402.04) was renewed and is valid for a period of five years from the date of publication of this renewal in the Annexes to the Belgian State Gazette, i.e. 13 November 2019. A specific authorization for capital increases of more than 20% and up to 33% of the share capital at the time of the convening the shareholders' meeting of 25 April 2017 (i.e. € 82,561,764.93), was renewed and is valid for a period of five years from the date of publication of this renewal in the Annexes to the Belgian State Gazette, i.e. 31 May 2017. This specific part of the authorized capital can, however, only be used in a number of specific circumstances and upon a resolution of the board of directors that all independent directors (within the meaning of article 526*ter* of the Belgian Companies Code) approve.

In 2019, 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 10 April 2019, in connection with the issuance of Warrant Plan 2019 and Warrant Plan 2019 RMV, under which a maximum of 1,699,690 new shares could be issued for a total maximum capital increase of €9,195,322.90 (plus issuance premium); and (2) on 23 August 2019, in connection with

the subscription by Gilead Therapeutics A1 Unlimited Company to 6,828,985 new shares, resulting in an increase of the share capital by €36,944,808.85 (plus issuance premium). On 31 December 2019, an amount of €67,022,402.04 still remained available under the general part of the authorized capital and an amount of €13,717,929.80 remained available under the specific part of 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 New 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 New Belgian Companies Code, Galapagos NV may purchase, subject to the provisions of the New Belgian Companies Code, Galapagos NV's own shares and dispose thereof 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. 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 2019, neither Galapagos NV nor any subsidiary of Galapagos NV held any shares in Galapagos NV, nor did any third party hold any shares in Galapagos NV on behalf of Galapagos NV or any of its subsidiaries either.

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

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

Anti-takeover provisions under Belgian law

Under Belgian law, public takeover bids for all outstanding voting securities of the issuer are subject to the supervision of the FSMA. If the latter determines that a takeover violates Belgian law, it may lead to suspension of the exercise of the rights attached to any shares that were acquired in connection with the envisaged takeover. Pursuant to the Belgian Law of 1 April 2007 on public takeovers, a mandatory takeover bid must be made when, as a result of its own acquisition or the acquisition by persons acting in concert with it, a person owns, directly or indirectly, more than 30% of the securities with voting rights in a company with registered office in Belgium whose securities are admitted to trading on a regulated or recognized market. The acquirer must offer to all other

shareholders the opportunity to sell their shares at the higher of (i) the highest price offered by the acquirer for shares of the issuer during the 12 months preceding the announcement of the bid or (ii) the weighted average price of the shares on the most liquid market of the last 30 calendar days prior to the date on which it became mandatory for the acquirer to launch a mandatory takeover bid for the shares of all other shareholders.

Material contracts containing change of control clauses

The amended and restated license and collaboration agreement between Galapagos NV and Gilead Sciences, Inc. ("Gilead") dated 23 August 2019 contains provisions granting certain rights to Gilead upon the occurrence of a public takeover bid on our shares or a change of control in respect of Galapagos NV, including clause 15.6 (*Assignment; Industry Transaction; Acquired Programs*), entitling Gilead in the event of an industry transaction involving Galapagos, as a result of which a drug company of a certain minimum size acquires control over Galapagos, to terminate our co-promotion rights, to disband all joint committees and undertake exclusive control of their activities.

The product development, license and commercialization agreement between Galapagos NV, Les Laboratoires Servier and Institut de Recherches Servier ("Servier") as amended and restated on 8 May 2018 contains provisions granting certain rights to Servier upon the occurrence of a public takeover bid on our shares or a change of control in respect of Galapagos NV including, but not limited to, clause 13.4 (*Termination by Servier Without Cause or Due to Galapagos Change of Control*), clause 13.5 (*Rights on Termination*) and clause 13.7 (*Change of Control*), entitling Servier, in the event of a change of control of Galapagos NV, to elect to terminate the agreement subject to an option for Galapagos NV to choose from two contractual termination regimes, both including the termination of the licenses granted by Galapagos NV to Servier and the freedom for Galapagos NV to conduct research and development activities on terminated licensed products, or to have the licenses granted to Servier continue, with all payment obligations remaining in place, but with Servier having full control over the further development and patent strategies for the licensed product in Servier's territory.

The second amended and restated collaboration agreement between Galapagos NV and AbbVie S.à r.l. ("AbbVie") dated 24 October 2018 contains provisions granting certain rights to AbbVie upon the occurrence of a public takeover bid on our shares or a change of control in respect of Galapagos NV, including, but not limited to clause 11.2 (*Change in Control of Galapagos*), entitling AbbVie, to oblige Galapagos NV to take appropriate measures to avoid the disclosure of confidential information, to limit AbbVie's reporting obligations to Galapagos NV, or, depending on the stage in which the change of control occurs, to terminate the agreement.

Procedure for amendments to Galapagos NV's articles of association

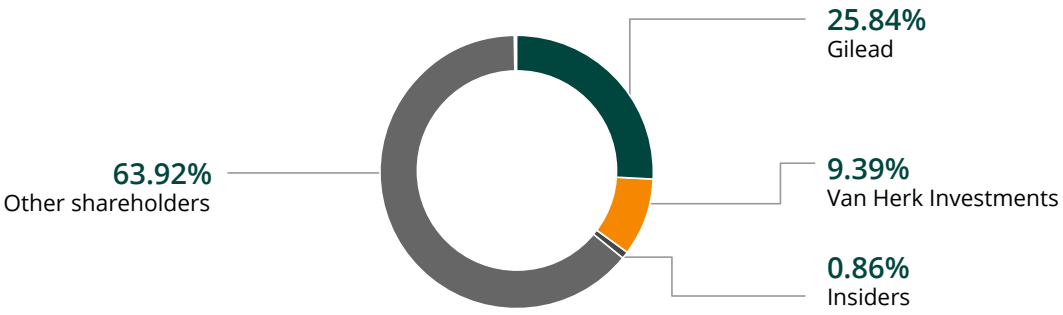
Pursuant to the New Belgian Companies Code, any amendment to the articles of association, such as an increase or decrease in the share capital of Galapagos NV, and certain other matters, such as the approval of the dissolution, merger or de-merger of Galapagos NV may only be authorized with the approval of at least 75% of the votes validly cast at an extraordinary shareholders' meeting where at least 50% of Galapagos NV's share capital is present or represented. If the attendance quorum of 50% is not met, a new extraordinary shareholders' meeting must be convened at which the shareholders may decide on the agenda items, irrespective of the percentage of share capital present or represented at such meeting.

Shareholders

Major shareholders of Galapagos NV

Based on the transparency notifications received by Galapagos NV under Belgian law and the statements of acquisition of beneficial ownership filed with the U.S. Securities and Exchange Commission under U.S. securities law, the shareholders owning 5% or more of Galapagos NV's shares on 31 December 2019 were Gilead Therapeutics A1 Unlimited Company (16,707,477 shares or 25.84%) and Van Herk Investments B.V. (6,071,472 shares or 9.39%).

Major shareholders on 31 December 2019



At the end of 2019, our CEO owned 478,289 shares of Galapagos NV and 826,874 warrants. The other members of our executive committee held an aggregate of 75,357 shares and 1,345,000 warrants. The other members of our board held an aggregate of 177,600 warrants. Each warrant entitles its holder to subscribe to one share of Galapagos NV. While the other board members did not personally hold any shares at the end of 2019, board members Daniel O'Day and Linda Higgins are representatives of our major shareholder Gilead.

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 14 July 2019, we and Gilead announced that we entered into a 10-year global research and development collaboration. In the context of the transaction, Gilead also made an equity investment in Galapagos. Finally, we amended and restated the license agreement for filgotinib that we originally entered into with Gilead on 16 December 2015.

On 23 August 2019, the closing of the transaction took place and we received an upfront payment of €3,569.8 million ($3.95 billion) and a €960.1 million ($1.1 billion) equity investment from Gilead.

Terms of the equity investment

As part of the research and development collaboration, Gilead entered into a share subscription agreement with us. On 23 August 2019, Gilead Therapeutics A1 Unlimited Company subscribed to 6,828,985 new Galapagos shares at a price of €140.59 per share, including issuance premium.

Subject to the approval of Galapagos' shareholders and certain other conditions, Gilead has the right under the terms of the share subscription agreement to have two designees appointed to our board of directors. The special shareholders' meeting of 22 October 2019 approved the appointment of Daniel O'Day and Linda Higgins as directors of Galapagos NV.

On 22 October 2019, our extraordinary shareholders' meeting further issued a warrant to Gilead Therapeutics A1 Unlimited Company, known as warrant A, that confers the right to subscribe for a number of new shares sufficient to bring the number of shares owned by Gilead and its affiliates to 25.1% of the issued and outstanding shares. Warrant A expires one year after the issue date and the exercise price per share is €140.59. On 6 November 2019, Gilead exercised warrant A and increased its ownership in Galapagos to 25.10% of the then outstanding shares.

On 22 October 2019, Gilead Therapeutics A1 Unlimited Company was also issued another warrant, known as the initial warrant B, that confers the right to subscribe for a number of new shares sufficient to bring the number of shares owned by Gilead and its affiliates to 29.9% of the issued and outstanding shares. The warrant will expire on 23 August 2024. The exercise price per share will be the greater of (i) 120% multiplied by the arithmetic mean of the 30-day daily volume weighted average trading price of the Galapagos shares preceding the date of the exercise notice with respect to such exercise, and (ii) €140.59. Between 57 and 59 months of 23 August 2019, subject to and upon approval by the shareholders' meeting, Gilead Therapeutics A1 Unlimited Company will be issued a warrant with substantially similar terms, including as to exercise price, to the initial warrant B. This subsequent warrant B will expire on the earlier of the date that is five years after the fifth anniversary of the closing and the date that the warrant is issued.

Gilead and Gilead Therapeutics A1 Unlimited Company are subject to certain standstill restrictions until the date that is 10 years following the closing (23 August 2019). Among other things, during this time Gilead and its affiliates and any party acting in concert with them may not, without our consent, acquire voting securities of Galapagos exceeding more than 29.9% of the then issued and outstanding voting securities, and Gilead and Gilead Therapeutics A1 Unlimited Company may not propose a business combination with or acquisition of Galapagos. The standstill restrictions are subject to certain exceptions as provided in the share subscription agreement.

Pursuant to the terms of the share subscription agreement, Gilead and Gilead Therapeutics A1 Unlimited Company also agreed to certain lock-up provisions. They shall not, and shall cause their affiliates not to, without our prior consent, dispose of any equity securities of Galapagos prior to the second anniversary of the closing (23 August 2019). During the period running from the date that is two years following the closing until the date that is five years following the closing, Gilead and its affiliates shall not, without our prior consent, dispose of any equity securities of Galapagos if after such disposal they would own less than 20.1% of the then issued and outstanding voting securities of Galapagos. The lock-up restrictions are subject to certain exceptions as provided in the share subscription agreement and may terminate upon certain events.

Terms of the global research and development collaboration

We will fund and lead all discovery and development autonomously until the end of Phase 2. After the completion of a qualifying Phase 2 study (or, in certain circumstances, the first Phase 3 study), Gilead will have the option to acquire a license to the compound outside Europe. If the option is exercised, we and Gilead will co-develop the compound and share costs equally. Gilead will maintain option rights to our programs through the 10-year term of the collaboration. This term can be extended, at the discretion of Gilead, for up to an additional three years thereafter for those programs, if any, that have entered clinical development prior to the end of the collaboration term. On top, a final term extension can be granted in certain circumstances.

If GLPG1690 is approved in the United States, Gilead will pay us an additional $325 million regulatory milestone fee. For GLPG1972, after the completion of the ongoing Phase 2b study in osteoarthritis, Gilead has the option to pay a $250 million fee to license the compound in the United States. If certain secondary efficacy endpoints

for GLPG1972 are met, Gilead will pay us up to an additional $200 million. Following opt-in on GLPG1972, we are eligible to receive up to $550 million in regulatory and sales based milestones. For all other programs resulting from the collaboration, Gilead will make a $150 million opt-in payment per program and will owe no subsequent milestones. We will receive tiered royalties ranging from 20-24% on net sales of all our products licensed by Gilead in all countries outside Europe as part of the agreement.

Filgotinib collaboration

Under the revised agreement, we will have greater involvement in filgotinib's global strategy and participate more broadly in the commercialization of the product in Europe, providing the opportunity to build a commercial presence on an accelerated timeline. We and Gilead will co-commercialize filgotinib in France, Germany, Italy, Spain and the United Kingdom and retain the 50/50 profit share in these countries that was part of the original filgotinib license agreement, and under the revised agreement, we will have an expanded commercial role. We will be the lead commercialization party for filgotinib in France, Italy and Spain for rheumatology indications and Gilead will be the lead commercialization party for gastro indications. In Germany and the United Kingdom, Gilead will lead the rheumatology indications and Galapagos will lead the gastro indications. We retain exclusive commercialization responsibility in Belgium, the Netherlands and Luxembourg, where the 50/50 profit share also applies. The companies will share future global development costs for filgotinib equally until a predetermined level, in lieu of the 80/20 cost split provided by the original agreement.

Other terms of the original license agreement remain in effect, including the remaining $640 million in development and regulatory milestones, sales-based milestone payments of up to $600 million and tiered royalties ranging from 20-30% payable in territories outside of Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Spain and the United Kingdom. In addition, we achieved two milestones in December 2019 totaling $30 million.

Our remuneration policy

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

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

The policy is effective as of 1 January 2020. It has been approved by the board of directors on 24 March 2020, upon recommendation of the nomination and remuneration committee. It will be submitted to the annual shareholders' meeting on 28 April 2020.

Subject to the approval of our shareholders' meeting to be held on 28 April 2020 of the amendments to our articles of association to opt for a dual governance structure under the New Belgian Companies Code, the rules described in this remuneration policy for members of the board of directors will apply to members of the supervisory board and the arrangements described in this remuneration policy for members of the executive committee will apply to members of the management board.

Determination of remuneration of directors and executive committee members of Galapagos NV

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

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

The nomination and remuneration committee is composed exclusively of non-executive board members and a majority of its members qualify as independent directors. This helps prevent the occurrence of conflicts of interest regarding the setting up, amendments and implementation of the remuneration policy in relation to the executive committee members of Galapagos NV. The CEO and the other members of the executive committee

are not invited to take part in any discussions of the nomination and remuneration committee related to their own individual remuneration. As regards the remuneration of the non-executive board members, all decisions are adopted by the shareholders' meeting.

Remuneration policy for directors

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

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

As from 1 January 2020, Galapagos will no longer grant any warrants to non-executive directors.

Remuneration policy for executive committee members

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

Short-term remuneration

Fixed remuneration

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

Variable remuneration – general rules

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

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

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

The variable remuneration takes the form of a short term cash bonus and a grant of long term RSUs. In addition, the members of the executive committee are granted warrants.

Cash bonus

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

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

For bonuses granted prior to 2019, pursuant to the rules of the then applicable Senior Management Bonus Scheme, 50% of the bonus was paid immediately around year-end and the payment of the other 50% was deferred for three years. Therefore, the following mechanism still applies for the deferred portion of the bonuses relating to financial year 2016, 2017 and 2018. The deferred 50% component is dependent on the change in the price of Galapagos NV's share relative to the Next Biotech Index (which tracks Euronext-listed biotech companies) over a period of three years. Depending on whether our share price change is better or worse than the Next Biotech Index, the deferred bonus will be adjusted up to take into account the relative share price change if it is better, adjusted down if the relative share price change is up to 10% worse or forfeited entirely if the relative share price change is more than 10% worse than the index.

For bonuses granted as from 2019, bonuses consist of both a short-term cash component and a long-term RSU component.

Long-term incentives

Restricted stock units

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

There are three restricted stock unit (RSU) programs:

1. the Annual Long-Term Incentive Plan, under which the grants are intended to be made every year, subject to a decision of the board of directors. This plan is intended to provide a long-term incentive to certain of our employees and executive committee members and replaces the deferred portion of the bonus under the old Senior Management Bonus Scheme;
2. the RSU Retention Plan. This plan was introduced in conjunction with the Gilead transaction. It is aimed at retaining a specific set of our employees and executive committee members whose retention is deemed so important for the future performance of Galapagos that an additional incentive is desired. The beneficiaries are nominated by the nomination and remuneration committee and the board approves the list of beneficiaries. The four-year vesting period is designed to be aligned with long-term shareholder interests; and
3. the RSU Discretionary Plan. This plan was granted at the discretion of the board of directors, as announced in our remuneration policy included in the annual report relating to financial year 2018 under the header "Information on the remuneration policy for the next two years".

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

The main characteristics of these plans are as follows:

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

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

Warrant plan

Galapagos grants warrants to the members of the executive committee as part of discretionary warrant plans for the benefit of our staff. Under the New Belgian Companies Code, warrants are called subscription rights.

The main characteristics of these plans are as follows:

1. The warrants are offered for no consideration;
2. The warrants typically have a lifetime of eight years and a vesting period of three years after the year of grant; and
3. Forfeiture rules apply in case of termination prior to the end of the vesting period.

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

Exceptional bonus schemes

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

For example, an exceptional grant of a cash bonus and RSU grant took place in 2019 under an RSU Transaction Bonus Plan for the successful closing of the Gilead transaction. The main characteristics of such plan are the same as described above regarding the other RSU plans, except that 50% of the RSUs granted under the RSU Transaction Bonus Plan will vest after two years and 50% will vest after three years.

Benefits in kind

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

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

As from 1 January 2020, all members of the executive committee will provide their services under a management agreement with Galapagos NV, subject to Belgian law, that contains a notice period of six months and no other severance payments. Galapagos NV also entered into undertakings with the CEO and the other members of the executive committee providing that in case their contract with the group is terminated as a result of a change of control of Galapagos, they would be entitled to a severance compensation of 12 months' base salary for the CEO and 9 months' base salary for the other members of the executive committee.

The paragraphs below set forth the main terms of the agreements that applied until 31 December 2019.

Onno van de Stolpe

Until 31 December 2019, Mr. Van de Stolpe provided his services as managing director and CEO under a management agreement for an indefinite period dated 1 March 2002, subject to Belgian law, with Galapagos NV for approximately 40% of his time. In addition, effective 1 March 2011 he entered into (1) an employment agreement, subject to Dutch law, with Galapagos B.V. on a part-time basis, for approximately 35% of his time, and (2) a management agreement, subject to French law, with Galapagos SASU for approximately 25% of his time. The notice period under such agreements amounts to six months.

Bart Filius

Until 31 December 2019, Mr. Filius provided his services as Chief Financial Officer and Chief Operating Officer under an employment agreement for an indefinite period starting from 1 December 2014, subject to Dutch law, with Galapagos B.V., for approximately 60% of his time. In addition, Mr. Filius entered into a management agreement, subject to Belgian law, with Galapagos NV for approximately 40% of his time. The notice period under such agreements amounts to six months.

Andre Hoekema

Until 31 December 2019, Dr. Hoekema provided his services as Chief Business Officer under an employment agreement for an indefinite period with Galapagos B.V., subject to Dutch law. The notice period under such agreement amounts to six months for Galapagos B.V. and three months for Dr. Hoekema.

Piet Wigerinck

On 28 February 2008, we entered into a management agreement, subject to Belgian law, with Dr. Wigerinck, for an indefinite period. Dr. Wigerinck was appointed Chief Scientific Officer effective 1 March 2012. The management agreement stipulates that Dr. Wigerinck shall perform his duties thereunder on an independent basis. The notice period under such agreement amounts to six months.

Walid Abi-Saab

Until 31 December 2019, Dr. Abi-Saab performed his duties as Chief Medical Officer under an employment agreement for an indefinite period dated 16 January 2018 with Galapagos GmbH, subject to Swiss law. The notice period under such agreement amounts to six months.

Reclaim of variable remuneration

The RSU plans and warrant plans contain bad leaver provisions that can result in forfeiture of any unvested RSU and/or warrant grants in case the beneficiary leaves Galapagos prior to the relevant vesting date. No other provisions entitling Galapagos to reclaim variable remuneration were in place.

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

Minimum share ownership

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

Deviations from this policy

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

We do not expect material changes to this remuneration policy to be made in the next two years.

Remuneration report

This remuneration report must be read together with the remuneration policy which, to the extent necessary, should be regarded as forming part of this remuneration report.

The nomination and remuneration committtee and the board of directors were assisted by Willis Towers Watson as external consultants for the conduct of benchmarking exercises regarding remuneration matters.

Remuneration of non-executive directors of Galapagos NV

Upon recommendation of the nomination and remuneration committee, and upon the proposal of the board of directors, the annual shareholders' meeting of 30 April 2019 resolved that the compensation (excluding expenses) of the non-executive directors for the exercise of their mandate during the financial year ending 31 December 2019 was established as follows: (i) chairman of the board (Dr. Parekh): €80,000; (ii) other non-executive board members (Mr. Rowe, Ms. Bosley, Dr. Kerr and Mr. Guenter, and until 30 April 2019, Dr. Cautreels and Dr. Mummery): €40,000 each; (iii) annual additional compensation for membership of a board committee (audit committee: Dr. Kerr and Dr. Cautreels, replaced by Mr. Guenter as from 18 June 2019; nomination and remuneration committee: Mr. Rowe and Ms. Bosley): €5,000; (iv) annual additional compensation for the chairmanship of a board committee (audit committee: Mr. Rowe; nomination and remuneration committee: Dr. Parekh): €10,000.

Upon recommendation of the nomination and remuneration committee, the special shareholders' meeting of 22 October 2019 resolved that Mr. O'Day and Dr. Higgins would not receive any remuneration for their mandate as non-executive directors.

Subject to the approval of the shareholders' meeting to be held on 28 April 2020, the annual remuneration for the non-executive directors will be increased, in line with the median of our peer group, to €100,000 in cash for the chairman of the board and €50,000 in cash for the other non-executive board members (other than Mr. O'Day and Dr. Higgins). Committee membership would entitle the board member to an additional €15,000 in cash and committee chairmanship to €20,000 in cash.

In addition, the chairman would receive a payment of €100,000 and each board member (other than Mr. O'Day and Dr. Higgins) would receive a payment of €50,000, in each case subject to the requirement to use the net amount (after taxes) to acquire Galapagos shares. These latter payments make up the equivalent of an equity component of the directors' remuneration, as recommended by the 2020 Code. Further details can be found in the Remuneration policy for directors section of our remuneration policy.

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

In 2019, we issued two warrant plans for the benefit of employees of the group and of the directors and one independent consultant of Galapagos NV: Warrant Plan 2019 and Warrant Plan 2019 RMV. In accordance with the resolution of the annual shareholders' meeting of 30 April 2019, the following number of warrants were offered under Warrant Plan 2019 to the non-executive directors: Dr. Parekh: 15,000 warrants; and Mr. Guenter, Ms. Bosley, Mr. Rowe and Dr. Kerr: each 7,500 warrants. All directors accepted the warrants offered. These warrants have a term of eight years. The exercise price of the warrants is €95.11. As regards the directors, the warrants vest over a period of 36 months at a rate of 1/36th per month. The warrants cannot be transferred and cannot be exercised prior to the end of the third calendar year following the year of the grant. No warrants were offered to directors under Warrant Plan 2019 RMV. The board of directors did not consider the above warrants as variable remuneration as defined by the Belgian Companies Code as they are not subject to any performance-related criteria.

Provision 7.7 of the 2009 Code recommended that non-executive directors should not be entitled to stock-related long-term incentive schemes. In deviation from this provision, the board of directors decided to grant warrants to non-executive directors. This way, Galapagos had additional possibilities to attract competent non-executive directors and to offer them an attractive additional remuneration that does not affect Galapagos' cash position. Furthermore, the grant of warrants has been a commonly used method in the sector in which Galapagos operates. Without this possibility, Galapagos was confronted with a considerable disadvantage compared to competitors and peer companies that do offer stock-related incentive schemes to their non-executive directors. The board of directors is of the opinion that the granting of warrants had no negative impact on the functioning of the non-executive directors.

Nevertheless, as from 1 January 2020, Galapagos NV will no longer grant any warrants to non-executive directors, taking into account the stricter rules of the New Belgian Companies Code. Going forward, Galapagos will thus comply with provision 7.6 of the 2020 Code.

Remuneration of executive directors of Galapagos NV

Mr. Van de Stolpe is an executive member of the board of directors. As managing director and CEO, he acts as chairman of the executive committee. Mr. Van de Stolpe does not receive any specific or additional remuneration for his work on the board of directors, as this is part of his total remuneration package as member of the executive committee.

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

For 2019, the performance criteria include elements of research progress (number of targets identified and pre-clinical candidates nominated), clinical trial progression (target number of clinical trials initiated and completed), cash position (actual cash burn versus guidance), corporate development (achievement of business development transaction, organizational growth and quality goals) and commercial development (filgotinib commercialization plan). 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.

The board determined that the corporate objectives for 2019, which were aimed at fostering the company's long-term performance, had been achieved and on some aspects overachieved. The remuneration for 2019 takes into account the contributions the members of the executive committee made to these achievements. The nomination and remuneration committee and board of directors used their ability to award an exceptional special bonus for the successful closing of the Gilead transaction, with the conviction that the Gilead alliance secured substantial capital and put other conditions in place for independent R&D innovation and value creation in the longer term, in line with shareholder interests.

The total remuneration complies with the adopted remuneration policy which applied at the time the remuneration was granted. The remuneration policy that was in place during the previous financial year can be found in the remuneration report included in our annual report relating to the year ended 31 December 2018.

Gross remuneration of our CEO for financial year 2019

1. Base salary (fixed): €600,000 (including €18,859.44 in the form of pension contributions).

2. Variable remuneration (bonus): given the level of achievement of the performance criteria to be entitled to a bonus (i.e. the corporate objectives for 2019), a cash bonus equal to 75% of the 2019 base salary (i.e. €450,000) was awarded over 2019 and will be paid in April 2020, and an equivalent number of RSUs (based on the average share price of the Galapagos share on Euronext Amsterdam during the month of April 2020) will be granted under the Annual Long-Term Incentive Plan. The value of the 50% deferred part of the bonus awarded over 2016 was established at the end of 2019 and resulted in a payment in early January 2020 of an amount of €772,104.57 (a multiple of 3.3 of the deferred bonus, as a result of the share price performance over the period 2016-2019 as per the provisions of the Senior Management Bonus Scheme). In addition, an amount of €2,500,000 was paid and 16,922 RSUs were granted in October 2019, both as an exceptional special bonus awarded for the successful closing of the Gilead alliance transaction in 2019.

   The proportion of fixed remuneration to variable remuneration thus amounted to 1:6.

3. Pension: €67,661.36 (of which €18,859.44 is part of the base salary).

4. Other components of the remuneration: company car, tax advisory services, and payments for invalidity and healthcare cover, totaling €42,564.45.

The table below further summarizes the information concerning the compensation earned by our CEO during the year ended 31 December 2019:

(€)	Onno van de Stolpe
Fixed remuneration (gross)	600,000.00
Variable remuneration (short-term)	2,950,000.00
Variable remuneration (long-term)	772,104.57
Pension/life	48,801.92
Other benefits	42,564.45
Total	**4,413,470.94**

Gross remuneration of the other executive committee members for financial year 2019

COO & CFO

1. Base salary (fixed): €400,000.00.

2. Variable remuneration (bonus): given the level of achievement of the performance criteria to be entitled to a bonus (i.e. the corporate objectives for 2019), a cash bonus equal to €273,000 was awarded over 2019 and will be paid in April 2020, and an equivalent number of RSUs (based on the average share price of the Galapagos share on Euronext Amsterdam during the month of April 2020) will be granted under the Annual Long-Term Incentive Plan. The value of the 50% deferred part of the bonus awarded over 2016 was established at the end of 2019 and resulted in a payment in early January 2020 of an amount of €385,570.81 (a multiple of 3.3 of the deferred bonus, as a result of the share price performance over the period 2016-2019 as per the provisions of the Senior Management Bonus Scheme). In addition, an amount of €2,500,000 was paid and 16,922 RSUs were granted in October 2019, both as an exceptional special bonus awarded for the successful closing of the Gilead alliance transaction in 2019.

   The proportion of fixed remuneration to variable remuneration thus amounted to 1:8.

3. Pension: €44,158.88.

4. Other components of the remuneration: company car, tax advisory services, and payments for invalidity cover, totaling €29,938.24.

CSO

1. Base salary (fixed): €400,000 (including €20,000 in the form of pension contributions).

2. Variable remuneration (bonus): given the level of achievement of the performance criteria to be entitled to a bonus (i.e. the corporate objectives for 2019), a cash bonus equal to €175,500 was awarded over 2019 and will be paid in April 2020, and an equivalent number of RSUs (based on the average share price of the Galapagos share on Euronext Amsterdam during the month of April 2020) will be granted under the Annual Long-Term Incentive Plan. The value of the 50% deferred part of the bonus awarded over 2016 was established at the end of 2019 and resulted in a payment in early January 2020 of an amount of €385,570.81 (a multiple of 3.3 of the deferred bonus, as a result of the share price performance over the period 2016-2019 as per the provisions of the Senior Management Bonus Scheme). In addition, an amount of €1,500,000 was paid and 10,153 RSUs were granted in October 2019, both as an exceptional special bonus awarded for the successful closing of the Gilead alliance transaction in 2019.

   The proportion of fixed remuneration to variable remuneration thus amounted to 1:5.

3. Pension: €60,000 (of which €20,000 are part of the fixed base salary).

4. Other components of the remuneration: healthcare cover, totaling €203.76.

CBO

1. Base salary (fixed): €360,000.

2. Variable remuneration (bonus): given the level of achievement of the performance criteria to be entitled to a bonus (i.e. the corporate objectives for 2019), a cash bonus of €156,000 was awarded over 2019 and will be paid in April 2020, and an equivalent number of RSUs (based on the average share price of the Galapagos share on Euronext Amsterdam during the month of April 2020) will be granted under the Annual Long-Term Incentive Plan. The value of the 50% deferred part of the bonus awarded over 2016 was established at the end of 2019 and resulted in a payment in early January 2020 of an amount of €385,570.81 (a multiple of 3.3 of the deferred bonus, as a result of the share price performance over the period 2016-2019 as per the provisions of the Senior Management Bonus Scheme). In addition, an amount of €2,500,000 was paid and 16,922 RSUs were granted in October 2019, both as an exceptional special bonus awarded for the successful closing of the Gilead alliance transaction in 2019.

   The proportion of fixed remuneration to variable remuneration thus amounted to 1:8.

3. Pension: €77,333.59.

4. Other components of the remuneration: company car and payments for invalidity cover, totaling €21,141.70.

CMO

1. Base salary (fixed): €400,000.00.

2. Variable remuneration (bonus): given the level of achievement of the performance criteria to be entitled to a bonus (i.e. the corporate objectives for 2019), a cash bonus equal to €175,500 was awarded over 2019 and will be paid in April 2020, and an equivalent number of RSUs (based on the average share price of the Galapagos share on Euronext Amsterdam during the month of April 2020) will be granted under the Annual Long-Term Incentive Plan. In addition, an amount of €1,500,000 was paid and 10,153 RSUs were granted in October 2019, both as an exceptional special bonus awarded for the successful closing of the Gilead alliance transaction in 2019.

   The proportion of fixed remuneration to variable remuneration thus amounted to 1:4.

3. Pension: €73,412.60.

4. Other components of the remuneration: tax advisory services, and payments for invalidity cover, totaling €15,058.53.

The table below further summarizes the information concerning the compensation earned by the members of our executive committee during the year ended 31 December 2019:

(€)	Bart Filius	Piet Wigerinck	Andre Hoekema	Walid Abi-Saab
Fixed remuneration (gross)	400,000.00	400,000.00	360,000.00	400,000.00
Variable remuneration (short-term)	2,773,000.00	1,675,500.00	2,656,000.00	1,675,500.00
Variable remuneration (long-term)	385,570.81	385,570.81	330,489.73	–
Pension/life	44,158.88	40,000.00	77,333.59	73,412.60
Other benefits	29,938.24	203.76	21,141.70	15,058.53
Total	**3,632,667.93**	**2,501,274.57**	**3,444,965.02**	**2,163,971.13**

Warrants awarded to, exercised by or expired for the executive committee members during financial year 2019

The following number of warrants were offered to and accepted by members of the executive committee in 2019 under Warrant Plan 2019, issued by the board of directors under the authorized capital on 10 April 2019: to Mr. Van de Stolpe: 100,000 warrants, to Mr. Filius: 65,000 warrants, to each of Dr. Hoekema, Dr. Wigerinck and Dr. Abi-Saab: 50,000 warrants.

The warrants issued under Warrant Plan 2019 have an exercise price of €95.11, a life time of 8 years, and vest only and fully at the end of the third calendar year after the year of the grant, except for Mr. Van de Stolpe, whose warrants vest over a period of 36 months at a rate of 1/36th per month. The warrants cannot be exercised prior to the end of the third calendar year after the year of the grant; they are not transferable, and each warrant gives the right to subscribe to one share of Galapagos NV.

At the end of 2019, Mr. Van de Stolpe owned 478,289 shares of Galapagos NV and 826,874 warrants. The other members of the executive committee held an aggregate of 75,357 shares and 1,345,000 warrants. More specifically, Dr. Abi-Saab held 305,000 warrants, Mr. Filius held 10,000 shares and 315,000 warrants, Dr. Hoekema held 22,357 shares and 365,000 warrants and Dr. Wigerinck held 43,000 shares and 360,000 warrants. Each warrant entitles its holder to subscribe to one share of Galapagos NV.

No warrants expired for members of the executive committee in 2019 and, in aggregate, 282,500 warrants were exercised by members of the executive committee in 2019 (60,000 warrants were exercised by Mr. Van de Stolpe, 75,000 warrants by Mr. Filius, 100,000 warrants by Dr. Wigerinck and 47,500 warrants by Dr. Hoekema).

RSUs awarded to, vested or expired for the executive committee members during financial year 2019

The following number of RSUs were offered to and accepted by members of the executive committee in 2019 under the RSU Discretionary Plan 2019: 15,000 RSUs to Mr. Van de Stolpe; 5,000 RSUs to each of Mr. Filius, Dr. Wigerinck and Dr. Abi-Saab and 3,000 RSUs to Dr. Hoekema. The RSUs have a vesting period of three years.

Under the RSU Retention Plan, the following number of RSUs were offered to and accepted by members of the executive committee in 2019: 25,606 RSUs to Mr. Van de Stolpe and 17,924 RSUs to each of Mr. Filius, Dr. Wigerinck and Dr. Abi-Saab. The RSUs have a vesting period of four years, with 25% of the RSUs vesting each year.

Under the RSU Transaction Bonus Plan 2019, the following number of RSUs were offered to and accepted by members of the executive committee in 2019: 16,922 RSUs to each of Mr. Van de Stolpe, Mr. Filius and Dr. Hoekema and 10,153 RSUs to each of Dr. Wigerinck and Dr. Abi-Saab. 50% of the RSUs have a vesting period of two years and 50% of the RSUs have a vesting period of three years.

Each RSU reflects the value of one Galapagos share and will be payable, at the company's discretion in cash or in shares, upon vesting. However, in respect of members of the executive committee, any vesting prior to the third anniversary of the offer date will always give rise to a payment in cash rather than a delivery of shares as an incentive.

No RSUs vested or expired during financial year 2019.

Contractual provisions regarding compensation for severance for the Galapagos NV executive committee members

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

Severance payments for departing executive committee members during financial year 2019

Not applicable; in 2019 no members of the executive committee (including the CEO) left Galapagos.

Claw-back right of Galapagos relating to variable remuneration

In 2019, there were 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.

As from 2020, contractual provisions will apply to ensure that Galapagos has the right to have the CEO or the other members of the executive committee forfeit any deferred or unvested portion of their variable remuneration in case of (i) a material breach of Galapagos' code of business conduct and ethics or (ii) a restatement of Galapagos' financial statements that has a material negative impact on the company.

Conflict of interests and related parties

We consider that Gilead became a related party of Galapagos in 2019 because of Gilead's 25.84% shareholding in Galapagos and the fact that Gilead is entitled to propose two candidates to be appointed to our board of directors under the share subscription agreement. A detailed explanation of our transactions with Gilead in 2019 can be found in the section titled Agreements with major Galapagos NV shareholders. We further refer to note 29.

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 and as of 1 January 2020, article 7:96 of the New Belgian Companies Code). In addition, Galapagos' Corporate Governance Charter and Galapagos' Related Person Transaction Policy contain procedures for transactions between Galapagos and its directors, members of its executive committee, major shareholders or any of their immediate family members and affiliates. Without prejudice to the procedure defined in article 523 of the Belgian Companies Code (and as of 1 January 2020, article 7:96 of the New Belgian Companies Code), these policies provide that all transactions between Galapagos and its directors, its members of the executive committee or its representatives need the approval of the audit committee and the board of directors, which approval can only be provided for transactions at normal market conditions. Moreover, conflicts of interest, even in the event they are not a conflict of interest within the meaning of article 523 of the Belgian Companies Code (and as of 1 January 2020, article 7:96 of the New Belgian Companies Code), are enacted in the meeting minutes, and the director or member of the executive committee cannot participate in the voting.

In 2019, the following conflicts of interests between Galapagos NV and a director within the meaning of article 523 of the Belgian Companies Code were noted:

- in a meeting of the board of directors held on 18 February 2019, the following was reported in accordance with article 523 of the Belgian Companies Code in connection with the proposed compensation review of 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 compensation review of the CEO. The board considered that said compensation review was based on a benchmark exercise performed by an external advisor, and that the proposed amendments aim to align the compensation with the median of the peer group's compensation level. The update of the compensation structure will have no material impact on the financial position of the company. The board shared the opinion of the remuneration committee that the proposed amendments are justified and reasonable. Mr. Van de Stolpe did not take part in the deliberation and the vote concerning this decision.
- in a meeting of the board of directors held on 24 September 2019, the following was reported in accordance with article 523 of the Belgian Companies Code in connection with the proposed bonus for the CEO for the successful closing of the Gilead transaction: the chairman declared that Mr. Onno van de Stolpe had informed the board of directors of a conflict of interest, concerning the proposed award to him of a bonus. Given the contributions by the CEO to the successful completion of the transaction with Gilead, Mr. Van de Stolpe is granted a total bonus of EUR 5 million (of which 50% payable in cash and 50% through the grant of RSUs, with half of the RSUs vesting after 2 years and the other half of the RSUs vesting after 3 years). The board considered that said bonus is a justified reward for the results achieved by Mr. Van de Stolpe. The bonus will have no material impact on the financial position of the company. The board shared the opinion of the remuneration committee that the proposed bonus is justified and reasonable. Mr. Van de Stolpe did not take part in the deliberation and the vote concerning this decision.

- in a meeting of the board of directors held on 17 December 2019, the following was reported in accordance with article 523 of the Belgian Companies Code in connection with the proposed salary increase, bonus and grant of RSUs to the CEO: the chairman declared that Onno van de Stolpe had informed the board of directors of a conflict of interest, concerning the proposed salary increase and award to him of a bonus and RSUs. Given the actual level of achievement of the performance criteria to be entitled to a salary increase and a bonus (i.e. the corporate objectives for 2019) a bonus equal to 75% of his 2019 salary was awarded to Mr. Van de Stolpe in cash and for 2019 and an equivalent number of RSUs (based on the average share price of the Galapagos share on Euronext Amsterdam during the month of March 2020) to be granted under the Annual Long-Term Incentive Plan. Mr. Van de Stolpe's salary was increased with 4% as of 2020. In addition, the grant of 25,000 RSUs under the RSU Retention Plan and 15,000 RSUs under the RSU Discretionary Plan to Mr. Van de Stolpe was ratified by the board. The board considered that said salary increase, bonus and RSU grants are a justified reward for the results achieved by Mr. Van de Stolpe in 2019. Furthermore, the board deemed the grant of RSUs to be an important tool in the retention of Mr. Van de Stolpe as CEO of the company. The salary increase, bonus and RSU grants will have no material impact on the financial position of the company. The board shared the opinion of the remuneration committee that the salary increase, proposed bonus and RSU grants are justified and reasonable. Mr. Van de Stolpe did not take part in the deliberation and the vote concerning this decision.

Code of Business Conduct and Ethics

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

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

We were not informed of any breaches of our Code of Business Conduct and Ethics in 2019.

Statement by the board of directors

The board of directors of Galapagos NV, represented by all its members, declares that, as far as it is aware, the statutory accounts and consolidated financial statements, prepared according to the applicable standards for financial statements, give a true and fair view of the equity, financial position and the results of Galapagos as of 31 December 2019.

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 2019, gives a true and fair view on the development, results and position of Galapagos and on the most important risks and uncertainties with which Galapagos is confronted.

The board of directors will submit proposed resolutions to the shareholders' meeting to approve the annual accounts for the financial year 2019, and to release the directors and the statutory auditor from liability for the performance of their mandate during the financial year ended 31 December 2019.

Mechelen, 27 March 2020

On behalf of the board of directors

Onno van de Stolpe
CEO

Raj Parekh
Chairman

Financial statements

Consolidated and non-consolidated
financial statements for 2019

Pioneering for patients

Consolidated financial statements

Consolidated statements of income and comprehensive income/loss (-)

Consolidated income statement

	Year ended 31 December		
(thousands of €, except per share data)	**2019**	2018	Notes
Revenues	844,985	288,836	6
Other income	50,905	29,009	6
Total revenues and other income	**895,890**	**317,845**	
Research and development expenditure	(427,320)	(322,875)	7
General and administrative expenses	(73,701)	(35,631)	7
Sales and marketing expenses	(24,577)	(4,146)	7
Total operating expenses	**(525,597)**	**(362,652)**	
Operating profit/loss (-)	**370,292**	**(44,807)**	
Fair value re-measurement of share subscription agreement and warrants	(181,644)	–	9
Other financial income	21,482	18,335	10
Other financial expenses	(60,071)	(2,737)	10
Profit/loss (-) before tax	**150,060**	**(29,209)**	
Income taxes	(214)	(50)	11
Net profit/loss (-)	**149,845**	**(29,259)**	
Net profit/loss (-) attributable to:			
Owners of the parent	149,845	(29,259)	
Basic income/loss (-) per share	**2.60**	**(0.56)**	12
Diluted income/loss (-) per share	**2.49**	**(0.56)**	12

The accompanying notes form an integral part of these financial statements.

Consolidated statement of comprehensive income / loss (-)

	Year ended 31 December		
(thousands of €)	2019	2018	Notes
Net profit/loss (-)	**149,845**	**(29,259)**	
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of defined benefit obligation	(4,107)	(94)	
Items that may be reclassified subsequently to profit or loss:			
Translation differences, arisen from translating foreign activities	415	197	
Other comprehensive income/loss (-), net of income tax	**(3,692)**	**103**	
Total comprehensive income/loss (-) attributable to:			
Owners of the parent	146,154	(29,155)	

The accompanying notes form an integral part of these financial statements.

Consolidated statements of financial position

(thousands of €)	31 December 2019	31 December 2018	Notes
Assets			
Intangible assets	24,927	3,632	13
Property, plant and equipment	66,052	23,137	14
Deferred tax assets	4,205	2,514	21
Non-current R&D incentives receivables	93,407	73,443	16
Other non-current assets	14,091	7,919	15
Non-current assets	**202,682**	**110,645**	
Trade and other receivables	54,009	18,609	17
Current R&D incentives receivables	21,949	11,203	16
Current financial investments	3,919,216	–	18
Cash and cash equivalents	1,861,616	1,290,796	19
Other current assets	9,138	8,244	17
Current assets	**5,865,927**	**1,328,851**	
Total assets	**6,068,609**	**1,439,496**	
Equity and liabilities			
Share capital	287,282	236,540	20
Share premium account	2,703,583	1,277,780	20
Other reserves	(4,842)	(735)	
Translation differences	(1,142)	(1,557)	
Accumulated losses	(109,223)	(297,779)	
Total equity	**2,875,658**	**1,214,249**	
Retirement benefit liabilities	8,263	3,764	
Non-current lease liabilities	19,558	–	22
Other non-current liabilities	6,989	1,578	23
Non-current deferred income	2,586,348	–	24
Non-current liabilities	**2,621,158**	**5,342**	
Current lease liabilities	5,826	–	22
Trade and other liabilities	143,434	68,928	23
Current tax payable	2,037	1,175	11
Current financial instruments	6,198	–	9
Current deferred income	414,298	149,801	24
Current liabilities	**571,793**	**219,905**	
Total liabilities	**3,192,951**	**225,247**	
Total equity and liabilities	**6,068,609**	**1,439,496**	

The accompanying notes form an integral part of these financial statements.

Consolidated cash flow statements

(thousands of €)	2019	2018	Notes
Net profit/loss (-) of the year	**149,845**	**(29,259)**	
Adjustment for non-cash transactions	248,027	21,753	25
Adjustment for items to disclose separately under operating cash flow	(7,731)	(4,389)	25
Adjustment for items to disclose under investing and financing cash flows	(5,061)	(668)	25
Change in working capital other than deferred income	12,698	19,922	25
Increase/decrease (-) in deferred income	2,804,202	(153,312)	24
Cash generated/used (-) in operations	3,201,980	(145,953)	
Interest paid	(1,158)	(1,063)	
Interest received	7,852	4,558	
Corporate taxes paid	(57)	(8)	
Net cash flows generated/used (-) in operating activities	**3,208,617**	**(142,466)**	
Purchase of property, plant and equipment	(22,385)	(10,392)	14
Purchase of and expenditure in intangible fixed assets	(23,300)	(3,325)	13
Proceeds from disposal of property, plant and equipment	–	1	14
Increase in current financial investments	(4,787,284)	–	18
Interest received related to current financial investments	5,059	–	18
Decrease in current financial investments	1,063,344	–	18
Acquisition of financial assets held at fair value through profit or loss	(177)	(4,559)	15
Proceeds from sale of financial assets held at fair value through profit or loss	82	2,361	15
Net cash flows used in investing activities	**(3,764,660)**	**(15,914)**	
Payment of lease liabilities	(5,091)	(5)	22
Proceeds from capital and share premium increases, gross amount	960,087	296,188	20
Issue costs paid related to capital and share premium increases	(4,447)	(15,964)	20
Proceeds from capital and share premium increases from exercise of warrants	17,167	7,657	20
Proceeds from capital and share premium increases from exercise of warrant A by Gilead	368,035	–	20
Net cash flows generated in financing activities	**1,335,751**	**287,876**	
Increase in cash and cash equivalents	**779,708**	**129,497**	

(thousands of €)	2019	2018	Notes
Cash and cash equivalents at beginning of year	**1,290,796**	**1,151,211**	19
Transfer to current financial investments	**(198,922)**	**–**	
Increase in cash and cash equivalents	779,708	129,497	
Effect of exchange rate differences on cash and cash equivalents	(9,966)	10,089	
Cash and cash equivalents at end of the year	**1,861,616**	**1,290,796**	19

	31 December		
(thousands of €)	2019	2018	Notes
Current financial investments	3,919,216	–	18
Cash and cash equivalents	1,861,616	1,290,796	19
Current financial investments and cash and cash equivalents	**5,780,832**	**1,290,796**	

The accompanying notes form an integral part of these financial statements.

Consolidated statements of changes in equity

(thousands of €)	Share capital	Share premium account	Translation differences	Other reserves	Accumul. losses	Total
On 1 January 2018	**233,414**	**993,025**	**(1,754)**	**(1,260)**	**(211,441)**	**1,011,983**
Change in accounting policy (modified retrospective application IFRS 15)					(83,220)	(83,220)
Change in accounting policy (modified retrospective application IFRS 9)				619	(619)	–
Restated total equity at 1 January 2018	**233,414**	**993,025**	**(1,754)**	**(641)**	**(295,279)**	**928,766**
Net loss					(29,259)	(29,259)
Other comprehensive income/loss (-)			197	(94)		103
Total comprehensive income/loss (-)			**197**	**(94)**	**(29,259)**	**(29,155)**
Share-based compensation					26,757	26,757
Issue of new shares	16,021	280,167				296,188
Share issue costs	(15,964)					(15,964)
Exercise of warrants	3,069	4,588				7,657
On 31 December 2018	**236,540**	**1,277,780**	**(1,557)**	**(735)**	**(297,779)**	**1,214,249**
On 1 January 2019	**236,540**	**1,277,780**	**(1,557)**	**(735)**	**(297,779)**	**1,214,249**
Change in accounting policy (modified retrospective application IFRS 16)					416	416
Restated total equity at 1 January 2019	**236,540**	**1,277,780**	**(1,557)**	**(735)**	**(297,363)**	**1,214,665**
Net profit					149,845	149,845
Other comprehensive income/loss (-)			415	(4,107)		(3,692)
Total comprehensive income/loss (-)			**415**	**(4,107)**	**149,845**	**146,154**
Share-based compensation					38,297	38,297
Derecognition of financial liability from share subscription agreement and warrant A		135,702				135,702
Issue of new shares	36,945	923,142				960,087
Share issue costs	(4,447)					(4,447)
Exercise of warrant A by Gilead	14,162	353,873				368,035
Exercise of warrants	4,082	13,085				17,167
On 31 December 2019	**287,282**	**2,703,583**	**(1,142)**	**(4,842)**	**(109,223)**	**2,875,658**

The accompanying notes form an integral part of these financial statements.

Notes to the consolidated financial statements

1. General information

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

R&D

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

The components of the operating result presented in the financial statements include the following companies: Galapagos NV, Galapagos Biopharma Belgium BV, Galapagos Real Estate 1 BV and Galapagos Real Estate 2 BV (Mechelen, Belgium); Galapagos SASU (Romainville, France); Galapagos B.V., Galapagos Biopharma Netherlands B.V. and Galapagos Real Estate Netherlands B.V. (Leiden, the Netherlands); Fidelta d.o.o. (Zagreb, Croatia); Galapagos, Inc. and its subsidiary Xenometrix, Inc. (United States); BioFocus DPI AG and Galapagos GmbH (Basel, Switzerland); Galapagos Biotech Ltd. (Cambridge, UK); Galapagos Biopharma Germany GmbH (München, Germany); Galapagos Biopharma Spain S.L.U. (Madrid, Spain) and Galapagos Biopharma Italy S.r.l. (Milan, Italy).

Our operations had 1,003 employees as at 31 December 2019 working in the operating facilities in Mechelen (the Belgian headquarters), the Netherlands, France, Croatia, Switzerland, the United States and United Kingdom.

2. Summary of significant transaction

On 14 July 2019 we and Gilead announced that we had entered into a 10-year global research and development collaboration. Through this agreement, Gilead gained exclusive access to our innovative portfolio of compounds, including six molecules currently in clinical trials, more than 20 preclinical programs and a proven drug discovery platform.

The transaction was subject to certain closing conditions, including the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act and receipt of merger control approval from the Austrian Federal Competition Authority. On 23 August 2019 all approvals were obtained and the transaction was closed.

We received an upfront payment €3,569.8 million ($3.95 billion) and a €960.1 million ($1.1 billion) equity investment from Gilead. On 6 November 2019 Gilead exercised warrant A, which resulted in an additional equity investment of €368.0 million. We will use the proceeds to expand and accelerate our research and development programs. We identified the following three performance obligations: (i) the transfer of an extended license on GLPG1690, (ii) the granting of exclusive access to our drug discovery platform (i.e. the IP, technology, expertise and capabilities) during the collaboration period and exclusive option rights on our current and future clinical programs after Phase 2 (or, in certain circumstances, the first Phase 3 study) outside Europe and (iii) an increased cost share from 20/80 to 50/50 on the global development activities of filgotinib, until we reach the new, increased, joint predetermined level of costs, as a result of the revised license and collaboration agreement. As part of the collaboration, Gilead also received option rights for GLPG1972, a Phase 2b candidate for osteoarthritis, in the United States. We refer to the Critical accounting judgments and key sources of estimation uncertainty section (note 4) explaining critical judgments in applying accounting policies.

Gilead also proposed two individuals for our board of directors, which were nominated during the special general meeting of shareholders of 22 October 2019.

Terms of the collaboration

We will fund and lead all discovery and development autonomously until the end of Phase 2. After the completion of a qualifying Phase 2 study (or, in certain circumstances, the first Phase 3 study), Gilead will have the option to acquire a license to the compound outside Europe. If the option is exercised, we and Gilead will co-develop the compound and share costs equally. Gilead will maintain option rights to our programs through the 10-year term of the collaboration. This term can be extended for up to an additional three years thereafter for those programs, if any, that have entered clinical development prior to the end of the collaboration term. On top, a final term extension can be granted in certain circumstances. If GLPG1690 is approved in the United States, Gilead will pay us an additional $325 million regulatory milestone fee.

For GLPG1972, after the completion of the ongoing Phase 2b study in osteoarthritis, Gilead has the option to pay a $250 million fee to license the compound in the United States. If certain secondary efficacy endpoints for GLPG1972 are met, Gilead will pay us up to an additional $200 million. Following opt-in on GLPG1972, we are eligible to receive up to $550 million in regulatory and sales based milestones. For all other programs resulting from the collaboration, Gilead will make a $150 million opt-in payment per program and will owe no subsequent milestones. We will receive tiered royalties ranging from 20-24% on net sales of all our products licensed by Gilead in all countries outside Europe as part of the agreement.

Filgotinib collaboration

Under the revised agreement, we will have greater involvement in filgotinib's global strategy and participate more broadly in the commercialization of the product in Europe, providing the opportunity to build a commercial presence on an accelerated timeline. We and Gilead will co-commercialize filgotinib in France, Germany, Italy, Spain and the United Kingdom and retain the 50/50 profit share in these countries that was part of the original filgotinib license agreement, and under the revised agreement, we will have an expanded commercial role. We will be the lead commercialization party for filgotinib in France, Italy and Spain for rheumatology indications and Gilead will be the lead commercialization party for gastro indications. In Germany and the United Kingdom, Gilead will lead the rheumatology indications and Galapagos will lead the gastro indications. We retain exclusive commercialization responsibility in Belgium, the Netherlands and Luxembourg, where the 50/50 profit share also applies. The companies will share future global development costs for filgotinib equally until a predetermined level, in lieu of the 80/20 cost split provided by the original agreement. Other terms of the original license agreement remain in effect, including the remaining $640 million in development and regulatory milestones, sales-based milestone payments of up to $600 million and tiered royalties ranging from 20-30% payable in territories outside of Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Spain and the United Kingdom. In addition, we achieved two milestones in December 2019 totaling $30 million.

Terms of the equity investment

As part of the research and development collaboration Gilead also entered into a share subscription agreement with us. Gilead's equity investment consisted of a subscription for new Galapagos shares at a price of €140.59 per share, representing at 14 July 2019 a 20% premium to Galapagos' 30-day, volume-weighted average price. This equity subscription took place at closing of the transaction, on 23 August 2019 and increased Gilead's stake in Galapagos from approximately 12.3% to 22.04% of the then issued and outstanding shares in Galapagos. In addition, the extraordinary general meeting of shareholders of 22 October 2019 approved the issuance of warrant A and initial warrant B allowing Gilead to further increase its ownership of Galapagos to up to 29.9% of the company's issued and outstanding shares. The initial warrant B has a term of five years and an exercise price per share equal to the greater of (i) 120% multiplied by the arithmetic mean of the 30-day daily volume weighted average trading price of Galapagos' shares as traded on Euronext Brussels and Euronext Amsterdam, and (ii) EUR 140.59. Subsequent warrant B is still subject to approval by an extraordinary general meeting of shareholders.

This extraordinary general meeting of shareholders shall take place between 57 and 59 months of the closing of the subscription agreement and this warrant will have substantially similar terms, including as to exercise price, to the initial warrant B. The agreement also includes a 10-year standstill restricting Gilead's ability to propose a business combination with or acquisition of Galapagos or increase its stake in Galapagos beyond 29.9% of the company's issued and outstanding shares, subject to limited exceptions. On 6 November 2019 Gilead exercised warrant A and increased its ownership in Galapagos to 25.10% of the then outstanding shares. Gilead further increased its ownership to 25.84% at 31 December 2019.

3. Significant accounting policies

Our principal accounting policies are summarized below.

Basis of preparation and going concern assumption

The consolidated financial statements are prepared in accordance with the International Financing Reporting Standards (IFRS), as adopted by the EU. The consolidated financial statements provide a general overview of our activities and the results achieved. They give a true and fair view of our financial position, our financial performance and cash flows, on a going concern basis.

New standards and interpretations applicable for the annual period beginning on 1 January 2019

- IFRS 16 Leases

The above new applicable standard affected the consolidated financial statements as follows:

IFRS 16 Leases

We adopted IFRS 16 on 1 January 2019, in accordance with the transitional provisions of IFRS 16, using the modified retrospective approach. Consequently, the cumulative effect of adopting IFRS 16 was recognized as an adjustment to the opening balance of retained earnings as at 1 January 2019, with no restatement of the comparative figures.

On adoption of IFRS 16, we recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under IAS 17. These liabilities were measured at the present value of the remaining lease payments and discounted using our incremental borrowing rate as of 1 January 2019. Our weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 1.55%.

The differences between our total operating lease commitments as reported in note 25 of our consolidated financial statements of 31 December 2018 and the total lease liabilities recognized in our statement of financial position as at 1 January 2019 are summarized below.

(thousands of €)	
Operating lease commitments disclosed as at 31 December 2018	**27,704**
Less: discounting effect using the lessee's incremental borrowing rate at the date of initial application	(1,223)
Less: other	(569)
Lease liability recognized as at 1 January 2019	**25,912**
Of which are:	
current lease liabilities	4,516
non-current lease liabilities	21,396

The change in accounting policy affected the statement of financial position as at 1 January 2019 as follows:

(thousands of €)	1 January 2019
Property, plant and equipment (right-of-use assets)	26,406
Other current assets (prepaid expenses)	(494)
Effect on total assets	**25,912**
Accumulated losses	416
Lease liabilities (current and non-current)	25,912
Deferred income	(416)
Effect on total equity and liabilities	**25,912**

We applied the following practical expedients, as permitted by IFRS 16, on the transition date:

- Reliance on the previous definition of a lease (as provided by IAS 17) for all contracts that existed on the date of initial application;
- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous instead of performing an impairment review;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- No recognition of right-of-use assets and liabilities for leases of low value assets.

We refer to our updated accounting policy on leases as a result of the adoption of IFRS 16.

Other new standards and interpretations applicable for the annual period beginning on 1 January 2019 did not have any impact on our consolidated financial statements.

Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2019

A number of new standards are effective for annual periods beginning on or after 1 January 2020 with earlier adoption permitted. However we have not early adopted new or amended standards in preparing our consolidated financial statements. Of the standards that are not yet effective, we expect no standard to have a material impact on our financial statements in the period of initial application.

- IFRS 17 Insurance contracts (applicable for annual periods beginning on or after 1 January 2021, but not yet endorsed in the EU)
- Amendments to References to the Conceptual Framework in IFRS Standards (applicable for annual periods beginning on or after 1 January 2020)
- Definition of a Business (Amendments to IFRS 3) (applicable for annual periods beginning on or after 1 January 2020, but not yet endorsed in the EU)
- Definition of Material (Amendments to IAS 1 and IAS 8) (applicable for annual periods beginning on or after 1 January 2020)
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (applicable for annual periods beginning on or after 1 January 2020)
- Amendments to IAS 1 Presentation of Financial statements: Classification of liabilities as current or non-current (applicable for annual periods beginning on or after 1 January 2022, but not yet endorsed in the EU)

Consolidated reporting

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

Intangible assets

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

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

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

The amount capitalized as internally generated intangible assets is the sum of the development costs incurred as of the date that the asset meets the conditions described above. Because of risks and uncertainties inherent to the regulatory authorizations and to the development process itself, management estimates that the conditions for capitalization are not met until we obtain regulatory approval from the competent authorities.

Currently we don't own products that have obtained regulatory approval and this has resulted in all development costs being recognized as an expense in the period in which they are incurred.

Intellectual property, which comprises patents, licenses and rights, is measured at purchase cost and is amortized on a straight-line basis over the estimated useful life as from the time they are available for use generally 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. Intangible assets with an indefinite useful life and intangible assets which are not yet available for use are tested for impairment annually, and whenever there is an indication that the asset might be impaired.

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 of assets over their useful lives, using the straight-line method, on the following bases:

- Installation & machinery: 3 – 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.

Financial instruments

Financial assets and financial liabilities are recognized on our balance sheet when we become a party to the contractual provisions of the instrument. We do not actively use currency derivatives to hedge planned future cash flows, nor do we make use of forward foreign exchange contracts, outside of the Gilead transaction, fully settled at 31 December 2019. Additionally, we don't have financial debts at 31 December 2019.

(i) Financial assets

Financial assets are initially recognized either at fair value or at their transaction price. All recognized financial assets are subsequently measured at either amortized cost or fair value under IFRS 9 on the basis of both our business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

- a financial asset that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding is measured at amortized cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option;
- a financial asset that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, is measured at fair value through other comprehensive income (FVTOCI), unless the asset is designated at FVTPL under the fair value option;
- all other financial assets are measured at FVTPL;

A financial asset is classified as current when the cash flows expected to flow from the instrument mature within one year.

We derecognize a financial asset when the contractual rights to the cash flows from the asset expire, or we transfer the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

We classify non-derivative financial assets into the following categories:

- financial assets at fair value through profit or loss (equity instruments, current financial investments and cash equivalents)
- financial assets at amortized cost (receivables and cash and cash equivalents).

Financial assets at fair value through profit or loss

Financial assets are designated at fair value through profit or loss if we manage such investments and make purchase and sale decisions based on their fair value in accordance with our investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend income, are recognized in profit or loss.

Equity instruments

We hold investments in equity instruments, which based on IFRS 9, are designated as financial assets at fair value through profit or loss, which qualify for level 1 fair value measurement based upon the closing price of such securities on Euronext at each reporting date.

Current financial investments

Current financial investments include financial assets measured at fair value through profit or loss and comprise short term bond funds that have a maturity equal or less than 12 months, and money market funds.

Cash equivalents measured at fair value through profit or loss

Cash equivalents measured at fair value through profit or loss may comprise short-term deposits, bonds and money market funds that are readily convertible to cash and are subject to an insignificant risk of changes in value. These financial assets are used by us in the management of our short-term commitments.

Financial assets at amortized cost

Receivables

Receivables are designated as financial assets measured at amortized cost. They are initially measured either at fair value or at transaction price, in the absence of a significant financing component.

All receivables are subsequently measured in the balance sheet at amortized cost, which generally corresponds to nominal value less expected credit loss provision.

Receivables mainly comprise trade and other receivables and current/non-current R&D incentives receivables.

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

Cash

Cash are financial assets measured at amortized cost and comprise cash balances and short-term deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their value and are used by us in the management of our short-term commitments.

Cash equivalents measured at amortized costs

Cash equivalents measured at amortized cost comprise short-term deposits that are readily convertible to cash and are subject to an insignificant risk of changes in value. These financial assets are used by us in the management of our short-term commitments.

Cash and cash equivalents exclude restricted cash, which is presented in the line other non-current assets in the statement of financial position.

(ii) Financial liabilities

Financial liabilities are initially measured either at fair value or at their transaction price. Subsequent to initial recognition, financial liabilities are measured at amortized cost.

Financial liabilities mainly comprise trade and other liabilities.

Trade and other liabilities are comprised of liabilities that are due less than one year from the balance sheet date and are in general not interest bearing and settled on an ongoing basis during the financial year. They also include accrued expense related to our research and development project costs.

We derecognize a financial liability when our contractual obligations are discharged, cancelled or expire.

(iii) Financial instruments: derivative assets/liabilities

Financial assets and financial liabilities are recognized on our balance sheet when we become a party to the contractual provisions of the instrument.

Derivative assets and liabilities are initially measured at fair value. After initial measurement we will measure the derivatives at fair value through profit or loss.

Taxation

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

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

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

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

Foreign currencies

- Functional and presentation currency

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

- Transactions and balances in foreign currency

  Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transaction. We use monthly transaction rates based on the closing exchange rates of the foreign currencies on the last business day of the month preceding the date of the transaction. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at closing rates of monetary assets and liabilities denominated in foreign currencies are recognized in the financial result in the income statement.

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

- Financial statements of foreign group companies

  The results and financial position of all our entities that have a functional currency different from Euro are translated as follows:
  - Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
  - Income and expenses for each income statement are translated at average exchange rates
  - All resulting cumulative exchange differences are recognized as a separate component of equity
  - Such cumulative exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Recognition of expenses linked to clinical trial milestones

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

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

Clinical trials usually take place over extended time periods and typically involve a set-up phase, a recruitment phase and a completion phase which ends upon the receipt of a final report containing full statistical analysis of trial results. Accruals for patient recruitment and patient completion are prepared separately for each clinical trial in progress and take into consideration the stage of completion of each trial including the number of patients that have entered the trial and the number of patients that have been treated in the trial. In all cases, the full cost of each trial is expensed by the time the final report is received.

Revenue recognition

Revenues to date have consisted principally of milestones, license fees and non-refundable upfront fees received in connection with collaboration and license agreements. We also generate revenue from our fee-for-service activities.

The revenue recognition policies can be summarized as follows:

We recognize revenue when our customer obtains control of promised goods or services, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. To determine revenue recognition for agreements that we determine are within the scope of IFRS 15, we perform the following five steps:

(i) identify the contract

In our current agreements with customers we are mainly transferring licenses on our IP and in some cases this is combined with access rights and/or providing research and development services and/or cost sharing mechanisms. In some cases our collaborations also include an equity subscription component. If this is the case, we analyze if the criteria to combine contracts, as set out by IFRS 15, are met.

(ii) identify the performance obligations in the contract

Depending on the type of the agreement, there can be one or more distinct performance obligations under IFRS 15. This is based on an assessment of whether the promises in an agreement are capable of being distinct and are distinct from the other promises to transfer goods and/or services in the context of the contract. For some of our agreements we combine the transfer of the license with the performance of research and development activities because we consider that the license is not capable of being distinct and is not distinct in the context of the contract.

(iii) determine the transaction price

Collaboration and license agreements with our 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, royalties on sales and sometimes reimbursement income or profits sharing arrangements.

a/ License fees or upfront payments

If the license to our intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, we recognize revenues from non-refundable upfront fees allocated to the license at the point in time the license is transferred to the customer and the customer has the right to use the license.

For licenses that are bundled with other promises, we utilize judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time. If over time, revenue is then recognized based on a pattern that best reflects the transfer of control of the service to the customer.

b/ Milestone payments other than sales based milestones

A milestone payment is only included in the transaction price to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. We estimate the amount to be included in the transaction price using the most likely amount method, where milestone payments are included in the transaction price upon achievement of the milestone event. The transaction price is then allocated to each performance obligation on a stand-alone selling price basis, for which we recognize revenue as or when the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, we re-evaluate the probability of achievement of such milestones and any related constraint, and, if necessary, adjust our estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenue and earnings in the period of adjustment.

c/ Reimbursement income for R&D services

Collaboration and license agreements may include reimbursement or cost sharing for research and development services: such as outsourcing costs and payment for full-time equivalents at contractual rates. R&D services are performed and satisfied over time given that the customer simultaneously receives and consumes the benefits provided by us.

Such costs reimbursements received are recognized in revenues when costs are incurred and agreed by the parties when we are acting as a principal in the scope of our stake of the R&D activities. If the later condition is not fulfilled, costs reimbursements are accounted for as a decrease of the related expenses.

d/ Sales based milestone payments and royalties

License and collaboration agreements include sales-based royalties, including commercial milestone payments based on the level of sales, and the license has been deemed to be the predominant item to which the royalties relate. Related revenue is recognized as the subsequent underlying sales occur.

(iv) allocate the transaction price to the performance obligations in the contract

We allocate the transaction price to each performance obligation identified in the contract based upon stand-alone selling price. The stand-alone selling price of each performance obligation is estimated by using one of the following methods: adjusted market assessment approach, the expected cost plus a margin approach or the residual approach. If management assesses that there is only one single performance obligation, the entire transaction price would be allocated to this performance obligation.

(v) recognize revenue when (or as) the entity satisfies a performance obligation

Revenue is recognized when our customer obtains control of the goods and/or services foreseen in the contracts. The control can be transferred over time or at a point in time – which results in recognition of revenue over time or at a point in time.

In case of revenue recognition over time, we use either an input model that considers estimates of the percentage of total research and development costs that are completed each period compared to the total estimated costs (percentage of completion method) or we apply an output method to measure the progress of the satisfaction of the underlying performance obligation. In other cases, depending on specific circumstances, we recognize revenue on a straight-line basis over the estimated term of the performance obligation.

We refer to note 6 for detailed information per agreement and to our Critical judgments in applying accounting policies for more information.

Contract costs

Contract costs are those costs we incur to obtain a contract with a customer that we would not have incurred if the contract has not been obtained and are capitalized as intangible assets only if they are expected to be recoverable. Capitalized contract costs are amortized on a systematic basis that reflects the pattern of transfer of the related promised goods or services to the customer. Costs that we would have incurred regardless of whether the contract is obtained or those costs that are not directly related to obtaining a contract would not be capitalized.

Other income

Grants and R&D incentives

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

Equity instruments

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

Employee benefits

a/ Defined contribution plans

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

b/ Defined benefit plans

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

Defined benefit costs are categorized as follows:

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

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

c/ Staff bonus plan

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

d/ Management bonus plan

(I) Bonuses which were granted for performance years until 2018

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

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

We recognize the possible payment of the deferred component of the Senior Management Bonus Scheme within three years at the moment that the bonus amount is determined, based on the fair value of the liability at each reporting period. The fair value of the liability is measured by use of the Monte Carlo valuation model taking into consideration (a) the average reference price of the Galapagos share and Next Biotech Index, (b) the average price of the reporting period of the Galapagos share and the Next Biotech Index, (c) the simulation of the evolution of the Galapagos share price and the Next Biotech Index based on their volatility and correlation until maturity of the bonus, (d) the applicable discount rates at the end of the reporting period and (e) the probability of the number of beneficiaries assumed to stay with us until maturity of the bonus. The changes in fair value are recognized in profit or loss for the period.

(II) Bonuses which were granted for performance year 2019 and beyond

The executive committee members, together with other senior managers are eligible to receive a bonus based on achievement of personal and corporate objectives. This bonus is paid in cash.

Share-based payments

a/ Equity-settled share based payments

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

b/ Long-term incentive plans in RSU's (Restricted Stock Units)

Executive committee members and other employees were granted RSU's in 2019. An RSU is a grant that takes the form of a promise that employees will receive Galapagos stock in the future and it will be payable, at the company's discretion in cash or in shares, upon completion of a certain vesting period. Each RSU reflects the value of one Galapagos share.

The RSU's are measured based on the average share price over the 30-calendar day period preceding the measurement date. We recognize the corresponding expense and liability over the vesting period. The fair value of the liability is re-measured at each reporting date because currently it is management's intention to settle the RSU's in cash.

Provisions

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

Leases

As explained in the beginning of this note, we adopted IFRS 16 on 1 January 2019, resulting in a change in our accounting policy.

Accounting policy as from 1 January 2019

All leases are accounted for by recognizing a right-of-use asset and a corresponding lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, we will apply the incremental borrowing rate. The lease payments can include fixed payments, variable payments that depend on an index or rate known at the commencement date, expected residual value guarantees, termination penalties and extension option payments or purchase options if we are reasonably certain to exercise this option.

After initial recognition, the lease liability will be measured at amortized cost using the discount rate determined at commencement and will be re-measured (with a corresponding adjustment to the related right-of-use asset) when there is a change in future lease payments in case of renegotiation, changes of an index or rate or in case of reassessment of options.

At the commencement date, the right-of-use assets are measured at cost, comprising the amount of the initial lease liability, initial direct costs and the expected dismantling and removing costs (when we incur an obligation for these costs), less any lease incentives received from the lessors.

After initial recognition, the right-of-use assets are measured at cost and depreciated over the shorter of the underlying asset's useful life and the lease term on a straight-line basis. The right-of-use assets will be adjusted for any re-measurements of the lease liability as a result of lease modifications. The right-of-use assets are subject to impairment testing if there is an indicator for impairment, as for property, plant and equipment. The right-of-use assets are presented in the statement of financial position under the caption “Property, plant and equipment” and the lease liabilities are presented as current and non-current lease liabilities.

In determining the lease term, we consider all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. We only include extension options (or periods after termination options) in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within our control.

Each lease payment is allocated between the liability and financial expenses. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Accounting policy until 1 January 2019

Until the end of 2018, leases of property, plant and equipment were classified as either finance or operating leases.

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

Assets held under finance leases were recognized as our assets at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. These assets held under finance leases were depreciated over their useful lives on the same bases as owned assets or, where shorter, over the term of the related lease agreement. The corresponding liability to the lessor was included in the balance sheet as a finance lease obligation. The payments were 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 was recognized in the income statement, unless it was directly attributable to the corresponding asset, in which case it was capitalized.

Rents paid on operating leases were 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 were also spread on a straight-line basis over the lease term.

Impairment

(i) Financial assets

The impairment loss of a financial asset measured at amortized cost is calculated based on the expected loss model.

For trade receivables, in the absence of a significant financing component, the loss allowance is measured at an amount equal to lifetime expected credit losses. Those are the expected credit losses that result from all possible default events over the expected life of those trade receivables.

Impairment losses are recognized in the consolidated income statement.

(ii) Property, plant and equipment and intangible assets

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

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

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

Net income/loss per share

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

Segment reporting

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of revenue and expenses that can be allocated on a reasonable basis to a segment. We don't report assets and liabilities by segment as this information is not regularly provided to the chief operating decision maker. We have only two segments (see note 5).

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

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

Critical judgments in applying accounting policies

Accounting for warrant A and warrant B granted to Gilead

Warrant A and warrant B were granted to Gilead in combination with the signing of the collaboration agreement on 14 July 2019. As the issuance of warrants A and B was subject to the approval of our shareholders, management concluded that a financial instrument as defined under IAS 32 could not be recognized until such an approval was received. We considered that the transaction price included a premium paid by Gilead (through the upfront payment) to acquire the warrants in the future, upon approval by the shareholders.

On 23 August 2019, the closing date of the transaction, we received from Gilead the upfront payment that included a premium for the future issuance of the warrants. In accordance with IFRS 15, on 23 August 2019, we recorded a contract liability ('warrant issuance liability') for the expected value of the warrants. We measured both warrants at fair value and recognized a warrant issuance liability at closing of the transaction for the same amount (as part of the current deferred income line). This liability is re-measured at each reporting period with a corresponding impact on the allocation of the transaction price to the performance obligation relating to the drug discovery platform until the time the warrants are approved and issued.

The issuance of warrant A and initial warrant B was approved by the extraordinary general meeting of shareholders of 22 October 2019. Upon issuance of warrant A and initial warrant B, on 22 October 2019, the part of the contract liability related to the warrant A and initial warrant B was reclassified into a financial liability (derivative) measured at fair value through profit or loss in accordance with IFRS 9.

Had management concluded warrant A and warrant B could have been recognized as derivatives upon closing of the transaction changes in the fair value of the derivatives would have been recognized through profit and loss rather than as an adjustment to the transaction price. This would have resulted in an increase of fair value re-measurement for the warrants by €12.9 million (fair value gain), and a decrease of the deferred income at 31 December 2019 by €28.6 million, resulting in a decrease in revenue recognized in current period by €0.5 million.

As of 31 December 2019 subsequent warrant B is still subject to approval by an extraordinary general meeting of shareholders.

IFRS 15 – Revenue recognition Gilead

Our critical judgments were as follows:

Determination of the total transaction price

- In connection with this agreement with Gilead, we recognized a deferred income and an offsetting current financial asset (derivative) of €85.6 million upon signing of the share subscription agreement with Gilead as required under IFRS 9. The deferred income has been added to the transaction price at inception of the agreement because it is considered to be part of the overall consideration received for the three performance obligations. It has been allocated to the drug discovery platform and will be recognized as revenue over the next ten years. Had we concluded that the equity subscription should be accounted for as a separate transaction the entire amount of €85.6 million would have been additionally recorded as equity and future revenue reduced by the same amount.

Performance obligation: License on GLPG1690

- The transaction price allocated to this performance obligation reflects our assessment of the stand-alone selling price of this performance obligation and was valued based on a discounted cash flow approach including, amongst others, assumptions on the estimated market share and size, peak sales and probability of success. Changes in these assumptions would have impacted the estimate of the stand-alone selling price of this performance obligation. This would have resulted in a reallocation of the transaction price between this performance obligation, for which revenue is recognized at a point in time, and the drug discovery platform, for which revenue is recognized on a straight-line basis over ten years.
- After granting the license for GLPG1690, we share further development costs equally with Gilead. Gilead is not assessed as a customer but as a collaboration partner, as such this part of the collaboration is not in scope of IFRS 15. Any cost reimbursement from our collaboration partner is not recognized as revenue but accounted as a decrease of the related expenses. Had management concluded that the transaction was within scope of IFRS 15, the reimbursement from our collaboration partner for the year ended 31 December 2019 of €17.7 million would have been presented as revenue instead of an offset of the related expenses.

Performance obligation: Filgotinib amendment

- The standalone selling price of the filgotinib amendment was determined through the cost-plus-margin approach. Management estimated that an appropriate margin is indirectly embedded in the increased involvement in the global strategy of filgotinib and the broader commercialization role in the Benelux and EU5 countries. Had a different margin been estimated the transaction price allocated to the performance obligation from the filgotinib amendment would have been different with a corresponding adjustment to the revenue allocated to the drug discovery platform. This would have resulted in a reallocation of revenue between current periods and future periods, given the transaction price allocated to the performance obligation from the filgotinib amendment will be recognized over a shorter period as compared to the 10-year recognition pattern of the transaction price allocated to the drug discovery platform.

Financing component

There are two performance obligations determined in the agreement with Gilead for which the period between the transfer of the promised goods/services to Gilead and the payment of the underlying consideration by Gilead exceeds one year, being the performance obligation relating to the drug discovery platform and the performance obligation resulting from the filgotinib amendment. Although the consideration paid for the drug discovery platform will be recognized over a period of 10 years as from receipt of the funds, management concluded not to consider any financing component for this performance obligation as the granting of an exclusive access and option rights on day one is the predominant value of the drug discovery platform performance obligation. As a consequence, management has considered it is only appropriate to adjust the part of the transaction price that was allocated to the filgotinib performance obligation, for the time value of money. Had no financing component

been applied for the performance obligation resulting from the filgotinib amendment, this would have resulted in a decrease of €6.9 million in interest expenses, a decrease in revenue recognition of €11.8 million and a decrease in current and non-current deferred income of €4.9 million for the year ended 31 December 2019.

5. Segment information

The group has two reportable segments, R&D and fee-for-service business.

Segment information for the year 2019

(thousands of €)	R&D	Fee-for-services	Inter-segment elimination	Group
External revenue	834,901	10,084		844,985
Internal revenue		6,742	(6,742)	–
Other income	50,905	–		50,905
Revenues & other income	**885,806**	**16,826**	**(6,742)**	**895,890**
Segment result	**407,464**	**1,125**		**408,589**
Unallocated expenses[1]				(38,297)
Operating profit				**370,292**
Financial (expenses)/income				(220,233)
Result before tax				**150,060**
Income taxes				(214)
Net profit				**149,845**

(1) Unallocated expenses consist of expenses for warrant plans under IFRS 2 Share based payments.

Segment information for the year 2018

(thousands of €)	R&D	Fee-for-services	Inter-segment elimination	Group
External revenue	278,666	10,170		288,836
Internal revenue		8,508	(8,508)	–
Other income	29,000	9		29,009
Revenues & other income	**307,666**	**18,687**	**(8,508)**	**317,845**
Segment result	**(19,734)**	**1,751**		**(17,983)**
Unallocated expenses[1]				(26,824)
Operating loss				**(44,807)**
Financial (expenses)/income				15,598
Result before tax				**(29,209)**
Income taxes				(50)
Net loss				**(29,259)**

(1) Unallocated expenses consist mainly of expenses for warrant plans under IFRS 2 Share based payments.

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

Geographical information

In 2019 our operations were mainly located in Belgium, Croatia, France and the Netherlands and our top 3 customers represented 98.8% of the revenues. Our client base in 2019 and 2018 included nine of the largest pharmaceutical companies in the world.

Following table summarizes our revenues by destination of customer:

	Year ended 31 December	
(thousands of €)	2019	2018
North America	795,605	117,609
Europe	49,018	171,113
Asia Pacific	362	114
Total revenues	**844,985**	**288,836**

Following table summarizes our revenues by major customers:

	Year ended 31 December			
	2019		2018	
	(thousands of €)	%	(thousands of €)	%
Gilead				
North America[(1)]	793,873	94%	116,640	40%
Europe[(1)]	(4,570)	-1%	7,793	3%
AbbVie				
Europe	26,356	3%	89,936	31%
Novartis				
Europe	19,177	2%	55,218	19%
Servier				
Europe	–	0%	9,000	3%
Total revenues from major customers	**834,836**	**99%**	**278,587**	**96%**

(1) Following the contract amendment, the revenue recognized for filgotinib for the year ended 31 December 2019 included a negative catch-up effect of €245.9 million on closing date resulting from the decrease in the percentage of completion applied to previously received upfront and milestones for that program.

As of 31 December 2019, we held €203 million of non-current assets (€110 million in 2018) distributed as follows:

- Belgium: €133 million (€64 million in 2018)
- France: €54 million (€36 million in 2018)
- The Netherlands: €8 million (€4 million in 2018)
- Croatia: €7 million (€5 million in 2018)
- Switzerland: €1 million (nil in 2018)

The increase in non-current assets was mainly explained by (i) an increase in property, plant & equipment explained by new acquisitions in 2019 but also by the recognition of right-of-use assets following the adoption of IFRS 16 Leases, (ii) an increase in intangible assets due to new acquisitions and capitalization of contract costs linked to the collaboration agreement with Gilead, and (iii) an increase in non-current R&D incentives receivables (see note 16).

6. Total revenues and other income

Revenues

The following table summarizes details of revenues for the years ended 31 December 2019 and 2018 by collaboration and by category of revenue: upfront payments and license fees, milestone payments, reimbursement income, and other revenues.

Disaggregation of revenues

	Year ended 31 December			
(thousands of €)	Over time	Point in time	2019	2018
Recognition of non-refundable upfront payments and license fees			**812,058**	**196,486**
Gilead collaboration agreement for GLPG1690		✓	666,968	–
Gilead collaboration agreement for filgotinib[1]	✓		62,602	96,809
Gilead collaboration agreement for drug discovery platform	✓		80,918	–
AbbVie collaboration agreement for CF	✓		1,569	52,176
Novartis collaboration agreement for MOR106		✓	–	47,500
Milestone payments			**2,878**	**73,394**
Gilead collaboration agreement for filgotinib[1]	✓		(21,187)	27,623
AbbVie collaboration agreement for CF	✓		24,065	36,771
Servier collaboration agreement for osteoarthritis		✓	–	9,000
Reimbursement income			**19,900**	**8,722**
Novartis collaboration agreement for MOR106	✓		19,177	7,718
AbbVie collaboration agreement for CF	✓		723	989
Other reimbursement income				16
Other revenues			**10,150**	**10,233**
Fee-for-services revenues	✓		10,084	10,170
Other revenues			66	63
Total revenues			**844,985**	**288,836**

(1) Following the contract amendment, the revenue recognized for filgotinib for the year ended 31 December 2019 included a negative catch-up effect of €245.9 million on closing date resulting from the decrease in the percentage of completion applied to previously received upfront and milestones for that program.

The upfront payment received from Gilead in connection with the Option, License and Collaboration agreement signed on 14 July 2019 of €3,569.8 million ($3.95 billion) and the impact of the initial valuation of the derivative financial instrument triggered by the share subscription agreement with Gilead were allocated to the performance obligations identified as follows:

(thousands of €)	
Upfront consideration received	3,569,815
Impact initial valuation of share subscription	85,601
	3,655,416
Less:	
Warrant issuance liabilities	
Warrant A	(43,311)
Initial warrant B	(2,545)
Subsequent warrant B	(16,184)
	3,593,376
Allocation to performance obligations	
GLPG1690	666,967
Filgotinib additional consideration[1]	641,663
Drug discovery platform (10 years)	2,284,747

(1) With regard to the additional consideration received for the extended cost sharing for filgotinib, we assume the existence of a significant financing component estimated to €44.5 million reflecting the time value of money on the estimated recognition period.

On the closing date of the transaction (23 August 2019) we concluded that the upfront payment implicitly included a premium for the future issuance of warrant A and initial and subsequent warrant B. The expected value of the warrants to be issued is treated as a contract liability ("warrant issuance liability") and reducing the transaction price until approval date of the issuance of the underlying warrants. As from approval date, the allocation of the upfront payment to the respective warrant becomes fixed and future changes in the fair value of the respective warrant will be recognized in profit or loss. As such, the part of the upfront payment allocated to the warrant A and initial warrant B reflects the fair value of these financial liabilities at the warrant approval date (22 October 2019). The value allocated to the subsequent warrant B reflects the fair value of the underlying liability at 31 December 2019 since this warrant is not yet approved for issuance.

A summary of all current contracts with customers is given below:

Collaboration with Gilead

On 14 July 2019 we and Gilead announced that we had entered into a 10-year global research and development collaboration. Through this agreement, Gilead gained exclusive access to our innovative portfolio of compounds, including six molecules currently in clinical trials, more than 20 preclinical programs and a proven drug discovery platform. We refer to note 2 Summary of significant transaction for more detailed information.

As part of this deal, our existing license and collaboration agreement for filgotinib with Gilead was also amended. Under this revised filgotinib agreement, we have greater involvement in filgotinib's global strategy and participate more broadly in the commercialization of the product in Europe, providing the opportunity to build a commercial presence on an accelerated timeline.

We concluded as follows:

Determination of the total transaction price

- In connection with this agreement with Gilead, we recognized a deferred income and an offsetting current financial asset (derivative) of €85.6 million upon signing of the share subscription agreement with Gilead as required under IFRS 9. The deferred income has been added to the transaction price at inception of the agreement because it is considered to be part of the overall consideration received for the three performance obligations.

- We considered that the transaction price included a premium paid by Gilead (through the upfront payment) to acquire warrants (warrant A and warrant B) in the future, upon approval by the shareholders. We measured both warrants at fair value and recognized a warrant issuance liability at closing of the transaction for the same amount (as part of the current deferred income line). This liability is re-measured at each reporting period with a corresponding impact on the allocation of the transaction price to the performance obligation relating to the drug discovery platform.

Financing component

- There are two performance obligations determined in the agreement with Gilead for which the period between the transfer of the promised goods/services to Gilead and the payment of the underlying consideration by Gilead exceeds one year, being the performance obligation relating to the drug discovery platform and the performance obligation resulting from the filgotinib amendment. Although the consideration paid for the drug discovery platform will be recognized over a period of 10 years as from receipt of the funds, management concluded not to consider any financing component for this performance obligation as the granting of an exclusive access and option rights on day one is the predominant value of the drug discovery platform performance obligation. As a consequence, management has considered it is only appropriate to adjust the part of the transaction price that was allocated to the filgotinib performance obligation, for the time value of money.

License on GLPG1690

- The transaction price allocated to this performance obligation reflects our assessment of the stand-alone selling price of this performance obligation and was valued based on a discounted cash flow approach including, amongst others, assumptions on the estimated market share and size, peak sales and probability of success.
- This performance obligation is completely satisfied at 31 December 2019. As such, future milestones (other than sales based milestones) payments will be included and recognized in the transaction price to the extent that it is highly probable that a significant reversal of revenue will not occur. Future royalties will be recognized as revenue as the subsequent underlying sales occur.
- After granting the license for GLPG1690, we will share Phase 3 costs equally with Gilead. Any cost reimbursement from Gilead is not recognized as revenue but accounted as a decrease of the related expenses.

Filgotinib amendment

- There is one single performance obligation under IFRS 15: the transfer of a license combined with performance of R&D activities. This is because we considered that the license is not distinct in the context of the contract.
- The standalone selling price of the filgotinib amendment was determined through the cost-plus-margin approach. Management estimated that an appropriate margin is indirectly embedded in the increased involvement in the global strategy of filgotinib and the broader commercialization role in the Benelux and EU5 countries.
- The transaction price is currently composed of a fixed part, being an upfront license fee and a variable part, being milestone payments and cost reimbursements for R&D activities delivered. Milestone payments are included in the transaction price of the arrangement to the extent that it is highly probable that a significant reversal of revenue will not occur. Sales based milestones and sales based royalties are a part of the arrangement but are not yet included in our revenues as our program is still in Phase 3 of development.
- Revenues are recognized over time through satisfaction of the performance obligation. The "cost-to-cost" input model is applied to measure the progress of the satisfaction of this performance obligation. The predetermined level of costs has increased compared to the original agreement and as a result, the percentage of completion has decreased leading to the recognition in revenue of a negative cumulative catch-up effect in 2019.
- We expect to recognize revenues from the current transaction price over time in future periods until satisfaction of this performance obligation based on the cost-to-cost model.

Access rights to the drug discovery platform, option rights and R&D activities

- The revenue allocated to the drug discovery platform will be recognized over time as Gilead receives exclusive access to our drug discovery platform and option rights on our current and future pipeline as well as R&D activities during the collaboration term. Management concluded that an equal spread over the collaboration period is the most reliable and appropriate recognition method.
- Management assessed the appropriate period over which to recognize the drug discovery platform revenue to be 10 years. This is because we granted exclusive rights over a 10-year period. However, if at the end of the 10-year period, some programs in existence as of this time would have reached the clinic (i.e. IND filed with regulatory authorities), the rights for those specific programs may be extended, for a maximum of three years. We will reassess this critical estimate at each year-end based on the evolution of our pipeline.

Collaboration with Servier

In 2010 we signed a license and collaboration agreement with Servier in the field of osteoarthritis. Any increase in the transaction price from future potential development and regulatory milestones, sales based milestones and royalties, will be allocated to the license and will be fully recognized as revenue at a point in time when achieved, as our performance obligation towards Servier has been fully satisfied.

The contract signed with Servier on 8 May 2018 takes over the terms of the previous agreement but additionally includes the framework of a joint Phase 2 clinical trial program in which both parties collaborate, share costs and mutually exchange services. We concluded that this contract modification was not in the scope of IFRS 15 because there is a mutual exchange of services between Servier and us, Servier is not assessed as a customer but as a collaboration partner. Any cost reimbursement from our collaboration partner is not recognized as revenue but accounted for as a decrease of the related expenses.

Collaboration with Novartis

Together with our collaboration partner MorphoSys, we closed a license agreement with Novartis for MOR106 in July 2018. MorphoSys and we received an equal share of an upfront payment of €95 million and were entitled to potential future milestone payments and royalties. Novartis would bear all future research, development, manufacturing and commercialization costs related to MOR106. Costs reimbursements received from Novartis were recognized in revenues when costs were incurred and agreed by the parties as we were acting as a principal in the scope of the performance of the R&D activities.

On 28 October 2019, we announced the end of the clinical development program of MOR106 in AtD.

On 17 December 2019, Novartis sent us a termination notice, informing us of its decision to terminate the agreement in its entirety. The notice period for such termination is still ongoing, but we expect that such termination will become effective later this year.

Collaboration with AbbVie

We concluded as follows for the related revenue recognition:

- There was one single performance obligation under IFRS 15: the transfer of a license combined with performance of R&D activities. This was because we considered that the license was not capable of being distinct and was not distinct in the context of the contract.
- The transaction price of our agreement with AbbVie was composed of a fixed part, being upfront license fees, and a variable part, being milestone payments and cost reimbursements for R&D activities delivered. Milestone payments were only included in the transaction price to the extent that it was highly probable that a significant reversal in the amount of cumulative revenue recognized would not occur when the uncertainty associated with the variable consideration is subsequently resolved. Given the nature of our industry, we only consider this once the milestone event is achieved. Sales based milestones and sales based royalties are a part of our arrangement but are not yet included in our revenues.

- The transaction price has been allocated to the single performance obligation and revenues have been recognized over the estimated service period based on a pattern that reflects the transfer of the license and progress to complete satisfaction of the R&D activities. This is because we considered that there is a transformational relationship between the license and the R&D activities to be delivered.
- We have chosen an input model to measure the satisfaction of the single performance obligation that considers a percentage of costs incurred for this program that are completed each period (percentage of completion method).
- Costs reimbursements received from AbbVie were recognized in revenues when costs were incurred and agreed by the parties as we were acting as a principal in the scope of our stake of the R&D activities of these license and collaboration agreements.
- The second amended and restated collaboration agreement signed on 24 October 2018 was assessed to be a contract modification including a change in scope and in pricing as the remaining goods or services were not distinct and form part of the single performance obligation that was partially satisfied at the date of the contract modification. We concluded that we must account for this second amended and restated collaboration agreement as if it was part of the existing contract and recognized an adjustment to reflect the contract modification on the transaction price and on the measure of progress towards satisfaction of the performance obligation.

The performance obligation related to this agreement is considered being fully satisfied at 31 December 2019.

Other income

The following table summarizes other income for the years ended 31 December 2019 and 2018.

	Year ended 31 December	
(thousands of €)	**2019**	**2018**
Grant income	6,549	1,609
R&D incentives	43,923	26,912
Other	433	488
Total other income	**50,905**	**29,009**

The majority of the grant income was related to grants from a Flemish agency and the national government, representing approximately 99% of all reported grant income in 2019 (2018: 95%). In many cases these carry clauses which require us to maintain a presence in the same region for a number of years and invest according to pre-agreed budgets. In 2019, we also received a grant of €5.5 million from the National Institute for Health and Disability Insurance. This grant aims to incentivize innovative Belgian biotech companies who are performing research and development activities in order to identify new medicines.

R&D incentives income was primarily composed of:

- Income from an innovation incentive system of the French government, which represented €12.4 million of other income for the year ended 31 December 2019 compared to €9.3 million for the year ended 31 December 2018
- Income from Belgian R&D incentives with regard to incurred R&D expenses, which represented €21.7 million of other income for the year ended 31 December 2019 compared to €11.3 million for the year ended 31 December 2018
- Tax rebates on payroll withholding taxes of R&D personnel in Belgium and the Netherlands, representing €9.9 million of other income for the year ended 31 December 2019 compared to €6.3 million for the year ended 31 December 2018

7. 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 2019 and 2018.

	Year ended 31 December	
(thousands of €)	**2019**	**2018**
Personnel costs	(124,260)	(81,352)
Subcontracting	(249,926)	(197,644)
Disposables and lab fees and premises costs	(23,880)	(25,525)
Depreciation	(10,874)	(5,655)
Other operating expenses	(18,380)	(12,699)
Total research and development expenditure	**(427,320)**	**(322,875)**

The R&D expenditure increase reflects the increase of our investments to advance our R&D programs. This increase was principally due to:

- Increased R&D personnel costs were explained by an enlarged workforce following the growth in our R&D activities as well as an exceptional bonus following the successful closing of the Gilead transaction
- The increase in subcontracting costs is mainly due to increased expenditure in our partnered programs with Gilead, including our increased cost share for filgotinib. Moreover expenditures have further increased as we advance our IPF program, our OA program GLPG1972, our Toledo program and our other programs.
- Premises costs decreased and depreciation expenses increased due to the accounting treatment related to the adoption of IFRS 16 (the effect of IFRS 16 on the depreciation expenses amounted to €5.3 million)
- Other operating expenses increased in line with the increase of the R&D staff.

The table below summarizes our research and development expenditure for the years ended 31 December 2019 and 2018, broken down by program:

	Year ended 31 December	
(thousands of €)	**2019**	**2018**
Filgotinib program	(100,032)	(66,138)
IPF program on GLPG1690	(75,951)	(72,718)
OA program on GLPG1972	(19,958)	(15,751)
Toledo program	(47,204)	(20,967)
CF program	(3,897)	(30,137)
AtD program on MOR106	(24,051)	(14,999)
Other programs	(156,227)	(102,165)
Total research and development expenditure	**(427,320)**	**(322,875)**

General and administrative expenses

The following table summarizes the general and administrative expenses for the years ended 31 December 2019 and 2018.

	Year ended 31 December	
(thousands of €)	**2019**	**2018**
Personnel costs and directors fees	(51,906)	(25,495)
Depreciation	(1,513)	(513)
Legal and professional fees	(11,775)	(4,284)
Other operating expenses	(8,506)	(5,339)
Total general and administrative expenses	**(73,701)**	**(35,631)**

The increase in our general and administrative expenses in 2019 was mainly due to a planned increase in the staff supporting the growth of the company, as well as an exceptional bonus following the successful closing of the Gilead transaction, costs related to the RSU plans granted in 2019 and additional legal and professional fees.

Sales and marketing expenses

The following table summarizes the sales and marketing expenses for the years ended 31 December 2019 and 2018.

	Year ended 31 December	
(thousands of €)	**2019**	**2018**
Personnel costs	(7,558)	(2,282)
Depreciation	(61)	–
External outsourcing costs	(15,722)	(1,284)
Other operating expenses	(1,236)	(580)
Total sales and marketing expenses	**(24,577)**	**(4,146)**

The increase in our sales and marketing expenses in 2019 is mainly explained by an increase in personnel costs due to recruitments, as well as related increase in outsourcing costs. The latter was mainly due to €8.2 million of expenses relating to our 50/50 cost share mechanism with Gilead for expenses incurred in preparation for the co-promotion activities for filgotinib.

8. Staff costs

The table below summarizes the number of our employees on 31 December 2019 and 2018:

	2019	2018
Number of employees on 31 December	1,003	725
Total	**1,003**	**725**

The average number of employees during the years 2019 and 2018 was:

	Year ended 31 December	
	2019	2018
Executive officers	5	5
Research and development	667	553
Corporate and support	193	119
Total	**865**	**677**

Their aggregate remuneration comprised:

	Year ended 31 December	
(thousands of €)	2019	2018
Wages and salaries	(116,408)	(61,619)
Social security costs	(16,858)	(11,003)
Retirement benefit costs	(4,715)	(2,994)
Other personnel costs	(39,109)	(27,375)
Total personnel costs	**(177,090)**	**(102,991)**

The other personnel costs mainly related to costs for warrants granted of €32.5 million (2018: €21.3 million). For the costs of warrants granted, see note 28.

9. Fair value re-measurement of share subscription agreement and warrants granted to Gilead

Total fair value re-measurement for the year ended 31 December 2019 can be split up as follows:

	Year ended 31 December
(thousands of €)	2019
Fair value re-measurement of the share subscription agreement	(142,350)
Fair value re-measurement of warrant A	(35,642)
Fair value re-measurement of initial warrant B	(3,653)
Total fair value re-measurement of share subscription agreement and warrants	**(181,644)**

Gilead share subscription agreement

On 23 August 2019, the closing date of the contract, Gilead made a €960.1 million equity investment in Galapagos NV by subscribing to 6,828,985 new ordinary shares at a price of €140.59 per share, including issuance premium. The equity subscription was accounted for as a financial asset at signing date of the contract on 14 July 2019 and changes in fair value were recorded through profit or loss until closing date, when the financial liability was derecognized.

We recognized a fair value loss of €142.4 million, which reflects the increase in the Galapagos share price between signing and closing of the Gilead agreement. On 23 August 2019, the fair value of the financial liability amounting to €56.7 million was derecognized through the share premium account in equity.

(thousands of €)	2019
Fair value of financial asset at signing date	**85,601**
Change in fair value recorded in profit or loss	(142,350)
Fair value of financial liability at closing date	**(56,749)**
Derecognition at closing date	56,749
Fair value on 31 December 2019	**–**

Gilead warrants A and B

We measured the warrants (warrant A and initial and subsequent warrant B) at fair value and recognized a warrant issuance liability at closing date of the transaction. Upon approval of the issuance of warrant A and initial warrant B on 22 October 2019 (warrant approval date) the variable consideration was re-measured with a corresponding impact on the transaction price allocated to the performance obligation relating to our drug discovery platform, and the warrant issuance liability became a financial liability measured at fair value with changes through profit or loss as from that moment.

Warrant A has been valued using a standard option model (Black & Scholes Merton). The input data used in the model were derived from market observations (volatility, discount rate and share price) and from management estimates (number of shares to be issued, applied discount for lack of marketability). On 6 November 2019 Gilead exercised warrant A and as such increased its ownership in Galapagos to 25.10% of the then outstanding shares.

Between the warrant approval date and the exercise of warrant A our share price increased significantly, resulting in a fair value loss of €35.6 million recognized in profit or loss. On 6 November 2019 the related financial liability, amounting to €79.0 million was derecognized through the share premium account in equity.

Management assessed that the financial liability relating to this warrant A had no remaining fair value at 31 December 2019 mainly because Gilead further increased its ownership to 25.84% at 31 December 2019.

(thousands of €)	2019
Fair value of financial liability at warrant approval date	**(43,311)**
Change in fair value recorded in profit or loss	(35,642)
Derecognition at warrant A exercise date	78,953
Fair value on 31 December 2019	**–**

The issuance of initial warrant B was approved on 22 October 2019 by the extraordinary general meeting of shareholders and is not yet exercised by Gilead at 31 December 2019. The fair value measurement of this financial liability is categorized as level 3 in the fair value hierarchy. Initial warrant B has been valued on the basis of a Longstaff-Schwartz Monte Carlo model. The input data used in the model were derived from market observations

(volatility, discount rate and share price) and from management estimates (number of shares to be issued and applied discount for lack of marketability). The recognized fair value loss of €3.7 million is mainly the result of an increase in the implied volatility of our share price and our share price itself between the warrant approval date and year-end. The fair value of the financial liability related to the initial warrant B amounts to €6.2 million on 31 December 2019.

The financial liability will be re-measured at fair value at each reporting period.

(thousands of €)	2019
Fair value of financial liability at warrant approval date	**(2,545)**
Change in fair value recorded in profit or loss	(3,653)
Fair value on 31 December 2019	**(6,198)**

The fair value of the financial liability related to the initial warrant B of €6.2 million at 31 December 2019 is presented as current financial instrument, in the section current liabilities, in our consolidated statement of financial position.

Subsequent warrant B is still subject to approval by an extraordinary general meeting of shareholders and is therefore still presented as warrant issuance liability in our deferred income (we refer to note 24 for more information). Subsequent warrant B has been valued on the basis of a Longstaff-Schwartz Monte Carlo model. The input data used in the model were derived from market observations (volatility, discount rate and share price) and from management estimates (number of shares to be issued and applied discount for lack of marketability).

10. Other financial income/expenses

The following table summarizes financial income and expense for the years ended 31 December 2019 and 2018.

	Year ended 31 December	
(thousands of €)	2019	2018
Other financial income:		
Interest income	14,306	5,219
Effect of discounting long term R&D incentives receivables	93	199
Currency exchange gain	850	11,027
Fair value gain on financial assets held at fair value through profit or loss	5,355	1,203
Fair value gain on current financial investments	611	
Gain upon sale of financial assets held at fair value through profit or loss	2	668
Other finance income	264	19
Total other financial income	**21,482**	**18,335**
Other financial expenses:		
Interest expenses	(1,302)	(780)
Effect of discounting long term deferred income	(6,900)	
Currency exchange loss	(47,769)	(1,174)
Fair value loss on current financial investments	(3,700)	
Other finance charges	(400)	(782)
Total other financial expenses	**(60,071)**	**(2,737)**
Total net other financial expenses (-)/income	**(38,589)**	**15,598**

The currency exchange loss in 2019 primarily related to a realized currency exchange loss of €34.9 million on the U.S. dollars upfront payment from Gilead and an unrealized exchange loss of €10.6 million on deposits and current financial investments held in U.S. dollars. We have cash, cash equivalents and current financial investments held in U.S. dollars, which could generate foreign currency exchange gain or loss in our financial results in accordance with the fluctuation of the EUR/U.S. dollar exchange rate as our functional currency is EUR.

The decrease in currency exchange gain was due to a currency exchange gain in 2018 of €10.1 million on our cash and cash equivalents held in U.S. dollar. Net exchange loss amounted to €46.9 million for the year ended 31 December 2019, compared to a net exchange gain of €9.9 million for the year ended 31 December 2018.

Interest expenses were related to interests on term deposits and on lease of buildings and cars. Other financial expense for 2019 also includes €6.9 million of costs linked to the accounting for a financing component embedded in the upfront consideration received from Gilead in connection with the revised agreement for filgotinib.

For the year ended 31 December 2019, fair value gain on financial assets held at fair value through profit or loss consisted of positive effects from the fair value re-measurement of financial assets classified as equity investments which qualify for level 1 fair value measurement based upon the closing price of such securities at each reporting date. The fair values loss on the current financial investments reflects the effect of the re-measurement at fair value of our money market funds denominated in EUR at 31 December 2019. These fair value losses are mainly the result of the negative returns on the EUR denominated money market funds.

11. Income taxes

The following table summarizes the income tax recognized in profit or loss for the years ended 31 December 2019 and 2018.

	Year ended 31 December	
(thousands of €)	2019	2018
Current tax	(1,372)	(584)
Deferred tax	1,158	535
Income taxes	**(214)**	**(50)**

Current tax was related to corporate income taxes for subsidiaries operating on a cost plus basis.

Deferred tax income related to subsidiaries working on a cost plus basis and to our fee-for-service business.

Tax liabilities

The below table illustrates the tax liabilities related captions in the consolidated statement of financial position as at 31 December 2019 and 2018.

	31 December	
(thousands of €)	2019	2018
Current tax payable	2,037	1,175
Total tax liabilities	**2,037**	**1,175**

On 31 December 2019, the tax liabilities were primarily related to our subsidiaries operating on a cost plus basis.

Taxes recognized in profit or loss

For the purpose of the disclosure below corporation tax was calculated at 29.58% (2018: 29.58%) – which is the tax rate applied in Belgium – on the estimated assessable profit for the year. The applied tax rate for other territorial jurisdictions was the tax rate that is applicable in these respective territorial jurisdictions on the estimated taxable result of the accounting year.

	Year ended 31 December	
(thousands of €)	2019	2018
Profit/loss (-) before tax	**150,060**	**(29,209)**
Income tax debit/credit (-), calculated using the Belgian statutory tax rate (29,58%) on the accounting income/loss (-) before tax (theoretical)	44,388	(8,640)
Tax expenses in income statement (effective)	**214**	**50**
Difference in tax expenses/income to explain	**(44,173)**	**8,690**
Effect of tax rates in other jurisdictions	831	411
Effect of non-taxable revenues	(13,079)	(11,558)
Effect of share-based payment expenses without tax impact	10,318	7,530
Effect of expenses/income (-) not subject to tax	53,270	382
Effect of non-tax-deductible expenses	795	945
Effect of recognition of previously non recognized deferred tax assets	(2,286)	(1,977)
Effect of tax losses (utilized) reversed	(136)	(150)
Effect from under or over provisions in prior periods	30	–
Effect of non-recognition of deferred tax assets	47,413	13,108
Effect of derecognition of previously recognized deferred tax assets	106	–
Effect of use of IID	(141,435)	–
Total explanations	**(44,173)**	**8,690**

Non-taxable revenues for the years ended 31 December 2019 and 2018 were related to non-taxable subsidies and tax credits. Expenses/income (-) not subject to tax for the year ended 31 December 2019 mainly consisted of the fair value re-measurement of the derivative financial liabilities related to share subscription agreement and the warrants granted to Gilead (see note 9). The use of the IID for the year ended 31 December 2019 referred to the "innovation income deduction" regime in Belgium. This regime allows net profits attributable to revenue from among others patented products (or products for which the patent application is pending) to be taxed at a lower effective tax rate than other revenues. The effective tax rate can thus be reduced up to 4.4% (3.75% as of 1 January 2020).

12. Income/loss (–) per share

Basic income/loss (–) per share is calculated by dividing the net income/loss (–) attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted income/loss (–) per share is calculated based on the weighted average number of shares (diluted) also considering outstanding warrants, for which our average share price of the year was higher than the exercise price. The possible increase in the number of shares resulting from the outstanding initial warrant B has not been included in the calculation of the diluted income per share as at 31 December 2019 because they were antidilutive.

Income/loss (-) per share

	Year ended 31 December	
	2019	2018
Net profit/loss (-) attributable to owners of the parent (thousands of €)	**149,845**	**(29,259)**
Number of shares (thousands)		
Weighted average number of shares for the purpose of basic income/loss (-) per share	57,614	52,113
Basic income/loss (-) per share (€)	**2.60**	**(0.56)**
Net profit/loss (-) attributable to owners of the parent (thousands of €)	**149,845**	**(29,259)**
Number of shares (thousands)		
Weighted average number of shares for the purpose of diluted income/loss (-) per share	57,614	52,113
Number of dilutive potential ordinary shares	2,498	–
Diluted income/loss (-) per share (€)	**2.49**	**(0.56)**

As we reported a net loss in 2018, the outstanding warrants (specified in note 28) have an anti-dilutive effect rather than a dilutive effect. Consequently, basic and diluted loss per share is the same for 2018.

13. Intangible assets

(thousands of €)	In process technology	Software & databases	Brands, licenses, patents & know-how	Contract cost	Total
Acquisition value					
On 1 January 2018	**7,061**	**7,496**	**1,525**	**–**	**16,082**
Additions		1,561	1,763		3,325
Sales and disposals	(7,061)	(20)	(569)		(7,650)
Translation differences		74			74
On 31 December 2018	**–**	**9,111**	**2,719**	**–**	**11,832**
Additions		5,463	2,453	15,384	23,300
Sales and disposals		(64)			(64)
Translation differences		31			31
On 31 December 2019	**–**	**14,541**	**5,172**	**15,384**	**35,099**
Amortization and impairment					
On 1 January 2018	**5,561**	**6,514**	**1,509**	**–**	**13,587**
Amortization	417	681	9		1,107
Impairment	1,083				1,083
Sales and disposals	(7,061)	(20)	(569)		(7,650)
Translation differences		74			74
On 31 December 2018	**–**	**7,250**	**949**	**–**	**8,200**
Amortization		816	678	512	2,006
Sales and disposals		(63)			(63)
Translation differences		31			31
On 31 December 2019	**–**	**8,034**	**1,626**	**512**	**10,173**
Carrying amount					
On 31 December 2018	–	1,862	1,771	–	3,632
On 31 December 2019	**–**	**6,507**	**3,546**	**14,872**	**24,927**

New additions primarily related to the capitalization of contract costs related to the recent deal with Gilead, which are being amortized on a straight-line basis over a period of 10 years.

On 31 December 2019, our balance sheet did not hold any internally generated assets capitalized as intangible asset.

14. Property, plant and equipment

Fully owned

(thousands of €)	Land & building improvements	Installation & machinery	Furniture, fixtures & vehicles	Other tangible assets	Total
Acquisition value					
On 1 January 2018	**4,736**	**33,060**	**3,209**	**1,189**	**42,195**
Additions	275	4,674	1,039	4,404	10,392
Sales and disposals		(486)	(826)		(1,311)
Reclassifications		753	13	(766)	–
Translation differences		29	16		46
On 31 December 2018	**5,011**	**38,031**	**3,452**	**4,827**	**51,321**
Additions	273	6,382	649	15,076	22,380
Sales and disposals		(1,521)	(97)		(1,618)
Reclassifications		1,792	3	(1,795)	–
Reclassifications to right-of-use				(251)	(251)
Translation differences		(30)	22		(8)
On 31 December 2019	**5,284**	**44,655**	**4,028**	**17,856**	**71,823**
Depreciations and impairment					
On 1 January 2018	**2,342**	**20,495**	**2,407**	**258**	**25,502**
Depreciations	344	3,377	236	17	3,974
Sales and disposals		(485)	(826)		(1,310)
Translation differences		16	2		18
On 31 December 2018	**2,686**	**23,403**	**1,819**	**275**	**28,184**
Depreciations	394	4,018	399	7	4,818
Sales and disposals		(1,521)	(99)		(1,620)
Reclassifications to right-of-use				(251)	(251)
Translation differences		(15)			(15)
On 31 December 2019	**3,080**	**25,885**	**2,119**	**31**	**31,117**
Carrying amount					
On 31 December 2018	2,325	14,628	1,632	4,552	23,137
On 31 December 2019	**2,204**	**18,770**	**1,909**	**17,825**	**40,707**

Right-of-use

(thousands of €)	Land & building	Installation & machinery	Furniture, fixtures & vehicles	Total
Acquisition value				
On 1 January 2019	–	–	–	–
Change in accounting policy (modified retrospective application IFRS 16)	24,056	219	2,130	26,406
Restated balance on 1 January 2019	**24,056**	**219**	**2,130**	**26,406**
Additions	3,270	84	1,176	4,530
Reclassifications		251		251
Translation differences	38			38
On 31 December 2019	**27,364**	**554**	**3,307**	**31,225**
Depreciations and impairment				
On 1 January 2019	–	–	–	–
Depreciations	4,666	91	867	5,624
Reclassifications		251		251
Translation differences	4			4
On 31 December 2019	**4,670**	**342**	**867**	**5,879**
Carrying amount				
On 31 December 2019	**22,694**	**212**	**2,440**	**25,345**

Carrying amount on 31 December 2019

Property, plant and equipment fully owned	**40,707**
Right-of-use	25,345
Total property, plant and equipment	**66,052**

Due to adoption of IFRS 16 on 1 January 2019 we recognized an opening balance of right-of-use assets of €26.4 million on the balance sheet.

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

15. Other non-current assets

Other non-current assets consisted of non-current restricted cash, financial assets held at fair value through profit or loss, and other non-current assets.

	31 December	
(thousands of €)	2019	2018
Non-current restricted cash	1,418	1,276
Financial assets held at fair value through profit or loss	11,275	6,000
Other non-current assets	1,399	643
Total other non-current assets	**14,091**	**7,919**

Restricted cash on 31 December 2019 was composed of bank guarantees on real estate lease obligations in Belgium and in the Netherlands for €0.9 million and €0.5 million respectively.

Financial assets held at fair value through profit or loss consisted of equity instruments of listed companies. We have no restrictions on the sale of these equity instruments and the assets are not pledged under any of our liabilities. These instruments are designated as financial assets held at fair value through profit or loss which qualify for level 1 fair value measurement based upon the closing price of such securities on Euronext at each reporting date.

Fair value changes on financial assets with fair value through profit or loss are recognized in other financial income/other financial expenses.

The table below illustrates these financial assets held at fair value through profit or loss as at 31 December 2019 and 2018.

	31 December	
(thousands of €)	2019	2018
Cost at 1 January	**4,818**	**2,373**
Acquisitions of the year	–	4,736
Disposals of the year	(82)	(2,291)
Cost at 31 December	**4,736**	**4,818**
Fair value adjustment at 1 January	**1,182**	**(619)**
Cancellation of fair value adjustment following disposal	2	598
Fair value adjustment of the year	5,355	1,203
Fair value adjustment at 31 December	**6,539**	**1,182**
Net book value at 31 December	**11,275**	**6,000**

16. Research and development incentives receivables

The table below illustrates the R&D incentives receivables related captions in the balance sheet as at 31 December 2019 and 2018.

	31 December	
(thousands of €)	2019	2018
Non-current R&D incentives receivables	93,407	73,443
Current R&D incentives receivables	21,949	11,203
Total R&D incentives receivables	**115,356**	**84,646**

The increase in R&D incentives receivables is explained by additional R&D incentives reported in 2019 for €34.1 million (€12.4 million related to French R&D incentives and €21.7 million related to Belgian R&D incentives), by the release of discounting profit of €0.1 million, decreased by the setup of tax provision in France for €0.4 million and decreased by the payments received related to Belgian R&D incentives amounting to €3.0 million. The R&D incentives receivables are future expected refunds or tax deductions resulting from R&D incentives on research and development expenses in France and Belgium. Non-current R&D incentives receivables are reported at their net present value and are therefore discounted over the period until maturity date.

The table below provides detailed information on the maturity of the non-current R&D incentives receivables reported in our balance sheet at 31 December 2019.

Non-current R&D incentives receivables

	31 December 2019					
	Maturity date					
(thousands of €)	2021	2022	2023	2024	2025 – 2029	Total
French non-current R&D incentives receivables – discounted value	9,668	10,223	11,913			31,804
Belgian non-current R&D incentives receivables – discounted value	4,881	5,734	7,534	10,190	33,263	61,603
Total non-current R&D incentives receivables – discounted value	**14,549**	**15,957**	**19,447**	**10,190**	**33,263**	**93,407**

17. Trade and other receivables and other current assets

	31 December	
(thousands of €)	2019	2018
Trade receivables	39,603	9,206
Prepayments	292	142
Other receivables	14,114	9,261
Trade and other receivables	**54,009**	**18,609**
Inventories	255	276
Accrued income	4,443	3,863
Deferred charges	4,439	4,104
Other current assets	**9,138**	**8,244**
Total trade and other receivables & other current assets	**63,147**	**26,852**

Trade and other receivables increased due to the outstanding receivable as at 31 December 2019 of €17.8 million ($20 million) on Gilead related to a milestone for NDA filing in the United States related to filgotinib and the 50% cost reimbursement for GLPG1690 (€13.4 million) invoiced to Gilead under the cost sharing mechanism.

We consider that the carrying amount of trade and other receivables approximates their fair value.

The other current assets mainly included accrued income from subsidy projects and deferred charges.

On 31 December 2019, we did not have any provision for expected credit losses.

18. Current financial investments

On 31 December 2019, our current financial investments amounted to €3,919.2 million compared to nil at 31 December 2018. These current financial investments include a short-term bond fund and money market funds. The short-term bond fund has a minimum recommended investment horizon of six months. The money market funds are highly liquid investments that can be readily convertible to cash and are subject to an insignificant risk of changes in value but they cannot be classified as cash equivalents because they are currently not used by us for meeting short-term cash commitments.

On 31 December 2019, our current financial investments included $850.5 million held in USD, which could generate a foreign currency exchange gain or loss in our financial results in accordance with the fluctuation of the EUR/USD exchange rate as our functional currency is EUR.

We refer to note 31 for more information on these current financial investments.

19. Cash and cash equivalents

	31 December	
(thousands of €)	2019	2018
Cash at banks	907,939	358,016
Term deposits	953,677	733,537
Money market funds	–	199,243
Total cash and cash equivalents	**1,861,616**	**1,290,796**

Cash and cash equivalents may comprise cash at banks, short term bank deposits and money market funds that are readily convertible to cash and are subject to an insignificant risk of changes in value. Our cash management strategy monitors and optimizes our liquidity position. Our cash management strategy may allow short term deposits with an original maturity exceeding 3 months while monitoring all liquidity aspects. Cash and cash equivalents comprised €953.7 million of term deposits which all had an original maturity longer than 3 months. All cash and cash equivalents are available upon maximum three month notice period and without significant penalty. Cash at banks were mainly composed of savings accounts and current accounts. We maintain our bank deposits in highly rated financial institutions to reduce credit risk.

At 31 December 2019, our cash and cash equivalents included $656.9 million held in USD, which could generate a foreign currency exchange gain or loss in our financial results in accordance with the fluctuation of the EUR/USD exchange rate as our functional currency is EUR.

As at 31 December 2019, the money market funds were no longer classified as cash equivalents but as current financial investments because we no longer used them for meeting short-term cash commitments.

The net increase in cash and cash equivalents of €570.8 million consisted of a transfer to current financial investments of €198.9 million, negative unrealized exchange differences of €10.0 million, both compensated by an increase in cash and cash equivalents of €779.7 million. This latter was composed of (i) €3,162.8 million of operational cash flow, of which €3,497.1 million net operational cash inflow from the Gilead collaboration and €334.3 million operational cash burn, (ii) €955.6 million net cash proceeds related to the share subscription by Gilead and €368.0 million cash proceeds related to the exercise of warrant A by Gilead , (iii) €17.2 million of cash proceeds from capital and share premium increase from exercise of warrants in 2019, less (iv) the net increase in current financial investments of €3,723.9 million.

Operational cash burn (or operational cash flow if this performance measure is positive) and net cash inflow from the Gilead transaction are financial measures that are not calculated in accordance with IFRS. Operational cash burn/cash flow is defined as the increase or decrease in our cash and cash equivalents (excluding the effect of exchange rate differences on cash and cash equivalents), minus:

i. the net proceeds, if any, from share capital and share premium increases included in the net cash flows generated/used (–) in financing activities

ii. the net proceeds or cash used, if any, in acquisitions or disposals of businesses; the movement in restricted cash and movement in current financial investments, if any, included in the net cash flows generated/used (–) in investing activities.

This alternative performance measure is in our view an important metric for a biotech company in the development stage.

The following table presents a reconciliation of operational cash flow, net cash inflow from the Gilead transaction and the operational cash burn adjusted for the Gilead transaction, to the closest IFRS measures, for each of the periods indicated:

(thousands of €)	2019	2018
Increase in cash and cash equivalents (excluding effect of exchange differences)	779,710	129,497
Less:		
Net proceeds from capital and share premium increases	(1,340,842)	(287,881)
Increase in current financial investments	4,787,284	
Decrease in current financial investments	(1,063,344)	
Total operational cash flow/cash burn (-)	**3,162,809**	**(158,384)**
Upfront consideration received from Gilead	3,569,815	
Realized exchange loss on Gilead upfront	(34,853)	
Costs associated to the transaction with Gilead	(37,849)	
Net operational cash proceeds from the Gilead transaction	**3,497,113**	
Operational cash burn adjusted for Gilead transaction	**(334,304)**	

20. Share capital

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

(thousands of €)	2019	2018
On 1 January	**236,540**	**233,414**
Share capital increase	55,189	19,090
Costs of capital increase	(4,447)	(15,964)
Share capital on 31 December	**287,282**	**236,540**
Aggregate share capital	349,789	294,600
Costs of capital increase (accumulated)	(62,507)	(58,060)
Share capital on 31 December	**287,282**	**236,540**

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

History of share capital

The history of the share capital of Galapagos NV between 1 January 2018 and 31 December 2019 is as follows:

Date	Share capital increase new shares (in thousands €)	Share capital increase due to warrant exercise (in thousands €)	Number of shares issued (in thousands of shares)	Aggregate number of shares after transaction (in thousands of shares)	Aggregate share capital after transaction (in thousands €)
1 January 2018				**50,937**	**275,510**
20 March 2018		1,613	298		
20 June 2018		556	103		
17 September 2018	16,021		2,961		
3 October 2018		733	135		
23 November 2018		167	31		
31 December 2018				**54,466**	**294,600**
1 January 2019				**54,466**	**294,600**
20 March 2019		808	149		
20 June 2019		1,127	208		
23 August 2019	36,945		6,829		
18 September 2019		1,632	302		
6 November 2019		14,162	2,618		
25 November 2019		515	95		
31 December 2019				**64,667**	**349,789**

On 31 December 2019, Galapagos NV's share capital amounted to €349,789 thousand, represented by 64,666,802 shares. All shares were issued, fully paid up and of the same class.

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

The below table summarizes our capital increases for the years 2019 and 2018.

(thousands of €, except share data)	Number of shares	Share capital	Share premium	Share capital and share premium	Average exercise price warrants (in €/ warrant)	Closing share price on date of capital increase (in €/ share)
On 1 January 2019	**54,465,421**	**236,540**	**1,277,780**	**1,514,320**		
20 March 2019: exercise of warrants	**149,370**	**808**	**2,673**	**3,481**	**23.30**	**90.32**
20 June 2019: exercise of warrants	**208,310**	**1,127**	**3,198**	**4,325**	**20.76**	**113.55**
23 August 2019: share subscription by Gilead						
Ordinary shares (fully paid)	6,828,985	36,945	923,142	960,087		
Derecognition of financial liability from share subscription agreement			56,749	56,749		
Underwriter discounts and offering expenses (paid)		(4,447)		(4,447)		
Total share subscription by Gilead	**6,828,985**	**32,498**	**979,891**	**1,012,389**		**148.90**
18 September 2019	**301,745**	**1,632**	**5,043**	**6,675**	**22.12**	**145.25**
6 November 2019: exercise of warrant A by Gilead						
Exercise of warrant A	2,617,791	14,162	353,873	368,035		
Derecognition of financial liability related to warrant A			78,953			
Total exercise of warrant A by Gilead	**2,617,791**	**14,162**	**432,826**	**368,035**	**140.59**	**170.75**
25 November 2019: exercise of warrants	**95,180**	**515**	**2,172**	**2,687**	**28.23**	**172.95**
On 31 December 2019	**64,666,802**	**287,282**	**2,703,583**	**2,911,912**		

(thousands of €, except share data)	Number of shares	Share capital	Share premium	Share capital and share premium	Average exercise price warrants (in €/ warrant)	Closing share price on date of capital increase (in €/ share)
On 1 January 2018	**50,936,778**	**233,414**	**993,025**	**1,226,439**		
20 March 2018: exercise of warrants	**298,184**	**1,613**	**2,311**	**3,924**	**13.16**	**83.72**
20 June 2018: exercise of warrants	**102,801**	**556**	**781**	**1,337**	**13.01**	**85.00**
17 September 2018: U.S. public offering						
ADSs (fully paid)	2,961,373	16,021	280,167	296,188		
Underwriter discounts and offering expenses (paid)		(15,964)		(15,964)		
Total U.S. public offering	**2,961,373**	**57**	**280,167**	**280,224**		**99.68**
3 October 2018: exercise of warrants	**135,485**	**733**	**1,281**	**2,014**	**14.86**	**94.32**
23 November 2018: exercise of warrants	**30,800**	**167**	**215**	**382**	**12.40**	**88.90**
On 31 December 2018	**54,465,421**	**236,540**	**1,277,780**	**1,514,320**		

The board of directors is authorized for a period of five years starting from the date of publication in the Annexes to the Belgian State Gazette of the shareholders' resolution that granted the renewed authorization to increase the share capital of Galapagos NV within the framework of the authorized capital through contributions in kind or in cash, with limitation or cancellation of the shareholders' preferential subscription rights. Said authorization can be renewed. The authorized capital of Galapagos consists of two parts. A general authorization for capital increases up to 20% of the share capital at the time of convening the shareholders' meeting of 22 October 2019 (i.e. €67,022,402.04) was renewed and is valid for a period of five years from the date of publication of this renewal in the Annexes to the Belgian State Gazette, i.e. 13 November 2019. A specific authorization for capital increases of more than 20% and up to 33% of the share capital at the time of the convening the shareholders' meeting of 25 April 2017 (i.e. €82,561,764.93), was renewed and is valid for a period of five years from the date of publication of this renewal in the Annexes to the Belgian State Gazette, i.e. 31 May 2017. This specific part of the authorized capital can, however, only be used in a number of specific circumstances and upon a resolution of the board of directors that all independent directors (within the meaning of article 526ter of the Belgian Companies Code) approve. 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.

As of 31 December 2019, an amount of €67,022,402.04 still remained available under the general part of the authorized capital and an amount of €13,717,929.80 remained available under the specific part of the authorized capital.

21. Deferred tax

	31 December	
(thousands of €)	2019	2018
Recognized deferred tax assets and liabilities		
Assets	**4,205**	**2,514**
Liabilities	**–**	**–**
Deferred tax assets unrecognized	**289,833**	**223,377**
Deferred taxes in the consolidated income statement	**1,158**	**535**
Tax benefit arising from previously unrecognized tax assets used to reduce deferred tax expense (+)	1,537	1,973
Deferred tax expenses relating to use or derecognition of previously recognized deferred tax assets	(379)	(1,438)

The consolidated tax losses, innovation income deduction and investment deduction carried forward and the deductible temporary differences at 31 December 2019 amounted in total to €1,179.0 million, €4.2 million were related to unrecognized tax losses with expiry date between 2020 and 2028.

The available statutory tax losses carried forward that can be offset against future statutory taxable profits amounted to €374.1 million on 31 December 2019. These statutory tax losses can be compensated with future statutory profits for an indefinite period except for an amount of €7.2 million in Croatia and the United States with expiry date between 2020 and 2028. On 31 December 2019, the available tax losses carried forward in Galapagos NV (Belgium) amounted to €307.7 million. In addition to the latter, Galapagos NV (Belgium) also benefits from the Belgian innovation income deduction regime which led to report, on 31 December 2019, a carried forward tax deduction amounting to €224.7 million that can also be offset against future statutory taxable results. In addition, Galapagos NV (Belgium) also has available investment deduction carried forward of €1 million (2018: €1 million) that can be offset against future taxable profits. There is no limit in time for the innovation income deduction and investment deduction carried forward.

With the exception of 2019, we have a history of losses. Excluding the impact of possible sales related revenues for filgotinib (which is subject to regulatory approval), we forecast to continue incurring taxable losses in the foreseeable future as we continue to invest in clinical and preclinical development programs and discovery platforms. Consequently, no deferred tax asset was set up as at 31 December 2019, except for two subsidiaries operating on a cost plus basis and for our fee-for-service business, for which deferred tax assets were recognized for €4.2 million (2018: €2.5 million).

22. Lease liabilities

Due to adoption of IFRS 16 on 1 January 2019 we recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under IAS 17.

	Lease payments		Present value of lease payments	
	31 December		31 December	
(thousands of €)	2019	2018	2019	2018
Lease liabilities				
Within one year	6,189		5,826	
In the second to fifth years inclusive	16,320		15,783	
After five years	3,844		3,775	
	26,353	–	25,384	–
Less future finance charges	969			
Present value of lease obligation	25,384	–		–
Less amount due for settlement within 12 months			5,826	
Amount due for settlement after 12 months			19,558	–

23. Trade and other liabilities

	31 December	
(thousands of €)	2019	2018
Trade and other liabilities	142,510	68,038
Other non-current liabilities	6,989	1,578
Accrued charges	923	890
Total trade and other liabilities	150,422	70,506

The increase in trade and other liabilities is mainly due to higher accrued trade liabilities on 31 December 2019, reflecting the intensification of our investments in our R&D programs, and increased cost sharing with our partner Gilead. The increase in other non-current liabilities is mainly due to a higher bonus provision caused by the increase in the Galapagos share price and RSU's granted during 2019.

24. Deferred income

The table below illustrates the deferred income captions in the balance sheet as at 31 December 2019 and 2018.

	31 December	
(thousands of €)	2019	2018
Deferred income related to contracts		
Gilead collaboration agreement for filgotinib	780,261	145,798
Gilead collaboration agreement for drug discovery platform (*)	2,220,013	–
AbbVie collaboration for CF	–	3,223
Deferred income related to contracts in our fee-for-service segment	362	471
Other deferred income (grants)	10	309
Total deferred income (long term & current)	3,000,646	149,801

(*) This amount comprises an issuance liability for subsequent warrant B of €16,184 thousand

The movement in the non-current and current deferred income is detailed in the table below.

(thousands of €)	Total	Gilead collaboration agreement for filgotinib	Gilead collaboration agreement for GLPG 1690	Gilead collaboration agreement for drug discovery platform[2]	AbbVie collaboration agreement for CF	Servier collaboration agreement for osteoarthritis	Deferred income related to contracts in our fee-for-service segment	Other
On 1 Januari 2018	***219,892***	**213,981**	**–**	**–**	**–**	**5,362**	**248**	**301**
Reclassified from equity following adoption of IFRS 15	*83,220*	43,832			44,749	(5,362)		
Upfront received	*38,874*				38,874			
Milestones received	*20,965*	12,417			8,548			
Revenue recognition of upfront	*(148,985)*	(96,809)			(52,176)			
Revenue recognition of milestones	*(64,394)*	(27,623)			(36,771)			
Other movements	*230*						223	7
On 31 December 2018	***149,801***	**145,798**	**–**	**–**	**3,224**	**–**	**471**	**308**
Upfront received and impact of initial valuation of share subscription	*3,655,416*	641,663	666,967	2,346,787				
Milestones received	*49,727*	27,317			22,410			
Significant financing component	*6,900*	6,900						
Revenue recognition of upfront	*(1,009,663)*	(260,207)	(666,967)	(80,918)	(1,570)			
Revenue recognition of milestones	*(51,156)*	(27,092)			(24,064)			
Catch-up effect on closing date[1]	*245,883*	245,883						
Other movements	*(46,262)*			(45,856)			(109)	(297)
On 31 December 2019	***3,000,646***	***780,261***	**–**	***2,220,013***	**–**	**–**	***362***	***10***

(1) Following the contract amendment, the revenue recognized for filgotinib for the year ended 31 December 2019 included a negative catch-up effect resulting from the decrease in the percentage of completion applied to previously received upfront and milestones for that program.

(2) The upfront received and the outstanding balance at 31 December 2019 comprise the issuance liabilities for the warrants and the upfront payment allocated to the drug discovery platform. Other movements include the derecognition of warrant issuance liabilities through the share premium account.

We refer to note 6 for a detail of the allocation of the transaction price paid by Gilead.

25. Note to the cash flow statement

	31 December	
(thousands of €)	2019	2018
Adjustment for non-cash transactions		
Depreciation and amortization	12,448	5,081
Impairment loss	–	1,083
Share-based compensation expenses	38,297	26,757
Decrease (-)/increase in retirement benefit obligations and provisions	(156)	99
Unrealized exchange losses/gains (-) and non-cash other financial expenses	11,169	(10,063)
Discounting effect of deferred income	6,900	–
Fair value re-measurement of share subscription agreement and warrants	181,644	–
Net fair value adjustment current financial investments	3,081	–
Fair value adjustment financial assets held at fair value through profit or loss	(5,355)	(1,203)
Total adjustment for non-cash transactions	**248,027**	**21,753**
Adjustment for items to disclose separately under operating cash flow		
Interest expense	1,302	780
Interest income	(9,247)	(5,219)
Tax expense	214	50
Total adjustment for items to disclose separately under operating cash flow	**(7,731)**	**(4,389)**
Adjustment for items to disclose under investing and financing cash flows		
Gain on sale of financial assets held at fair value through profit or loss	(2)	(668)
Interest income on current financial investments	(5,059)	–
Total adjustment for items to disclose separately under investing and financing cash flow	**(5,061)**	**(668)**
Change in working capital other than deferred income		
Decrease in inventories	20	3
Increase in receivables	(67,263)	(76)
Increase in liabilities	79,940	19,996
Total change in working capital other than deferred income	**12,698**	**19,922**

26. Off-balance sheet arrangements

Contractual obligations and commitments

We entered into lease agreements for offices, laboratories and cars. As a consequence of the adoption of IFRS 16 Leases, on 1 January 2019, lease obligations in the scope of the new standard are presented as lease liabilities in the statements of financial position and no longer disclosed separately as off-balance sheet commitments. We refer to note 22 for a breakdown of our lease liabilities.

On 31 December 2019, we had outstanding obligations for future purchase commitments, which become due as follows:

(thousands of €)	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Purchase commitments	**251,670**	175,006	70,675	5,989	–

At 31 December 2019 we were committed to two leases which have not yet started. The total future cash outflows for leases that had not yet commenced were as follows:

(thousands of €)	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Lease commitments not commenced	**8,986**	5,793	1,502	1,502	188

In addition we have engaged a property developer for the construction of the new building in Leiden.

On 31 December 2018, we had outstanding obligations for future minimum rent payments and purchase commitments, which become due as follows:

(thousands of €)	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Operating lease obligations	**27,704**	4,722	10,024	6,234	6,724
Purchase commitments*	**222,033**	121,139	81,879	19,014	–
Total contractual obligations & commitments	**249,737**	**125,862**	**91,903**	**25,248**	**6,724**

* Subsequent to the issuance of our consolidated financial statements for the year ended 31 December 2018, we noted that the total of our purchase commitments as disclosed in note 25 to our consolidated financial statements for the year ended 31 December 2018 was understated by €22.5 million. In addition, the split based on the expected due date was not presented correctly. Management assessed the materiality of the errors from a quantitative and qualitative perspective and concluded that the correction was not material to our previously issued consolidated financial statements. We elected to adjust the historical consolidated financial information presented in this disclosure note to reflect the correction of this error. Since the revisions were not material, no amendments to previously filed reports were required. The total purchase commitments due within 1 year were understated by €14.6 million, those due within 1-3 year were understated by €29.2 million and the ones becoming due within 3-5 years were overstated by €21.3 million. Each affected item within this line relating to this correction has been adjusted.

In addition to the tables above, we have a contractual cost sharing obligation related to our collaboration agreement with Gilead for filgotinib. The contractual cost sharing commitment amounted to €614.1 million at 31 December 2019 (€74.0 million at 31 December 2018), for which we have direct purchase commitments of €27.5 million at 31 December 2019 (€20.3 million at 31 December 2018) reflected in the tables above.

27. Contingent assets and liabilities

On 13 March 2014, we announced the signing of a definitive agreement to sell the service division operations to Charles River Laboratories International, Inc., or CRL, for a total consideration of up to €134 million. CRL agreed to pay us an immediate cash consideration of €129 million. The potential earn-out of €5 million due upon achievement of a revenue target 12 months after transaction closing was not achieved. Approximately 5% of the total consideration, including price adjustments, was being held on an escrow account. Four claims were introduced by CRL, which have all been settled for a total amount of €1.3 million. The remaining balance of €6.6 million was released in full, as final agreement between the parties was reached in the first quarter of 2017.

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

In December 2015, we entered into a license and collaboration agreement to co-develop filgotinib with Gilead in rheumatoid arthritis, Crohn's disease, ulcerative colitis and other indications. Due to the revised license and collaboration agreement related to filgotinib, that became effective in August 2019, we are responsible for funding 50% of the associated global development costs of the program. We have retained a mechanism to give us cost protection as we are no longer obliged to bear any further costs if they exceed the joint predetermined level.

In addition, we are eligible to receive $640 million in development and regulatory milestones, sales-based milestone payments of up to $600 million and tiered royalties ranging from 20-30% payable in territories outside of Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Spain and the United Kingdom. In addition, we achieved two milestones in December 2019 totaling $30 million.

As a result of the Option, License and Collaboration agreement signed with Gilead in July 2019, we share further development costs for GLPG1690 equally with Gilead. We are also entitled to an additional milestone for GLPG1690 upon approval in the United States and we are eligible to receive tiered royalties ranging from 20-24% on net sales of GLPG1690 by Gilead in all countries outside Europe.

As explained in the summary of the significant transaction in note 2 to our consolidated financial statements, Gilead received exclusive option rights to acquire a license on compounds. Exercising such an option would trigger an opt-in payment, a 50-50 cost share mechanism for the future development activities, development and sales milestones and royalties.

28. Warrant plans

Presented below is a summary of warrant activities for the reported periods. Various warrant plans were approved for the benefit of our employees, and for directors and independent consultants of Galapagos NV. For warrant plans issued prior to 2011, the warrants offered to the employees and independent consultants vest according to the following schedule: 10% of the warrants vest on the date of the grant; an additional 10% vest at the first anniversary of the grant; an additional 20% vest at the second anniversary of the grant; an additional 20% vest at the third anniversary of the grant; and an additional 40% vest at the end of the third calendar year following the grant.

The warrants granted under warrant plans created from 2011 onwards vest at the end of the third calendar year following the year of the grant, with no intermediate vesting, with the exception of the warrants granted under Warrant Plan 2015 (B), Warrant Plan 2015 RMV, and Warrant Plan 2016 (B), which vest on the third anniversary of the notary deed enacting the acceptance and issuance of the warrants.

The warrants offered to directors vest over a period of 36 months at a rate of 1/36th per month.

Warrants cannot be exercised before the end of the third calendar year following the year of the grant, except for warrants granted under Warrant Plan 2015 (B), Warrant Plan 2015 RMV, and Warrant Plan 2016 (B), which become exercisable on the third anniversary of the notary deed enacting the acceptance and issuance of the warrants. In the event of a change of control over Galapagos NV, all outstanding warrants vest immediately and will be immediately exercisable.

The table below sets forth a summary of warrants outstanding and exercisable at 31 December 2019, per warrant plan:

Warrant plan	Allocation date	Expiry date	Exercise price (€)	Outstanding per 1 January 2019	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding per 31 December 2019	Exercisable per 31 December 2019
2006 BNL	21.12.2007	20.12.2020	7.12	1,050					1,050	1,050
2007	28.06.2007	27.06.2020	8.65	29,374		(29,374)			–	–
2007 RMV	25.10.2007	24.10.2020	8.65	24,550		(9,570)			14,980	14,980
2008	26.06.2008	25.06.2021	5.60	77,100		(75,735)			1,365	1,365
2011	23.05.2011	22.05.2019	9.95	37,500		(37,500)			–	–
2012	03.09.2012	02.09.2020	14.19	110,040		(30,000)			80,040	80,040
2013	16.05.2013	15.05.2021	19.38	195,560		(75,126)			120,434	120,434
2014	25.07.2014	24.07.2022	14.54	347,560		(95,220)			252,340	252,340
2014 (B)	14.10.2014	13.10.2022	11.93	60,000		(60,000)			–	–
2015	30.04.2015	29.04.2023	28.75	515,053		(232,580)			282,473	282,473
2015 (B)	22.12.2015	21.12.2023	49.00	399,000		(69,500)			329,500	329,500
2015 RMV	22.12.2015	21.12.2023	49.00	97,500		(40,000)			57,500	57,500
2016	01.06.2016	31.05.2024	46.10	504,250					504,250	
2016 RMV	01.06.2016	31.05.2024	46.10	120,000					120,000	
2016 (B)	20.01.2017	19.01.2025	62.50	150,000					150,000	
2017	17.05.2017	16.05.2025	80.57	595,500					595,500	
2017 RMV	17.05.2017	16.05.2025	80.57	127,500					127,500	
2018	19.04.2018	18.04.2026	79.88	1,097,745			(12,500)		1,085,245	
2018 RMV	19.04.2018	18.04.2026	79.88	137,500					137,500	
2019	10.04.2019	09.04.2027	95.11		1,504,940		(18,250)		1,486,690	
2019 RMV	10.04.2019	09.04.2027	95.11		194,750				194,750	
Total				**4,626,782**	**1,699,690**	**(754,605)**	**(30,750)**	**–**	**5,541,117**	**1,139,682**

	Warrants	Weighted average exercise price (€)
Outstanding on 31 December, 2017	**3,970,807**	**39.32**
Exercisable on 31 December, 2017	763,344	13.71
Granted during the period	1,235,245	79.88
Forfeited during the year	(12,000)	43.21
Exercised during the period	(567,270)	13.50
Expired during the year	–	
Outstanding on 31 December, 2018	**4,626,782**	**53.30**
Exercisable on 31 December, 2018	882,734	14.05
Granted during the period	1,699,690	95.11
Forfeited during the year	(30,750)	88.92
Exercised during the period	(754,605)	22.75
Expired during the year	–	
Outstanding on 31 December, 2019	**5,541,117**	**70.09**
Exercisable on 31 December, 2019	1,139,682	30.16

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

Warrant plans

	2019	2019 RMV	2018	2018 RMV
	10 April 2019	10 April 2019	19 April 2018	19 April 2018
Exercise Price (€)	95.11	95.11	79.88	79.88
Weighted average share price at acceptance date (€)	107.05	107.45	84.88	84.88
Weighted average fair value on the acceptance date (€)	40.04	40.05	38.39	38.39
Weighted average estimated volatility (%)	35.86	35.63	39.44	39.44
Weighted average expected life of the warrant (years)	6.02	6.00	8	8
Weighted average risk free rate (%)	(0.27)	(0.28)	0.51	0.51
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 weighted average estimated volatility is calculated on the basis of the implied volatility of the share price over the expected life of the warrants.

The weighted average expected life of the warrant is calculated as the estimated duration until exercise, taking into account the specific features of the plans.

Our share based compensation expense in 2019 amounted to €38,297 thousand (2018: €26,757 thousand).

The following table provides an overview of the outstanding warrants per category of warrant holders at 31 December 2019 and 31 December 2018.

	31 December	
Category (in number of warrants)	**2019**	2018
Non-executive directors	222,600	216,780
Executive team	2,171,874	2,139,374
Other	3,146,643	2,270,628
Total warrants outstanding	**5,541,117**	**4,626,782**

The outstanding warrants at the end of the accounting period have an average exercise price of €70.09 (2018: €53.30) and a weighted average remaining expected life of 1,439 days (2018: 1,500 days).

29. Related parties

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

Gilead

Gilead is exercising significant influence over Galapagos as from the equity subscription on 23 August 2019. As a result of the equity subscription we received a transparency notification from Gilead on 28 August 2019 confirming they held 22.04% of the then issued and outstanding shares of Galapagos. The presumption of significant influence is also confirmed by the fact that Gilead has the right, for as long as it holds more than 20% of Galapagos' share capital, to appoint two Investor Board Designees to Galapagos' board of directors.

The following balances are outstanding at the end of the reporting period in relation to Gilead:

Relations with Gilead

	31 December
(thousands of €)	**2019**
Trade and other receivables	31,645
Trade and other payables	39,100

The trade and other receivables balances mainly relate to €13.4 million cost reimbursement for GLPG1690 and €18.2 million relating to the development milestone payment triggered by the NDA submission in December 2019. The outstanding liabilities mainly relate to the cross charges relating to the development of filgotinib in the fourth quarter of 2019 (€30.9 million) and €8.2 million related to sales and marketing expenses.

On 14 July 2019, we entered into a 10-year global research and development collaboration with Gilead. In connection with our entry into the option, license and collaboration agreement, we received an upfront payment of $3.95 billion (€3.6 billion) and a €960 million ($1.1 billion) equity investment from Gilead (see note 20). In connection with this share subscription agreement, we recognized a deferred income and an offsetting current financial asset (derivative) of €85.6 million upon signing of the share subscription agreement with Gilead as required under IFRS 9. The deferred income has been added to the transaction price at inception of the agreement. In connection with entering into the option, license and collaboration agreement in July 2019, we also amended certain terms of our existing agreement with Gilead governing filgotinib.

In addition, the extraordinary general meeting of shareholders of 22 October 2019 approved the issuance of warrant A and initial warrant B to Gilead allowing them to further increase its ownership of Galapagos to up to 29.9% of the company's issued and outstanding shares. Subsequent warrant B is still subject to approval by

an extraordinary general meeting of shareholders. This extraordinary general meeting of shareholders shall take place between 57 and 59 months of the closing of the subscription agreement and this warrant will have substantially similar terms, including as to exercise price, to the initial warrant B. On 6 November 2019 Gilead exercised warrant A, which resulted in an additional equity investment of €368.0 million. By exercising warrant A Gilead increased its ownership in Galapagos to 25.10% of the then outstanding shares. Gilead further increased its ownership to 25.84% at 31 December 2019.

This has resulted in a total transaction price of €3,655 million that has been allocated to the three performance obligations and the warrant issuance liabilities (see note 6).

During 2019 we already recognized in revenue the entire transaction price allocated to the license on GLPG1690 (€667 million), €81 million relating to the performance obligation for the drug discovery platform and a total of €41 million representing the total impact on our revenues coming from the initial and amended filgotinib performance obligation. The latter consists of upfront payments and milestone payments that were recognized in accordance with the percentage of completion of the underlying performance obligation.

Furthermore, we recognized €17.7 million of cost reimbursements from Gilead with respect to the development of GLPG1690 as a decrease of the related expenses (on the line research and development expenditure). An amount of €72.0 million relating to cross charges from Gilead relating to filgotinib was recognized as expense on the line research and development expenditure.

Finally, we recognized €8.2 million of sales & marketing expenses relating to our 50/50 cost share mechanism with Gilead for expenses incurred in preparation for the co-promotion activities for filgotinib.

As at 31 December 2019 we have two outstanding performance obligations under IFRS 15 towards Gilead, being the performance obligation related to our drug discovery platform and the performance obligation relating to filgotinib. This results in an outstanding deferred income balance of €2.2 billion for the drug discovery platform (including the warrant issuance liability relating to subsequent warrant B) and €780 million for the performance obligation relating to filgotinib.

A detailed explanation of our transactions with Gilead in 2019 can be found in the section titled Agreements with major Galapagos NV shareholders. There are no other shareholders or other entities who, solely or jointly, control Galapagos or exercise significant influence over Galapagos.

Relationship and transactions with subsidiaries

Please see note 30 for an overview of the consolidated companies of the group, which are all wholly-owned subsidiaries of Galapagos NV.

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

Relationship and transactions with key management personnel

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

Remuneration of key management personnel

On 31 December 2019, our executive committee had five members: Mr. Onno van de Stolpe, Mr. Bart Filius, Dr. Piet Wigerinck, Dr. Andre Hoekema and Dr. Walid Abi-Saab. They provide their services to us on a full-time basis. On 31 December 2019, our board of directors consisted of eight members: Mr. Onno van de Stolpe, Dr. Raj Parekh,

Mr. Howard Rowe, Ms. Katrine Bosley, Dr. Mary Kerr, Mr. Peter Guenter, Mr. Daniel O'Day and Dr. Linda Higgins. Dr. Werner Cautreels' and Dr. Christine Mummery's mandates as directors expired immediately after the annual shareholders' meeting of 30 April 2019.

Only the CEO is a member of both the executive committee and the board of directors. Our CEO does not receive any special remuneration for his board membership, as this is part of his total remuneration package in his capacity as member of the executive committee.

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

	Year ended 31 December	
	2019	2018
Remuneration of key management personnel:		
Thousands of € (except for the number of warrants and RSUs)		
Short-term benefits for executive committee members as a group	**14,129**	**2,909**
Gross salary	2,121	1,920
Employer social security on gross salary	61	125
Cash bonus	1,230	757
Exceptional bonus	10,500	–
Employer social security on exceptional bonus	108	–
Other short-term benefits	109	107
Long-term benefits for executive committee members as a group[1]	**1,874**	**1,812**
Board fees and other short-term benefits for directors		
Raj Parekh	90	92
Harrold van Barlingen[2]	–	15
Howard Rowe	55	53
Werner Cautreels[3]	15	48
Katrine Bosley	45	45
Christine Mummery[3]	13	40
Mary Kerr	45	46
Peter Guenter[4]	30	–
Daniel O'Day[5]	–	–
Linda Higgins[5]	–	–
Post-employment benefits[6]	**323**	**305**
Total benefits excluding warrants and RSUs[7]	**16,619**	**5,346**

(1) Only executive committee members are granted long-term benefits. Pursuant to the Senior Management Bonus Scheme, these consist of the deferred part of the bonus from 3 years ago
(2) Dr. Van Barlingen's director's mandate expired on 24 April 2018
(3) Director's mandate expired on 30 April 2019
(4) Mr. Guenter's director's mandate began on 30 April 2019
(5) Director's mandate began on 22 October 2019
(6) Only executive committee members are granted post-employment benefits
(7) For 2018, this amount excludes an amount of €20,1 thousand tax advisory services that is included in the amount of €107 thousand other short-term benefits
(8) This is the sum of the RSUs awarded during financial year 2019, excluding the RSUs representing the deferred portion of the bonus for 2019 (still to be granted). Only executive committee members were awarded RSUs

	Year ended 31 December	
	2019	2018
Number of warrants granted in the year		
Executive committee members as a group	315,000	350,000
Raj Parekh	15,000	15,000
Howard Rowe	7,500	7,500
Werner Cautreels[3]	–	7,500
Katrine Bosley	7,500	7,500
Christine Mummery[3]	–	7,500
Mary Kerr	7,500	7,500
Peter Guenter[4]	7,500	–
Daniel O'Day[5]	–	–
Linda Higgins[5]	–	–
Total number of warrants granted in the year	**360,000**	**402,500**
Total cost of warrants granted in the year	**14,236**	**15,507**
Number of RSUs granted in the year[8]	183,450	–
Total number of RSUs granted in the year	**183,450**	**–**

(1) Only executive committee members are granted long-term benefits. Pursuant to the Senior Management Bonus Scheme, these consist of the deferred part of the bonus from 3 years ago
(2) Dr. Van Barlingen's director's mandate expired on 24 April 2018
(3) Director's mandate expired on 30 April 2019
(4) Mr. Guenter's director's mandate began on 30 April 2019
(5) Director's mandate began on 22 October 2019
(6) Only executive committee members are granted post-employment benefits
(7) For 2018, this amount excludes an amount of €20,1 thousand tax advisory services that is included in the amount of €107 thousand other short-term benefits
(8) This is the sum of the RSUs awarded during financial year 2019, excluding the RSUs representing the deferred portion of the bonus for 2019 (still to be granted). Only executive committee members were awarded RSUs

Other

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

30. Consolidated companies as of 31 December 2019

Name of the subsidiary	Country	% voting right Galapagos NV (directly or indirectly through subsidiaries)	Change in % voting right previous period (2019 vs 2018)
Biofocus DPI AG in liquidation	Switzerland	100%	
Galapagos Biopharma Belgium BV	Belgium	100%	100%
Galapagos Biopharma Netherlands B.V.	The Netherlands	100%	100%
Galapagos Biopharma Spain S.L.U	Spain	100%	100%
Galapagos Biopharma Italy S.r.l.	Italy	100%	100%
Galapagos Biopharma Germany GmbH	Germany	100%	100%
Galapagos Biotech Ltd.	United Kingdom	100%	
Galapagos BV	The Netherlands	100%	
Galapagos GmbH	Switzerland	100%	
Galapagos, Inc.	United States	100%	
Galapagos NV	Belgium	Parent company	
Galapagos Real Estate 1 BV	Belgium	100%	
Galapagos Real Estate 2 BV	Belgium	100%	
Galapagos Real Estate Netherlands B.V.	The Netherlands	100%	100%
Galapagos SASU	France	100%	
Fidelta d.o.o.	Croatia	100%	
Xenometrix, Inc. in liquidation	United States	100%	

In the course of 2019 we incorporated the following new legal entities: Galapagos Biopharma Belgium BV (Mechelen, Belgium), Galapagos Biopharma Netherlands B.V. and Galapagos Real Estate Netherlands B.V. (Leiden, the Netherlands); Galapagos Biopharma Germany GmbH (München, Germany); Galapagos Biopharma Spain S.L.U. (Madrid, Spain) and Galapagos Biopharma Italy S.r.l. (Milan, Italy).

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

31. Financial risk management

Financial risk factors

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

Categories of financial assets and liabilities:

	31 December	
(thousands of €)	2019	2018
Financial assets held at fair value through profit or loss		
Equity instruments	11,275	6,000
Current financial investments	3,919,216	–
Financial assets at amortized cost		
Cash and cash equivalents	1,861,616	1,290,796
Restricted cash (current and non-current)	1,418	1,276
Trade & other receivables (excl prepayments)	53,717	18,467
Total financial assets	**5,847,242**	**1,316,539**
Financial liabilities held at fair value through profit or loss		
Current financial instruments	6,198	–
Financial liabilities at amortized cost		
Trade and other liabilities	142,510	68,038
Other non-current liabilities	6,914	1,502
Lease liabilities	25,384	–
Total financial liabilities	**181,006**	**69,540**

The carrying amounts of trade and other payables and trade and other receivables are considered to be the same as their fair values, due to their short-term nature.

Financial assets held at fair value through profit or loss

Financial assets held at fair value through profit or loss consisted of equity instruments of listed companies and current financial investments.

We have no restrictions on the sale of these equity instruments and the assets are not pledged under any of our liabilities. These instruments are classified as financial assets held at fair value through profit or loss which qualify for level 1 fair value measurement based upon the closing price of such securities on Euronext at each reporting date.

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

Current financial investments include a short-term bond fund and money market funds in EUR and USD, which all classify for level 1 fair value measurement.

Liquidity risk

Current financial investments and cash and cash equivalents amounted to €5,780.8 million on 31 December 2019. Management forecasts our liquidity requirements to ensure that we have sufficient cash to meet operational needs. We have no credit lines. Such forecasting is based on realistic assumptions with regards to milestone and upfront payments to be received, taking into account our past track record, including the assumption that not all new projects that are being planned will be realized.

All our current financial investments and cash and cash equivalents have only an insignificant liquidity risk as they are all convertible upon a maximum three month notice period and without incurring a significant penalty.

Credit risk

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

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

We grant credit to our clients in the framework of our normal business activities. Usually, we require no pledge or other collateral to cover the amounts due. Management continuously evaluates the client portfolio for creditworthiness. All our receivables are considered collectable.

We applied the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all receivables. To measure the expected credit losses, receivables have been grouped based on credit risk characteristics and the days past due. The provision for expected credit losses was not significant given that there have been no credit losses over the last three years and the high quality nature of our customers.

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

	31 December	
(thousands of €)	2019	2018
60 – 90 days	87	236
90 – 120 days	–	12
more than 120 days	–	–

Our cash and cash equivalents are invested primarily in saving and deposit accounts. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted at the beginning of the term. Our current financial investments are also kept within different financial institutions and include short-term bond funds and money market funds with credit ratings ranging from AAA to A- at the beginning of the investment. All of these current financial investments are investments in a basket of funds so there is no individual credit risk involved.

Interest rate risk

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

Effect of interest rate fluctuation

A 100 basis points increase in interest rates at balance sheet date would have increased profit or loss, and equity, by approximately €57.8 million (2018: €12.9 million); a 100 basis points decrease in interest rates would have decreased profit or loss, and equity, by approximately €57.8 million (2018: €12.9 million).

Foreign exchange risk

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

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

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

	31 December	
(thousands of €)	2019	2018
Net book value		
Increase in Euros – U.S. Dollars	(133,373)	(27,200)
Increase in Euros – GB Pounds	113	100
Increase in Euros – CH Francs	538	208
Increase in Euros – HR Kunas	650	611
Increase in U.S. Dollars – GB Pounds	(894)	(923)

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

Capital risk factors

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

Our capital structure consists of current financial investments, cash and cash equivalents, financial debt (as of 31 December 2019, we only have leasing liabilities), and equity attributed to the holders of our equity instruments, such as capital, reserves and results carried forward, as mentioned in the consolidated statement of changes in equity.

We manage our capital structure and make the necessary adjustments in the light of changes of economic circumstances, the risk characteristics of underlying assets and the projected cash needs of the current research and development activities.

The adequacy of the capital structure will depend on many factors, including scientific progress in the research and development programs, the magnitude of those programs, the commitments to existing and new clinical CROs, the ability to establish new alliance or collaboration agreements, the capital expenditures, the new commercial activities, 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.

32. Statutory auditor's remuneration

The statutory auditor's fees for carrying out his mandate at group level amounted to €1,406.8 thousand in 2019 (2018: €414.6 thousand). The fees for audit-related services executed by the statutory auditor, related to the performance of the audit or review of the company's affiliates financial statements, amounted to €29.2 thousand (2018: nil). Audit-related services executed by persons related to the statutory auditor for carrying out an auditor's mandate at the level of the Company's affiliates, amounted to €29.2 thousand in 2019 (2018: €27.5 thousand). Other fees related to audit-related fees, in particular related to legal assignments, which generally the auditor provides, amounted to €43.0 thousand in 2019 (2018: €92.1 thousand). Other fees related to non-audit services executed by the statutory auditor, in particular related to services provided ahead of the commercial phase, amounted to €148.2 thousand in 2019. Other fees related to non-audit services executed by persons related to the statutory auditor amounted to €46.6 thousand in 2019 and related to IT services (2018: €134.8 thousand). The audit committee and the board of directors are of the opinion that these non-audit services do not affect the independence of the statutory auditor in the performance of his audit. The abovementioned additional fees were fully approved by the audit committee in accordance with article 133 §6 of the Belgian Companies Code.

33. Events after balance sheet date

On 17 March 2020, 152,220 warrants were exercised (with an average exercise price of €35.18 per warrant), of which 15,000 warrants were exercised by our CEO, 15,000 warrants by other members of our executive committee, and 17,520 warrants by other members of our board of directors. This resulted in a share capital increase (including issuance premium) of €5,354,538.80 and the issuance of 152,220 new ordinary shares. The closing price of our share on 17 March 2020 was €141.40.

Our consolidated financial statements were approved by the board of directors and authorized for publication, on 24 March 2020. They were signed on behalf of the board of directors by:

(signed)

Onno van de Stolpe
Managing Director and CEO

24 March 2020

Non-consolidated financial statements

Income statement

(thousands of €)	Year ended 31 December 2019	2018
Turnover	902,817	218,961
Internally generated intangible assets	399,874	284,964
Other operating income	21,655	9,224
Operating income	**1,324,346**	**513,149**
Raw materials, consumables and goods for resale	(7,522)	(6,215)
Services and other goods	(444,088)	(299,814)
Remuneration, social security costs and pensions	(52,231)	(33,400)
Depreciation, impairment and other amounts written off on constitution costs, intangible and tangible assets	(403,311)	(305,723)
Other operating charges	(23,301)	(8,281)
Non-recurring operating costs	(38)	(1,160)
Operating profit/loss (-)	**393,855**	**(141,443)**
Finance income	27,511	35,743
Finance cost	(63,967)	(21,275)
Profit /loss (-) before taxes	**357,399**	**(126,976)**
Taxes	21,619	11,286
Profit/loss (-) for the year	**379,018**	**(115,690)**
Loss brought forward	(459,547)	(343,858)
Accumulated losses to be carried forward	**(80,528)**	**(459,547)**

Balance sheet

	31 December	
(thousands of €)	2019	2018
Assets		
Non-current assets	**85,005**	**67,704**
Intangible fixed assets	11,137	5,576
Tangible fixed assets	9,507	8,958
Financial fixed assets	64,361	53,170
Current assets	**5,918,486**	**1,358,360**
Inventories	252	266
Trade and other receivables	150,838	79,260
Deferred costs	4,103	2,406
Accrued income	3,710	2,457
Cash and cash equivalents	5,759,583	1,273,970
Total assets	**6,003,491**	**1,426,063**
Equity and liabilities		
Equity	**2,897,031**	**1,172,722**
Share capital and reserves	349,789	294,600
Share premium account	2,627,771	1,337,670
Accumulated losses	(80,528)	(459,547)
Liabilities	**3,106,459**	**253,341**
Non-current liabilities	**3,361**	**857**
Other non-current liabilities	3,361	857
Current liabilities	**3,103,098**	**252,484**
Trade and other payables	227,243	137,120
Tax, payroll and social security liabilities	12,061	6,406
Accrued costs	1,089	766
Deferred income	2,862,705	108,192
Total equity and liabilities	**6,003,491**	**1,426,063**

The non-consolidated annual accounts of Galapagos NV were prepared in accordance with Belgian accounting rules as well as with the legal and regulatory requirements. They show a positive result. The financial year 2019 closed with a profit of €379.0 million compared to a loss of €115.7 million in 2018. The non-consolidated annual accounts of Galapagos NV show accumulated losses of €80.5 million as at 31 December 2019; we refer to the Going concern statement for justification for the application of the valuation rules under the going concern assumption.

Report of the statutory auditor

Statutory auditor's report to the shareholders' meeting of Galapagos NV for the year ended 31 December 2019 - Consolidated financial statements

The original text of this report is in Dutch

In the context of the statutory audit of the consolidated financial statements of Galapagos NV ("the company") and its subsidiaries (jointly "the group"), we hereby submit our statutory audit report. This report includes our report on the consolidated financial statements and the other legal and regulatory requirements. These parts should be considered as integral to the report.

We were appointed in our capacity as statutory auditor by the shareholders' meeting of 25 April 2017, in accordance with the proposal of the board of directors issued upon recommendation of the audit committee. Our mandate will expire on the date of the shareholders' meeting deliberating on the financial statements for the year ending 31 December 2019. We have performed the statutory audit of the consolidated financial statements of Galapagos NV for 14 consecutive years. We are the statutory auditor of Galapagos NV for 20 consecutive years.

Report on the consolidated financial statements

Unqualified opinion

We have audited the consolidated financial statements of the group, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated statement of financial position shows total assets of 6 068 609 (000) EUR and the consolidated statement of comprehensive income shows a profit for the year then ended of 149 845 (000) EUR.

In our opinion, the consolidated financial statements give a true and fair view of the group's net equity and financial position as of 31 December 2019 and of its consolidated results and its consolidated cash flow for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for the unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISA), as applicable in Belgium. In addition, we have applied the International Standards on Auditing approved by the IAASB applicable to the current financial year, but not yet approved at national level. Our responsibilities under those standards are further described in the "Responsibilities of the statutory auditor for the audit of the consolidated financial statements" section of our report. We have complied with all ethical requirements relevant to the statutory audit of consolidated financial statements in Belgium, including those regarding independence.

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

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

Key audit matters

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

Determination and allocation of the transaction price as a result of the Transformative Research and Development Collaboration – Refer to Notes 2, 4, 6, and 24 to the financial statements

Key Audit Matter Description

The Company entered into a Transformative Research and Development Collaboration with Gilead ("the Collaboration"), resulting in the receipt of an upfront payment of EUR 3,65 billion and an equity investment of EUR 960 million, including the proposed issuance of warrant A and warrant B (jointly referred to as "the Financial Instruments") by the Company to Gilead, subject to shareholder approval. The timing of this being recognized prior to shareholder approval was a critical judgement as it impacted the determination of the transaction price and whether the transaction was within the scope of *IFRS 9 – Financial Instruments*.

As part of the IFRS-15 analysis, the Company concluded the transaction price was impacted by the Subscription Agreement, including contractual warrant A and warrant B that had been entered into simultaneously. The Company identified three performance obligations capable of being distinct in the context of the contract, for which the stand-alone selling price was determined, using valuation models, including both observable and unobservable inputs. The revenue related to these performance obligations is recognized either at a point in time or over time, based on the Company's conclusion on the satisfaction of the respective performance obligation-patterns.

The evaluation of the reasonableness of management's estimates and assumptions related to these specific critical judgements and accounting estimates require a high degree of auditor judgement and a significant degree of extra audit effort, including the need to involve our accounting and valuation Specialists.

The determination of the transaction price, together with the allocation to those distinct performance obligations and the subsequent revenue recognition pattern is complex and required critical judgements in the following areas:

Determination of the transaction price

- Interdependency between the Financial Instruments and the transaction price in the Collaboration

Identification of distinct performance obligations

- Assessment of the existence of a significant financing component related to the Drug Discovery Platform.

Allocation of the transaction price to the distinct performance obligations

- Determination of the stand-alone selling price of GLPG1690, including the appropriateness of the valuation model and the unobservable inputs.
- Determination of the stand-alone selling price of the Filgotinib amendment, including the appropriateness of the margin, being a non-cash consideration, included in the cost-plus margin approach.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures to address all critical judgements related to the Collaboration included reading the Subscription Agreement, Option, License and Collaboration Agreement and the First Amendment to the License and Collaboration Agreement and management's accounting position paper to understand the terms of each contract and evaluate management's conclusions.

In relation to management's critical judgements related to the Collaboration, our audit procedures included the following:

Determination of the transaction price

- We tested the effectiveness of controls over the determination of the transaction price, as part of management's controls over the application of *IFRS 15 – Revenue from Contracts with Customers* and *IFRS 9 – Financial Instruments*, including the interdependency of the Financial Instruments.
- With the assistance of our accounting Specialists, we evaluated the impact of the interdependency and the timing of recognition of the Financial Instruments *(IFRS 9 – Financial instruments)* on the transaction price in the Collaboration *(IFRS 15 – revenue from Customers)*, including the impact of subsequent re-measurement of these Financial instruments on the transaction price.

Identification of distinct performance obligations

- We tested the effectiveness of controls over the identification of distinct performance obligations, as part of management's controls over the application of *IFRS 15 – Revenue from Contracts with Customers*, including those controls addressing the existence of a significant financing component.
- We tested management's identification of distinct performance obligations by evaluating whether the underlying goods, services, or both were highly interdependent and interrelated and the absence of a significant financing component for the Drug Discovery Platform performance obligation. We read minutes of committee meetings and management's position papers to understand the customer's intended use of the licenses and other obligations included in the Collaboration and whether or not the elements included in the Collaboration give rise to a significant financing component for the Drug Discovery Platform performance obligation.

Allocation of the transaction price to the distinct performance obligations

- We tested the effectiveness of controls over the allocation of the transaction price to the distinct performance obligations, including management's controls over the valuation of GLPG1690 and the Filgotinib amendment.
- With the assistance of our valuation Specialists, we evaluated the reasonableness of the (i) valuation methodology and (ii) unobservable inputs of most significance to the valuation, being estimated market share and size, peak sales and probability of success, used to determine the stand-alone selling price by comparing our independent estimates, derived from external data on the disease area and competitive landscape, to those included by management in the valuation model of GLPG1690. We performed sensitivity analysis on the variances identified to determine whether the Company's valuation was within an acceptable range.
- We tested management's valuation methodology on the Filgotinib amendment, by assessing the appropriateness of the non-cash consideration, being the increased involvement in the global strategy of filgotinib and the broader commercialization role in the Benelux and EU5 countries, reflected as margin in the cost-plus-margin approach. We have read minutes of committee, management position papers, and have inquired with management, in order to (i) understand management basis for conclusion on the appropriateness of the non-cash consideration, (ii) assess any contradictory evidence.

Fair Value Measurement of the Financial Instruments arising from the Collaboration - Refer to Notes 2, 4, 6, and 9 to the financial statements

Key Audit Matter Description

As a result of the Collaboration, the Company committed to issue warrant A and warrant B, jointly referred to as "the Warrants", to Gilead.

As the fair value measurement of the Warrants is based on complex models and unobservable inputs, these are classified as Level 3 assets or liabilities.

The valuation of the Warrants classified as Level 3 is inherently subjective, and involves the use of complex models, including the Longstaff-Schwartz Monte Carlo model, and various unobservable inputs, including the discount for lack of marketability and estimated strike price.

Given management uses complex models and unobservable inputs to estimate the fair value of Level 3 assets and liabilities, this required a high degree of auditor judgement and a significant incremental audit effort, including the need to involve our valuation Specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures included the following:

- We tested the effectiveness of controls over management's valuation of the Warrants, including those related to assessing the appropriateness of the unobservable inputs and the valuation model applied.
- With the assistance of our valuation Specialists, we (i) evaluated the appropriateness of the valuation model, (ii) evaluated the appropriateness of unobservable inputs determined by management (discount for lack of marketability), and (iii) developed independent fair value estimates.

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

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

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

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

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

During the performance of our audit, we comply with the legal, regulatory and normative framework as applicable to the audit of consolidated financial statements in Belgium. The scope of the audit of annual accounts does not comprise any assurance regarding the future viability of the company nor regarding the efficiency or effectiveness demonstrated by the board of directors in the way that the company's business has been conducted or will be conducted.

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our statutory auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other legal and regulatory requirements

Responsibilities of the board of directors

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

Responsibilities of the statutory auditor

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

Aspects regarding the directors' report on the consolidated financial statements and other information disclosed in the annual report on the consolidated financial statements

In our opinion, after performing the specific procedures on the directors' report on the consolidated financial statements, this report is consistent with the consolidated financial statements for that same year and has been established in accordance with the requirements of article 3:32 of the Code of companies and associations.

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

The non-financial information as required by article 3:32, § 2 of the Code of companies and associations, has been disclosed in the directors' report on the consolidated financial statements that is part of section Corporate Social Responsibility. This non-financial information has been established by the company in accordance with the Sustainable Development Goals ("SDGs"). In accordance with article 3:80, §1, 5° of the Code of companies and associations we do not express any opinion on the question whether this non-financial information has been established in accordance with these SDGs.

Statements regarding independence

- Our audit firm and our network have not performed any prohibited services and our audit firm has remained independent from the group during the performance of our mandate.
- The fees for the additional non-audit services compatible with the statutory audit, as defined in article 3:65 of the Code of companies and associations, have been properly disclosed and disaggregated in the notes to the consolidated financial statements.

Other statements

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

Zaventem, 27 March 2020
The statutory auditor

Deloitte Bedrijfsrevisoren/Réviseurs d'Entreprises CVBA/SCRL
Represented by Gert Vanhees

Glossary of terms

100 points clinical response

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

20-F

SEC filing submitted to the US Securities and Exchange

ACR

American College of Rheumatology

ACR20 (ACR 20/50/70)

American College of Rheumatology 20% response rate signifies a 20% or greater improvement in the number of swollen and tender joints as well as a 20% or greater improvement in three out of five other disease-activity measures. ACR50 and ACR70 reflect the same, for 50% and 70% response rates, respectively

ADAMTS-5

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

ADS

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

AFM

Dutch Authority for the Financial Markets

Anemia

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

Ankylosing spondylitis (AS)

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

Anti-TNF

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

ARGS neoepitope

Byproduct of the breakdown of cartilage by aggrecanase, can be used as a biomarker for cartilage breakdown

ASDAS

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

Assays

Laboratory tests to determine characteristics

Atherogenic index

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

Atopic dermatitis (AtD)

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

ATS

ATS, the American Thoracic Society improves global health by advancing research, patient care, and public health in pulmonary disease, critical illness, and sleep disorders

Attrition rate

The historical success rate for drug discovery and development, based on publicly known development paths. Statistically seen, investment in at least 12 target-based programs is required to ensure that at least one of these will reach a Phase 3 study. Most new drug R&D programs are discontinued before reaching Phase 3 because they are not successful enough to be approved

Autotaxin (ATX)

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

BID dosing

Twice-daily dosing (bis in die)

Bioavailability

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

Biomarker

Substance used as an indicator of a biological process, particularly to determine whether a product candidate has a biological effect

Black & Scholes model

A mathematical description of financial markets and derivative investment instruments that is widely used in the pricing of European options and warrants

Bleomycin model

A preclinical model involving use of bleomycin (a cancer medication) to induce IPF symptoms

Bridging trial

Clinical trial performed to "bridge" or extrapolate one dataset to that for another situation, i.e. to extrapolate data from one population to another for the same drug candidate, or to move from IV to subcutaneous dosing

CDAI

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

CDAI remission

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

CIR

Crédit d'Impôt Recherche, or research credit. Under the CIR, the French government refunds up to 30% of the annual investment in French R&D operations, over a period of three years. Galapagos benefits from the CIR through its operations in Romainville, just outside Paris

Clinical proof-of-concept (PoC)

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

Compound

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

Contract research organization

Organization which provides drug discovery and development services

Corticosteroids

Any of a group of steroid hormones produced in the adrenal cortex or made synthetically. They have various metabolic functions and some are used to treat inflammation

Crohn's disease (CD)

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

CRP

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

Cutaneous lupus

Cutaneous lupus is a heterogeneous autoimmune skin disease that can present itself as an organ-specific disease (e.g., in the skin only) or as a systemic disease involving multiple organs

Cutaneous lupus erythematosus

Lupus affecting the skin. In this autoimmune disease, the body's immune system attacks healthy skin

Cystic fibrosis (CF)

A life-threatening genetic disease that affects approximately 80,000 people worldwide. Although the disease affects the entire body, difficulty breathing is the most serious symptom as a result of clogging of the airways due to mucus build-up and frequent lung infections

Cytokine

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

Dactylitis

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

DARWIN

Phase 2 program for filgotinib in RA. DARWIN 1 explored three doses, in twice-daily and once-daily administration, for up to 24 weeks in RA patients with insufficient response to methotrexate (MTX) and who remained on their stable background treatment with MTX. DARWIN 2 explored three once-daily doses for up to 24 weeks in RA patients with insufficient response to methotrexate (MTX) and who washed out of their treatment with MTX. DARWIN 1 and 2 were double-blind, placebo-controlled trials which recruited approximately 900 patients globally and for which results were reported in 2015. DARWIN 3 is a long term extension trial in which all patients are on 200 mg filgotinib, except for U.S. males who are on 100 mg. The week 156 results from DARWIN 3 were reported in 2019

DAS28 (CRP)

DAS28 is an RA Disease Activity Score based on a calculation that uses tender and swollen joint counts of 28 defined joints, the physician's global health assessment and a serum marker for inflammation, such as C-reactive protein. DAS28 (CRP) includes the C-reactive protein score calculation: scores range from 2.0 to 10.0, with scores below 2.6 being considered remission

Deep venous thrombosis (DVT)

The formation of one or more blood clots in one of the body's large veins, most commonly in the lower limbs. The blod clot can travel to the lung and cause a pulmonary embolism

Development

All activities required to bring a new drug to the market. This includes preclinical and clinical development research, chemical and pharmaceutical development and regulatory filings of product candidates

Discovery

Process by which new medicines are discovered and/or designed. At Galapagos, this is the department that oversees target and drug discovery research through to nomination of preclinical candidates

Disease-modifying

Addresses the disease itself, modifying the disease progression, not just the symptoms of the disease

DIVERSITY

Phase 3 program evaluating filgotinib in CD

DLCO

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

Dose-range finding study

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

Double-blind

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

Efficacy

Effectiveness for intended use

EMA

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

Endoscopy

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

Enthesitis

Inflammation of the tendons or ligaments; this is one of the key symptoms of psoriatic arthritis and was also measured in the EQUATOR trial with filgotinib

EQUATOR

A Phase 2 trial with filgotinib in psoriatic arthritis patients

Esbriet

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

FDA

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

Fee-for-service

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

FEV

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

Fibrotic score

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

FIH

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

Filgotinib

Formerly known as GLPG0634. Small molecule selective JAK1 inhibitor, currently under review for approval in RA in the U.S., Europa and Japan. Filgotinib is partnered with Gilead for the development and commercialization of filgotinib in a number of diseases. Filgotinib currently is in Phase 3 trials in UC, CD and PsA, and Phase 2 trials in additional indications

FINCH

Phase 3 program evaluating filgotinib in RA

Fistulizing CD

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

FITZROY

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

FLORA

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

FRI

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

FSMA

The Belgian market authority: Financial Services and Markets Authority, or Autoriteit voor Financiële Diensten en Markten

FTE

Full-time equivalent; a way to measure an employee's involvement in a project. For example, an FTE of 1.0 means that the equivalent work of one full-time worker was used on the project

Futility analysis

Analysis of the likelihood of a trial to meet its primary endpoint, based on a subset of the total information to be gathered. The term 'futility' is used to refer to the low likelihood of a clinical trial to achieve its objectives. In particular, stopping a clinical trial when the interim results suggest that it is unlikely to achieve statistical significance can save resources that could be used on more promising research

FVC

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

G&A expenses

General & administrative expenses

GLPG0555

A clinical candidate with undisclosed mode of action directed toward inflammation

GLPG0634

Molecule number currently known as filgotinib

GLPG1205

A GPR84 inhibitor fully proprietary to us. We initiated the PINTA patient trial with GLPG1205 in IPF

GLPG1690

A novel drug targeting autotaxin, with potential application in IPF & SSc. Topline results from the Phase 2a FLORA trial were reported in August 2017. The ISABELA Phase 3 program was initiated in 2018 and the NOVESA Phase 2 trial in SSc was initiated in early 2019. Gilead retained the rights on GLPG1690 in IPF in 2019

GLPG1972/S201086

GLPG1972/S201086, also referred to as GLPG1972, is a novel mode-of-action product candidate that is part of the OA collaboration with Servier. Galapagos and Servier have completed recruitment of the ROCCELLA global Phase 2b trial with GLPG1972/S201086

GLPG2737

A clinical candidate with undisclosed novel mode of action. This compound is part of the CF collaboration with AbbVie but Galapagos regained rights outside of CF

GLPG3312

A compound currently in Phase 1 with an undisclosed mode of action directed towards inflammation (IBD). GLPG3312 is a Toledo compound and the first one to enter Phase 1

GLPG3667

A compound currently in Phase 1 with an undisclosed mode of action directed toward inflammation

GLPG3970

A compound currently in Phase 1 with an undisclosed mode of action. GLPG3970 is part of the Toledo target family

GLPG4059

A compound with undisclosed mode of action currently in the preclincal phase directed toward metabolic diseases

GLPG4124

A compound with undisclosed mode of action currently in the preclincal phase directed toward fibrosis

GLPG4259

A compound with undisclosed mode of action currently in the preclincal phase directed toward inflammation

GLPG4399

A compound with undisclosed mode of action currently in the preclincal phase directed toward inflammation

GLPG4471

A compound with undisclosed mode of action currently in the preclincal phase directed toward inflammation

GPR84 inhibitor

Drug candidate aimed at inhibiting or blocking G-protein coupled receptor 84. GLPG1205 is a GPR84 inhibitor aimed at IPF

HDL

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

Hemoglobin

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

Histopathology

Microscopic examination of tissues for manifestations of a disease

IBD

Inflammatory Bowel Disease. This is a general term for an autoimmune disease affecting the bowel, including CD and UC. CD affects the small and large intestine, while UC affects the large intestine. Both diseases involve inflammation of the intestinal wall, leading to pain, bleeding, and ultimately, in some cases, surgical removal of part of the bowel

IL-17C

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

In-/out-licensing

Receiving/granting permission from/to another company or institution to use a brand name, patent, or other proprietary right, in exchange for a fee and/or royalty

In vitro

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

Inflammatory diseases

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

Inspiratory capacity

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

Intellectual property

Creations of the mind that have commercial value and are protected or protectable, including by patents, trademarks or copyrights

Intersegment

Occurring between the different operations of a company

Investigational New Drug (IND) Application

United States Federal law requires a pharmaceutical company to obtain an exemption to ship an experimental drug across state lines, usually to clinical investigators, before a marketing application for the drug has been approved. The IND is the means by which the sponsor obtains this exemption, allowing them to perform clinical studies

IPF

Idiopathic pulmonary fibrosis. A chronic and ultimately fatal disease characterized by a progressive decline in lung function. Pulmonary fibrosis involves scarring of lung tissue and is the cause of shortness of breath. Fibrosis is usually associated with a poor prognosis. The term “idiopathic” is used because the cause of pulmonary fibrosis is still unknown

ISABELA

Phase 3 clinical program investigating GLPG1690 in IPF patients. The ISABELA Phase 3 program consists of two identically designed trials, ISABELA 1 and ISABELA 2, and will enroll a total of 1,500 IPF patients combined

JAK

Janus kinases (JAK) are critical components of signaling mechanisms utilized by a number of cytokines and growth factors, including those that are elevated in RA. Filgotinib is a selective JAK1 inhibitor

LDL

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

Lipoprotein

Lipoproteins are substances made of protein and fat that carry cholesterol through your bloodstream. There are two main types of cholesterol: High-density lipoprotein (HDL), or "good" cholesterol and Low-density lipoprotein (LDL), or "bad" cholesterol

Liver enzymes

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

LPA

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

Lymphocyte

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

MACE

Major adverse cardiovascular events; a composite endpoint frequently used in cardiovascular research

MANTA

A Phase 2 semen analysis trial with filgotinib in male patients with CD or UC

MANTA-RAy

Phase 2 semen analysis trial with filgotinib in male patients with RA, PsA, or AS

Membranous lupus nephritis

Membranous lupus nephritis is an inflammation of the kidneys caused by systemic lupus erythematosus and is characterized by the presence of subepithelial immune complex deposits seen on kidney biopsy

MHLW

Japanese Ministry of Health, Labor and Welfare (MHLW), in charge of Japanese market authorization of new medications

Milestone

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

Molecule collections

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

MOR106

MOR106 acts on IL-17C, a novel antibody target discovered by Galapagos. In October 2019 Novartis, MorphoSys and Galapagos jointly announced the end of the clinical development program of MOR106 in patients with atopic dermatitis

MTX

Methotrexate; a first-line therapy for inflammatory diseases

NDA

New Drug Application

Neutrophil

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

NK cells

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

Nonalcoholic steatohepatitis (NASH)

NASH is liver inflammation and damage caused by a buildup of fat in the liver. It is part of a group of conditions called nonalcoholic fatty liver disease

NOVESA

A Phase 2 trial to evaluate GLPG1690 in systemic sclerosis (SSc)

Ofev

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

Oral dosing

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

Organoids

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

Osteoarthritis (OA)

The most common form of arthritis, usually occurring after middle age, marked by chronic breakdown of cartilage in the joints leading to pain, stiffness, and swelling

Outsourcing

Contracting work to a third party

PENGUIN

Phase 3 trials with filgotinib in psoriatic arthritis

Pharmacokinetics (PK)

Study of what a body does to a drug; the fate of a substance delivered to a body. This includes absorption, distribution to the tissues, metabolism and excretion. These processes determine the blood concentration of the drug and its metabolite(s) as a function of time from dosing

Phase 1

First stage of clinical testing of an investigational drug designed to assess the safety and tolerability, pharmacokinetics of a drug, usually performed in a small number of healthy human volunteers

Phase 2

Second stage of clinical testing, usually performed in no more than several hundred patients, in order to determine efficacy, tolerability and the dose to use

Phase 3

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

Phenotypic screening

Phenotypic screening is a strategy used in drug discovery to identify molecules with the ability to alter a cell's disease characteristics. Animal models and cell-based assays are both strategies used to identify these molecules. In contrast to target-based drug discovery, phenotypic screening does not rely on knowing the identity of the specific drug target or its hypothetical role in the disease. A key benefit this approach has over target-based screening, is its capacity to capture complex biological mechanisms that are not otherwise achievable

PINTA

Phase 2 trial with GPR84 inhibitor GLPG1205 in IPF patients

Pivotal trials

Registrational clinical trials

Placebo-controlled

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

Preclinical

Stage of drug research development, undertaken prior to the administration of the drug to humans. Consists of *in vitro* and *in vivo* screening, pharmacokinetics, toxicology, and chemical upscaling

Preclinical candidate (PCC)

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

Product candidate

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

Proof-of-concept (POC)

A clinical trial in which first evidence for efficacy of a candidate drug is gathered. A Proof-of-Concept trial is usually with a small number of patients and for short duration to get a first impression of drug activity

Proof-of-concept study

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

Pruritis

Extreme itching, as observed in AtD patients

Psoriatic arthritis (PsA)

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

Pulmonary embolisms

A blockage in one of the pulmonary arteries in the lungs

QD dosing

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

R&D operations

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

Rheumatoid arthritis (RA)

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

ROCCELLA

Global Phase 2b trial, together with our collaboration partner Servier, evaluating GLPG1972/S201086 (GLPG1972) in osteoarthritis (OA)

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

SEC

Securities Exchange Commission in the US

SELECTION

Phase 3 program evaluating filgotinib in UC patients

Service operations

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

SES-CD scores

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

Sjögren's syndrome

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

S&M expenses

Sales and marketing expenses

Small bowel CD (SBCD)

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

Spondylitis

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

Systemic sclerosis (SSc)

Systemic sclerosis (SSc) or scleroderma is an autoimmune disease. One of the most visible manifestations is hardening of the skin. In diffuse cutaneous SSc, which has one of the highest mortality rates among rheumatic diseases, fibrosis occurs in multiple organs, such as the lung

Target

Proteïn that has been shown to play a role in a disease process and that forms the basis of a therapeutic intervention or discovery of a medicine

Target discovery

Identification and validation of proteins that have been shown to play a role in a disease process

Technology access fee

License payment made in return for access to specific technology (e.g. compound or virus collections)

Tendinitis

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

Toledo

Toledo is a code name for a target family with a novel, undisclosed mode of action. GLPG3312 is the first of the Toledo compounds for which a Phase 1-trial has been initiated early 2019

Topical corticosteroids

Corticosteroids which are administered through the skin using an ointment

TORTUGA

Phase 2 trial with filgotinib in patients with ankylosing spondylitis. In 2018, we and Gilead reported that TORTUGA met its primary endpoint

Ulcerative colitis (UC)

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

Uveitis

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

Venous thrombotic events

When a blood clot breaks loose and travels in the blood, this is called a venous thromboembolism (VTE). The abbreviation DVT/PE refers to a VTE where a deep vein thrombosis (DVT) has moved to the lungs (PE or pulmonary embolism)

Financial calendar

28 April 2020

Annual and Extraordinary Shareholders' Meeting in Mechelen

07 May 2020

First quarter 2020 results

06 August 2020

Half year 2020 results

05 November 2020

Third quarter 2020 results

18 February 2021

Full year 2020 results

Colophon

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Deep Thought Productions

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