Galápagos

Think big

Annual Report 2018

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The Galapagos group

An overview of Galapagos, its strategy and portfolio in 2018

we **raise** the bar.

Letter from the management

Dear shareholder,

2018 was a truly pivotal year in the history of our company, with the publication of our first ever Phase 3 results, FINCH 2, for filgotinib in rheumatoid arthritis. We again find the results very promising. Moreover, we and our collaboration partner Gilead also announced promising Phase 2 results in ankylosing spondylitis (TORTUGA) and psoriatic arthritis (EQUATOR), highlighting once more filgotinib's potential as a veritable 'pipeline in a product'. We are proud that both the TORTUGA and EQUATOR results were published in *The Lancet*.

We also expanded our fully proprietary fibrosis portfolio, most notably with the start of the Phase 3 program with autotaxin inhibitor GLPG1690 (ISABELA) and the Phase 2 trial in IPF with our GPR84 inhibitor, GLPG1205 (PINTA). Early 2019, we announced that we broadened the potential reach of our GLPG1690 program with the Phase 2 trial in systemic sclerosis (NOVESA). Beyond fibrosis, our MOR106 program entered a Phase 2 trial (IGUANA) in atopic dermatitis as well as a subcutaneous Phase 1b bridging trial. Together with our collaboration partner Servier, we started a global Phase 2b trial in osteoarthritis (ROCCELLA).

With these proofs of platform now in mid-to-late-stage trials, we continue to leverage our innovative target discovery platform to develop breakthrough drugs and ultimately deliver these to patients with large unmet needs. The best example of our continued efforts to raise the bar in science may be Toledo, our newly revealed preclinical program focused on a fully proprietary, as of yet undisclosed, novel target class. True to our DNA of 'following the data' with agility, scientific rigor, and purpose, we plan to roll out a comprehensive program in a number of indications with multiple candidates exhibiting various selectivity profiles.

All this contributes to our purpose of striving to keep at the forefront of innovation in our core disease areas, inflammation and fibrosis.

In 2019, we look forward to substantial news flow: first and foremost, we just reported that the Phase 3 FINCH 1 & 3 trials with filgotinib in rheumatoid arthritis met their primary and key secondary endpoints. The excellent safety data shown in FINCH 1 & 3 fully confirmed the differentiated safety profile observed in FINCH 2 and other previous studies with filgotinib. Our collaboration partner Gilead will now share these positive data with regulatory agencies and discuss next steps for filings. Also for filgotinib, we expect Gilead to announce the proof-of-concept results in Sjögren's and cutaneous lupus and initiate the Phase 3 in psoriatic arthritis. For MOR106, together with collaboration partners MorphoSys and Novartis, we look forward to the topline results from the IGUANA trial and the subcutaneous bridging study. For Toledo, we expect results of the first Phase 1 in the second half of the year, and plan to initiate a Phase 1 study with a second generation Toledo compound.

From a financial perspective, we ended 2018 with a strong balance sheet, helped by a successful capital transaction, bringing in gross proceeds of EUR 296 million. We also announced two important business development deals: together with collaboration partner MorphoSys, we closed a license agreement with Novartis for MOR106, and we outlicensed our cystic fibrosis portfolio to AbbVie. Looking ahead, we guide for an operational cash burn[1] between EUR 320 and EUR 340 million for full year 2019, mainly driven by our growing and maturing clinical pipeline. In 2019, we expect to run over 40 trials, with a significant number of late-stage and proprietary programs, and we are expanding the team in order to deliver on our pipeline. Further, we continue to build out our commercial organization, as we gear up for the expected market launch of filgotinib.

R&D

In the field of inflammation:

- We and Gilead announced positive results in FINCH 2, the first of three Phase 3 trials in RA patients with our selective JAK1 inhibitor filgotinib
- We and Gilead announced positive results in EQUATOR, a Phase 2 trial with filgotinib in psoriatic arthritis patients. These results were presented in a plenary session at ACR 2018 and published in *The Lancet*
- We and Gilead announced positive results in TORTUGA, a Phase 2 trial with filgotinib in ankylosing spondylitis patients. These results were published in *The Lancet*
- We and Gilead announced that SELECTION, a Phase 2/3 trial with filgotinib in UC patients moved into Phase 3, following a planned futility analysis
- We initiated the IGUANA Phase 2 trial and a Phase 1b bridging trial with MOR106 in atopic dermatitis patients, together with collaboration partners MorphoSys and Novartis

In fibrosis:

- We initiated the Phase 3 ISABELA 1 & 2 trials with fully proprietary autotaxin inhibitor GLPG1690 in IPF patients
- We initiated the PINTA Phase 2 trial with our fully proprietary GPR84 inhibitor GLPG1205 in IPF patients
- We presented the FLORA Phase 2a results with GLPG1690 at ATS 2018 and published them in *The Lancet Respiratory*

In osteoarthritis:

- We and Servier reported that ADAMTS-5 inhibitor GLPG1972 was well tolerated and showed a dose dependent decrease in ARGS neoepitope, a cartilage breakdown biomarker, in serum of osteoarthritis patients
- We and our collaboration partner Servier initiated the global ROCCELLA Phase 2 trial with GLPG1972 in osteoarthritis patients
- We obtained Fast Track review status with GLPG1972 from the FDA

Corporate:

- We raised €296.2 million in gross proceeds in a U.S. public offering of ADS and €7.7 million from warrant exercises
- We restructured our CF collaboration agreement with partner AbbVie
- We and collaboration partner MorphoSys outlicensed MOR106 in atopic dermatitis to Novartis

Post-period events:

- We initiated a Phase 2 trial with fully proprietary autotaxin inhibitor GLPG1690 in systemic sclerosis (SSc; NOVESA), and recruited the first patient
- We initiated a Phase 1 trial with our first Toledo target class inhibitor GLPG3312

[1] *The operational cash burn* (or operational cash flow if this performance measure is positive) is equal to the sum of the net cash flows generated/used (–) in operating activities and the net cash flows generated/used (–) in investing activities minus (i) the proceeds or cash used, if any, in acquisitions or disposals of businesses; and (ii) the movement in restricted cash, if any. This alternative performance measure is in our view an important metric for a biotech company in the development stage. For 2017, the operational cash burn represented €154.1 million

- We announced partnerships with both Fibrocor and Evotec, inlicensing preclinical targets in the field of fibrosis
- We initiated the GECKO study for MOR106, a Phase 2 study testing a subcutaneous formulation of MOR106 in combination with topical corticosteroids in patients with atopic dermatitis
- We and Gilead reported that the Phase 3 FINCH 1 & 3 trials met their primary and most key secondary endpoints, confirming the encouraging safety profile observed in FINCH 2 and other previous studies

2018: Details of the financial results

Revenues

Galapagos' revenues and other income for 2018 amounted to €317.8 million, compared to €155.9 million in 2017. Increased revenues and other income were mainly driven by an upfront payment of €47.5 million from Novartis related to the MOR106 program, increased recognition in revenue of the upfront payment and milestones related to the filgotinib program with Gilead, revenue recognition related to the additional upfront payment of $45.0 million from AbbVie and previous upfront payment and milestones, and the change in accounting treatment from the adoption of IFRS 15 – Revenue from contract with customers on 1 January 2018.

Operating result

The group realized a net operating loss in 2018 of €44.8 million, compared to a net operating loss of €89.8 million in 2017.

R&D expenses for the group in 2018 were €322.8 million compared to €218.5 million in 2017. This planned increase was due mainly to increased efforts on our clinical and preclinical programs, primarily filgotinib, our IPF program, and the proprietary preclinical programs in inflammation and fibrosis.

G&A and S&M expenses of the group were €39.8 million in 2018, compared to €27.2 million in 2017. This increase was due primarily to a planned headcount increase and higher costs for warrant plans (non-cash), mainly as a result of the increase of the Galapagos share price.

Net result

The group realized a net loss in 2018 of €29.3 million, compared to a net loss of €115.7 million in 2017.

Cash position

Cash and cash equivalents totaled €1,290.8 million on 31 December 2018.

A net increase of €139.6 million in cash and cash equivalents was recorded in 2018, compared to an increase of €178.0 million in 2017. Net cash flows from financing activities generated €287.9 million of cash, consisting of €280.2 million net proceeds from the U.S. public offering, and €7.7 million proceeds from warrant exercises. Furthermore, a net cash outflow from operating activities was realized for €142.5 million in 2018. Finally, €15.9 million was used in investing activities and €10.1 million positive exchange rate differences were generated on cash and cash equivalents. The operational cash burn amounted to €158.4 million.

Furthermore, Galapagos' balance sheet holds a receivable from the French government (Crédit d'Impôt Recherche[2]), payable in 4 yearly tranches, and a receivable from the Belgian Government for R&D incentives, for a total of both receivables of €84.6 million.

Outlook 2019

For filgotinib, in the second half of the year, we expect Gilead to report topline results for the proof-of-concept studies in Sjögren's and cutaneous lupus, and to launch a Phase 3 trial in PsA.

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

We also plan to fully recruit our Phase 2 PINTA study for our fully proprietary IPF compound GLPG1205, as well as our ROCCELLA study in OA, together with collaboration partner Servier. For GLPG1690, we plan to continue our ISABELA trials as well as the NOVESA Phase 2 trial in systemic sclerosis (SSc), for which a first patient was dosed in early 2019.

For MOR106, together with our collaboration partners MorphoSys and Novartis, we plan to continue our recently started Phase 2 trial in AtD with MOR106 in combination with topical corticosteroids (the GECKO Phase 2 trial) as well as a Japanese ethno-bridging study. In the second half of the year, we expect the primary analysis of the IGUANA Phase 2 trial in AtD and topline results of the subcutaneous Phase 1 bridging study. Pending positive results, these four studies combined should offer a solid data package for our collaboration partner Novartis to move into Phase 3.

With regard to our earlier and fully proprietary programs, we expect Phase 1 readouts of a number of earlier stage studies, including for GLPG3312, the first Toledo compound that entered the clinic in early 2019. This molecule is scheduled to be dosed in patients in a first proof-of-concept study before the end of the year. We also plan to initiate a Phase 1 trial with our second generation Toledo compound, GLPG3970, in the second half of the year.

Given the large number of maturing proprietary clinical programs and the expansion of our R&D and commercial team, we expect an operational cash burn between €320 and €340 million in 2019.

I wish to thank our shareholders for their support last year. We took substantial steps towards becoming an integrated biopharmaceutical company in 2018. Please stay with us as we continue to "Think Big" and break innovative ground in inflammation and fibrosis.

Regards,

Onno van de Stolpe
CEO

At a glance

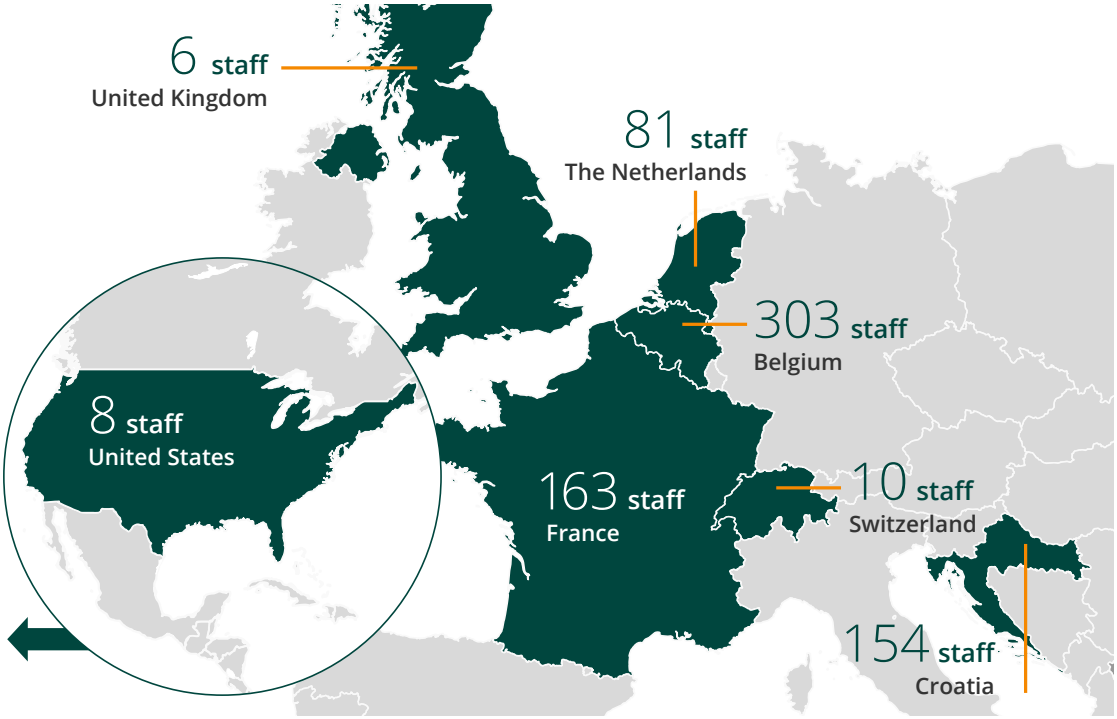
Consolidated Key Figures

(thousands of €, if not stated otherwise)	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
INCOME STATEMENT			
Revenues[1]	288,836	127,087	129,519
Other income	29,009	28,830	22,093
R&D expenditure	(322,875)	(218,502)	(139,573)
S, G&A expenses	(39,776)	(27,218)	(23,530)
Operating expenses	(362,652)	(245,720)	(163,103)
Operating loss	(44,807)	(89,802)	(11,491)
Net financial results	15,598	(25,705)	65,737
Taxes	(50)	(198)	(235)
Net income / loss (-)	(29,259)	(115,704)	54,012
BALANCE SHEET			
Cash and cash equivalents	1,290,796	1,151,211	973,241
R&D incentives receivables	84,646	75,783	64,342
Assets	1,439,496	1,286,274	1,083,338
Shareholders' equity[1]	1,214,249	1,011,983	758,701
Deferred income[1]	149,801	219,892	285,612
Other liabilities	75,446	54,399	39,025
CASH FLOW			
Operational cash burn (-) / operational cash flow[2]	(158,379)	(154,089)	231,881
Cash flow from financing activities	287,876	353,357	395,996
Increase in cash and cash equivalents	129,497	205,778	628,111
Effect of currency exchange rate fluctuation on cash and cash equivalents	10,089	(27,808)	4,816
Cash and cash equivalents on 31 December	1,290,796	1,151,211	973,241
FINANCIAL RATIOS			
Number of shares issued on 31 December	54,465,421	50,936,778	46,256,078
Basic income / loss (-) per share (in €)	(0.56)	(2.34)	1.18
Diluted income / loss (-) per share (in €)	(0.56)	(2.34)	1.14
Share price on 31 December (in €)	80.56	78.98	60.94
Total group employees on 31 December (number)	725	600	508

(1) Our revenues, shareholders' equity and deferred income for the year ended 31 December 2018 were influenced by the adoption of the new standard IFRS 15 – Revenue from contracts with customers, on 1 January 2018. We refer to the notes of this consolidated financial report for additional information.

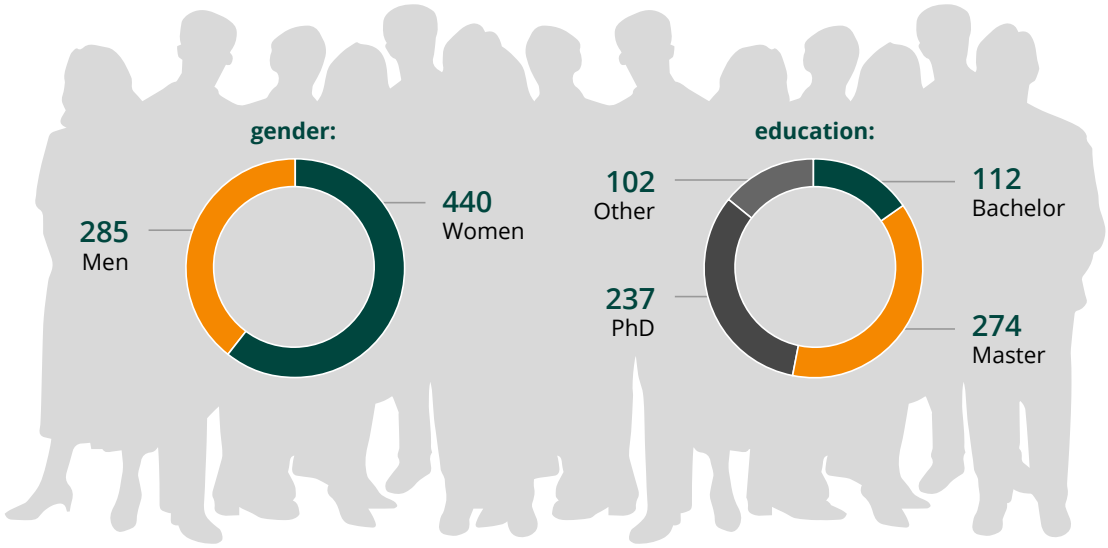
(2) The operational cash burn (or operational cash flow if this performance measure is positive) is equal to the sum of the net cash flows generated / used (-) in operating activities and the net cash flows generated / used (-) in investing activities minus (i) the proceeds or cash used, if any, in acquisitions or disposals of businesses; and (ii) the movement in restricted cash, if any. This alternative performance measure is in our view an important metric for a biotech company in the development stage.

Employees per site



Number of employees Galapagos group

725



Average age:	Number of employees older than 45:	Nationalities:	Average years of service:	Employee turnover:
41	269	38	7	10.7%

Strategy

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

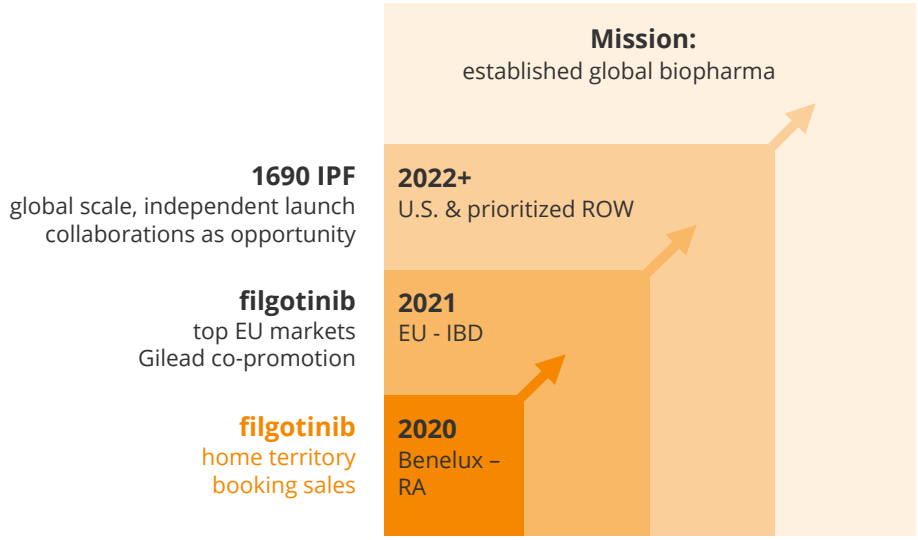
Our ambition is to become a fully integrated biopharmaceutical company focused on the development and commercialization of novel medicines which will improve people's lives.

Key elements of our strategy include:

- **Rapidly advance the development of filgotinib with our collaboration partner Gilead in RA, CD, UC, PsA, AS, and other inflammatory diseases**
  Based on the results from our Phase 2 and Phase 3 clinical trials, we believe that filgotinib is a promising candidate for the treatment of RA, CD, UC, PsA, AS, and other inflammatory diseases. Our collaboration partner Gilead is conducting Phase 3 clinical programs in RA (FINCH), CD (DIVERSITY) and UC (SELECTION) and multiple Phase 2 clinical programs in additional inflammatory diseases. In 2018, we disclosed promising results in a Phase 3 clinical program in RA (FINCH 2) and in Phase 2 clinical programs in PsA (EQUATOR) and AS (TORTUGA).

- **Build a commercial organization**
  We exercised an option to co-promote filgotinib with Gilead in the UK, Germany, France, Italy, Spain, the Netherlands, Belgium, and Luxembourg. We take a step-wise approach: if approved, we aim to co-promote filgotinib in a number of European territories with our collaboration partner, Gilead, keeping full commercial responsibility for RA in our home markets of Belgium, the Netherlands, and Luxembourg. In a next step, we intend to commercialize successful candidates from our fully proprietary fibrosis pipeline, with a focus on IPF. In order to support our commercial ambitions, we are expanding the team, starting with a number of key hires with extensive expertise in our franchises of inflammation and fibrosis. This enables us to set up a commercial organization and make progress in our ambition to grow towards a fully integrated biopharmaceutical company.

We go step by step on commercial



- **Build a fibrosis franchise**
  In 2017, we reported positive results with the FLORA Phase 2a trial evaluating GLPG1690 targeting ATX in IPF patients and initiated the ISABELA global Phase 3 program with GLPG1690 in 2018. We expanded indications with GLPG1690 by initiating the NOVESA Phase 2a trial in SSc in early 2019. We directed an additional candidate program with a distinct mechanism of action toward IPF: we started the PINTA Phase 2a trial with GLPG1205 in IPF patients in 2018. We have worldwide development and commercialization rights for GLPG1690 and GLPG1205. In early 2019, we also inlicensed two early stage compounds with novel modes of action in the field of fibrosis from Fibrocor and Evotec.

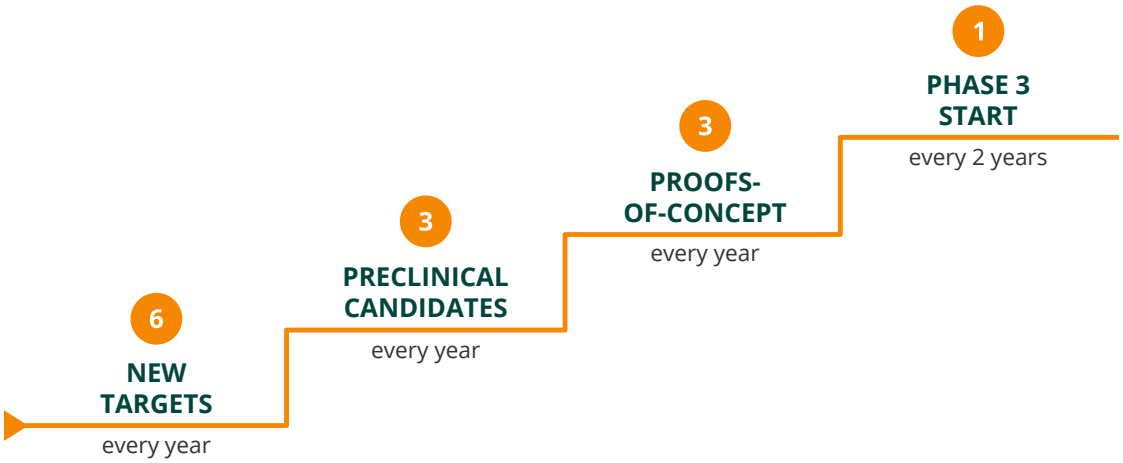
- **Rapidly advance our Toledo class franchise**
  We reported remarkable activity with the first of many compounds targeting the Toledo target class during our R&D Update in 2018. Molecules inhibiting this target family effectuate a dual mode of action on inflammation by stimulating anti-inflammatory cytokines and inhibiting pro-inflammatory cytokines. We have observed unprecedented activity in various inflammatory preclinical models with compounds targeting the class. We are executing on a broad program to discover and develop multiple series of compounds acting on Toledo, aimed at activity across several conditions, with a key focus on inflammation. We started the first Phase 1 trial with GLPG3312 in early 2019, and plan to initiate a Phase 1 trial with the second Toledo compound, GLPG3970, later this year.

- **Advance GLPG1972 in OA patient clinical trials with our collaboration partner Servier**
  In 2016, we announced that a Phase 1 first-in-human trial of GLPG1972, targeting ADAMTS-5 for the treatment of OA, showed the product candidate reduced ARGS neoepitope in healthy volunteers up to 60% within two weeks. In early 2018, we disclosed that GLPG1972 showed a similar, dose-dependent ARGS neoepitope reduction in OA patients within four weeks. We initiated the ROCCELLA global Phase 2 program with GLPG1972 together with collaboration partner Servier in 2018 and intend to complete recruitment in 2019. Servier licensed the compound for further development in OA patient trials outside the United States. We retain all development and commercialization rights to this compound in the United States, where we also lead all clinical development of GLPG1972.

- **Advance MOR106 in AtD patient clinical trials with our collaboration partners MorphoSys and Novartis**
  We announced that 83% of AtD patients treated in Phase 1b with the highest dose of MOR106 achieved EASI-50, with the effect being sustained for months after stop of treatment. MOR106 targets IL17-C, a novel antibody target discovered by us. We initiated a number of Phase 1 and Phase 2 trials with MOR106 in AtD patients in 2018, with the aim of preparing for Novartis to run the Phase 3 program.

- **Maximize and capture the value of our target discovery platform by becoming a fully integrated biotechnology company**
  Our platform has yielded many new mode-of-action investigational therapies across multiple therapeutic areas. Our most mature preclinical programs are GLPG2534, GLPG3121, and GLPG3667 and our second generation Toledo compound GLPG3970 for inflammation, which we plan to take into Phase 1 trials in 2019. Additionally, we are exploring the potential of preclinical product candidates in AS, Pso, IBD, AtD, lupus, IPF, SSc, nonalcoholic steatohepatitis, type 2 diabetes, and hepatitis B. We aim to initiate a Phase 3 trial every other year, while conducting three proof-of-concept trials, delivering three preclinical product candidates and six new validated targets every year. We aim to select promising programs for internal development and commercialization and establish ourselves as a fully integrated biopharmaceutical company.

R&D ambition


6
NEW TARGETS
every year
3
PRECLINICAL CANDIDATES
every year
3
PROOFS-OF-CONCEPT
every year
1
PHASE 3 START
every 2 years

THINK BIG.

'We are on a mission'

we **raise** the bar.

In 2018, our team has grown immensely.

Diversity and the complementarity of talents is key: it enables us to develop the company in a way that is sustainable long-term.

+21%

Annelies Missotten has been VP Human Resources at Galapagos since March 2018. In the same year, the company's workforce increased from 600 to 725 employees, and this growth is showing no signs of slowing. "Creating a challenging and secure environment where people can perform at their best, without being afraid to make mistakes along the way, is crucial for realizing our ambitions."

Annelies Missotten

VP Human Resources

"As a company, it's important to be able to offer people a meaningful job with room for personal development. In our case, that's not so difficult: we are all united around a terrific common goal, which is to use our scientific expertise to improve the health of patients. At the same time, we are constantly expanding, which offers a wealth of opportunities that we combine with an attractive work environment. Our transition to a fully integrated, global biopharmaceutical company with a human face offers prospects for plenty of talent."

"

We have to help each other to remain responsive and to remain able to make decisions quickly and flexibly

Vision and audacity

"'Think big' is an inspiring vision that has brought Galapagos to where we are today and it will take us much further still; it sets a challenge and generates a lot of energy. Such an ambitious vision means that you have to dare to step out of your comfort zone on a regular basis, stay alert, be capable of self-reflection, and keep up with what's going on in the wider environment. Furthermore, a very important part of the dynamics of our growth is helping each other to avoid getting bogged down in cumbersome processes, and to remain responsive and able to make decisions quickly and flexibly."

Cultivating talent

"For an emerging biopharmaceutical company, the human capital makes all the difference. How can we best mobilize our knowledge for innovation? Quite a lot depends on the mindset and attitude of our people. It is the role of HR, together with the Galapagos leadership, to ensure that every employee feels engaged and challenged, and that people are supported and guided from the moment they are hired to the start of their career and further development within the organization. It is essential to develop talent management, professionalize the way that newcomers are welcomed, and to maintain a human approach in an ever larger and more geographically widespread organization. Providing a buddy for new employees is one of the many little examples that support this."

Mix & match

"We are deliberately developing this company with people from different industries, with a wide spectrum of backgrounds and experience. Diversity and the complementarity of talents in our teams is a key part of this. This is a well-considered choice: it enables us to develop the company in a way that is sustainable long-term. Recruiting people on the employment market ourselves, wherever possible without intermediaries, is very important for the success of this strategy. A match stands or falls with the cultural fit and we are best positioned to make that call."

Receiving and taking responsibility

"We expect our people to take responsibility and take ownership of their work. Our basic principle is: you have skills and experience, you can do your job in whatever way you think will allow you to make the greatest contribution. It's all about entrepreneurship: you give the best of yourself, take initiative and follow-through. Of course, you may make mistakes along the way. As an employer, we do our best to create the conditions in which you can excel. 'I have the feeling that what I do has impact, that it really matters', is something I hear a lot from employees. Taking care of people and creating an environment that is stimulating and secure, where you can succeed through trial and error, is crucial for realizing our ambition to bring our medicines to patients as rapidly as possible."

THINK BIG.

Charlotte, Karin and Yves share their story

“I really feel part of this company”

Charlotte Op de Beeck is Development Operations Officer and works at Galapagos for about six months. Although the job is pretty demanding, there are no bumps in the road. And you can take that literally.

Are the order numbers correct? Are the invoices under budget? Does everyone have access to the right computer programs? Charlotte will run your administration smoothly. “I’ve already learnt such an enormous amount here,” says Charlotte. “Not just about my job, but also about the company.”

> I am a wheelchair user and I’ve been pleasantly surprised by what they do for me at Galapagos

For Charlotte, it’s enormously important that she feels comfortable in an organization. “I am a wheelchair user and I’ve been pleasantly surprised by what they do for me at Galapagos. Before I started here, a future colleague took me for a quick tour to check whether everything was wheelchair friendly. At my interview, there was a little sill difficult for me to get over with my wheelchair. On my first day of work, that threshold was gone and I could smoothly come and go.”

Charlotte works on the eighth floor. Especially for her, Galapagos has purchased an evacuation chair that will safely bring her downstairs in the event of a fire. “I have already worked in a number of companies, but this is the first time that I’ve come across something like this. There are times I feel a bit shy about it all. But of course, it sets me at ease that everybody is looking after me so well. It means I can take part in everything. I feel I am truly part of the company. That helps me to grow and go through life more independently.”

“Team building combined with a good cause hits the bullseye”

For the first time, the Galapagos Company Day in 2018 was dedicated to a good cause. The annual team-building event focused not just on the employees, but also benefited organizations where help is always welcome.

Every Galapagos site supported a local organization of its own choosing. In Mechelen, Galapagos worked with Sjarabang, a creative atelier where people with intellectual or multiple disabilities work with art, theatre and music. An artist designed a polyester mould in the form of a fish that Galapagos employees decorated to create a beautiful piece of artwork. Team building in the form of art!

“This assignment took our scientists outside their comfort zone,” says Management Assistant Karin Geerts, who was responsible for organizing the day in Mechelen. “Luckily, the members of Sjarabang were there to teach us artistic techniques and guide us.”

> The enthusiasm and the warmth during the Company Day were unforgettable. It made me realize once again that I had come to the right company

Karin was as impressed by how focused everybody was on the job, as well as the variety of creations. The artworks were finally auctioned during the De Warmste Week, a Belgian event that raises funds for charity, with the proceeds going to Sjarabang. “For me, it’s important that as a company, we leave our ivory towers and meet people who might not have things quite so easy. The enthusiasm and the warmth during the Company Day were unforgettable. It made me realize once again that I had come to the right company.”

"Making a difference, one day at a time"

Yves Galimidi is responsible for procuring a range of corporate services and products, ranging from electricity to company cars. In every aspect of his work, he thinks about a bright, clean and green future.

Green energy

"I'll give you an example of how we have gone green. Our electricity provider offered two options: normal electricity and sustainably sourced electricity. It's my job to screen options and analyze figures so we can make the right decision. In this case, despite the slightly higher cost, management agreed to opt for an environmentally friendly option. In Mechelen, we are now powered entirely by electricity from renewable sources."

Driven to lower CO_2

"We are working on a project for our fleet of company cars, and are including hybrids and electric cars. The average CO_2 emissions for every car in our fleet will drop from 118 g/km to 99 g/km between 2018 and 2020."

Virtual meetings

"Of course, there's no point in travelling when it isn't necessary. We are in the age of video conferencing and Skype calls are a click away. Working this way is very efficient. It slashes our ecological footprint."

Proud to be green

"Galapagos is very much aware of environmentally friendly solutions that are better for the environment. Thanks to the choices we make, we are making a difference. One day at a time."

THINK BIG.

We deliver

20 years ago Onno van de Stolpe founded Galapagos together with two scientists ...

... Galapagos R&D doubled in staff from 298 in December 2014 to 571 employees in December 2018 ...

... In 2015 we conducted 8 clinical studies, in 2019 we plan to conduct more than 40, an increase of **400%** ...

... Our **cash balance** increased from 198.4 million euro at years' end 2014 to 1.291 billion euro in December 2018 ...

... From 68,751 average daily trading volume of ordinary shares on Euronext in 2014 to approximately 481,000 ordinary shares and ADS average daily trading volume on **Euronext and Nasdaq** year to date in 2019 ...

... Our ambition is to deliver 6 new targets, 3 preclinical candidates and 3 proof-of-concepts a year, and 1 Phase 3 start every other year ...

... To date, **12 Galapagos compounds** with novel modes of action discovered by us have entered studies in patients ...

... We went from 8 investment banks covering Galapagos in 2008 to 19 in 2019 ...

... To date, we have 3 novel mechanisms showing promising patient results:

filgotinib in multiple inflammatory diseases

GLGP1690 in IPF and

MOR106 in atopic dermatitis ...

... In our senior management levels, **33% of our staff is female** ...

... On 20 June 2019 we will celebrate our **20th birthday** as a company ...

... In 2018, we nominated 4 new preclinical candidates, **all with a novel mechanism of action** ...

... Our global presence extended from 4 sites in 2014 to 7 in 2018 ...

... In 2019, we plan to file our first medicine for **registration** ...

... We went from 21 nationalities in 2015 to 38 in 2018 ...

... The **stock price on Euronext has increased >1,000%** and the market capitalization has increased from ~€62 million to ~€4.8 billion (>7,000%) from 10 May 2005 to 13 March 2019 ...

... We keep delivering.

Going concern statement

To date, we have incurred significant operating losses, which are reflected in the balance sheet showing €297.8 million accumulated losses as at 31 December 2018. We realized a consolidated net loss of €29.3 million for the year ended 31 December 2018. The board of directors has examined the financial statements and accounting policies. Based on conservative assumptions, we believe that our existing cash and cash equivalents of €1,290.8 million at 31 December 2018 will enable us to fund our operating expenses and capital expenditure requirements at least through the next three years. The board of directors is also of the opinion that additional financing could be obtained, if required. Taking this into account, as well as the favorable outlook of developments of our drug discovery and development activities, the board of directors is of the opinion that it can submit the financial statements on a going concern basis. Whilst our cash position is sufficient for our immediate and mid-term needs, the board of directors points out that if the R&D activities continue to go well, we may seek additional funding to support the continuing development of our products or to be able to execute other business opportunities.

Risk management and internal control

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

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

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

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

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

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

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

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

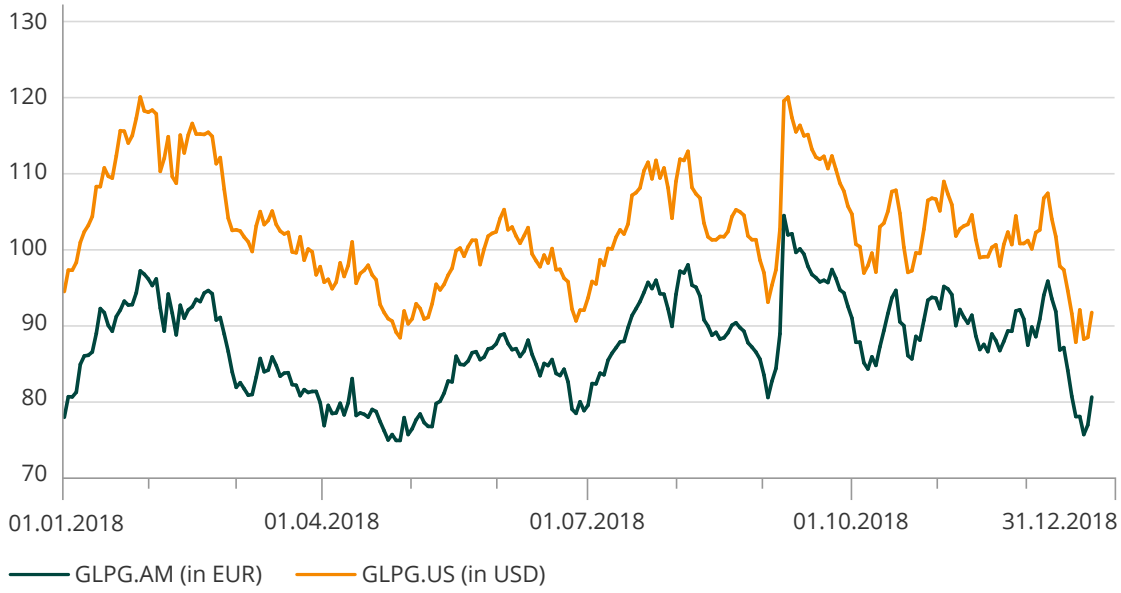
As described in Section 404 of the U.S. Sarbanes-Oxley Act of 2002 and the rules implementing such act, we will include the management and the statutory auditor's assessment of the effectiveness of internal control over financial reporting in our annual report on Form 20-F, which is expected to be filed 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 2018.

The Galapagos share

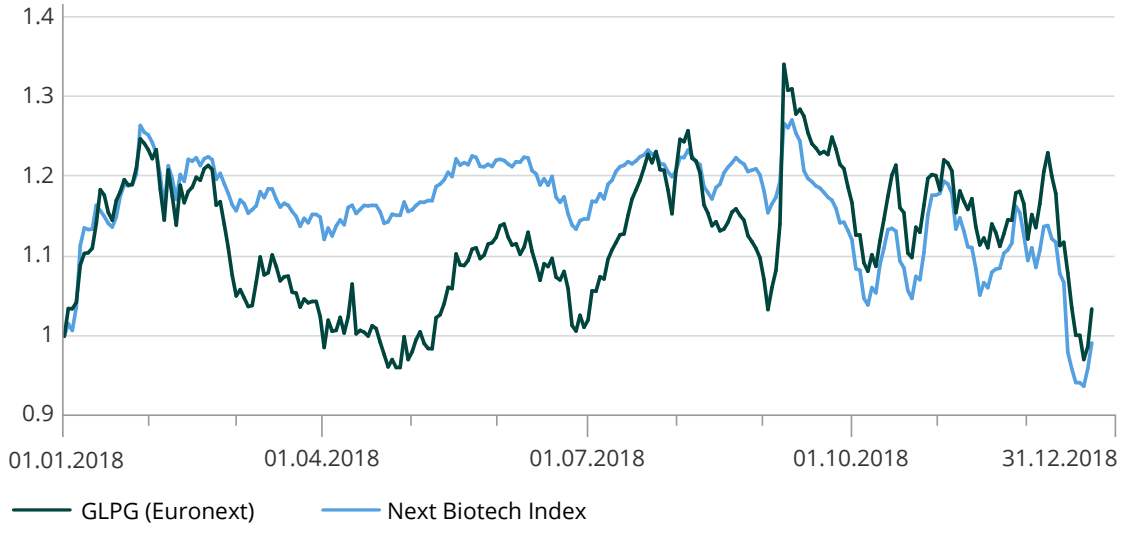
Galapagos NV (ticker: GLPG) has been listed on Euronext Amsterdam and Brussels since 6 May 2005 and on the Nasdaq Global Select Market since 14 May 2015. Galapagos NV forms part of the Bel20 index (top 20 listed companies) on Euronext Brussels, the AEX Index (top 25 listed companies) on Euronext Amsterdam,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

The Galapagos share in 2018

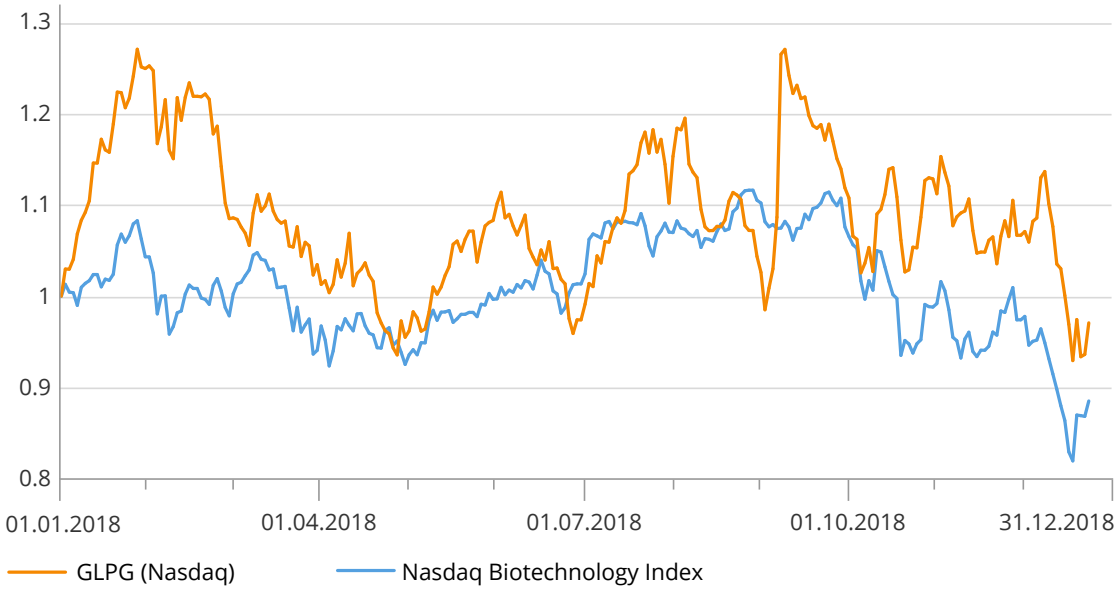


In 2018, the average daily trading volume on Euronext was 440,551 shares and €38.7 million turnover. The daily trading volume on Nasdaq in 2018 was 113,218 ADSs and $11.7 million turnover.

Galapagos vs Next Biotech Index in 2018



Galapagos vs Nasdaq Biotechnology Index



Investor relations activities

We attracted additional sell-side analyst coverage by U.S. and European banks in 2018. Our IR team presented at a number of conferences in 2018 and did several of broker-organized and self-organized roadshows throughout the U.S. and Europe. We presented 2017 Full Year, and Q1, Half Year, and Q3 2018 results, and our Annual R&D Update via webcasts.

The main topics of discussion with investors included the filgotinib development programs with collaboration partner 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 2018 amounted to €513.1 million compared to €350.6 million in 2017. This increase is due to internally generated intangible assets – being capitalized R&D expenses – which contributed by €86.6 million more to operating income than previous year, and due to €87.4 million higher turnover due to increased milestone revenues and upfront payments. Other operating income amounted to €9.2 million, including €2.0 million of grants recognized for R&D projects, €1.4 million of recharges to subsidiaries and €5.4 million recuperation of withholding taxes for scientists. The income recognized for tax incentives for investments in intangible fixed assets of €11.3 million (2017: €11.2 million, classified as other operating income), is in 2018 considered as tax income.

The operating costs of 2018 amounted to €654.6 million compared to €490.4 million in 2017. Services and other goods increased substantially to €299.8 million compared to €201.2 million in 2017, 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 €4.8 million in 2017 to €6.2 million in 2018.

Personnel costs in 2018 amounted to €33.4 million compared to €24.8 million in 2017. The number of employees at Galapagos NV at the end of 2018 amounted to 262 as compared to 214 at the end of 2017, excluding insourced personnel.

Depreciation increased to €305.7 million in 2018, compared to €251.4 million in 2017, and related primarily to amortization of R&D expenses.

Galapagos NV's 2018 financial income increased to €35.7 million compared to €8.4 million in 2017, while financial costs decreased to €21.3 million compared to €34.4 million in 2017. This can mainly be explained by non-cash currency exchange gains on U.S. dollar in 2018, as compared to non-cash currency exchange losses on U.S. dollar in 2017.

Taxes recorded in 2018 consist of €11.3 million tax income, as compared to €34 thousand tax expenses in 2017. This is due to the reclassification in 2018 of the income recognized for 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. The net book value of capitalized R&D expenditure is zero in 2018 compared to €18.7 million in 2017. The driver for this decrease was the amortization of internally generated intangible assets prior to 2016. R&D expenses capitalized as from 2016 onwards are fully amortized in the year in which they're capitalized. R&D expenses capitalized in previous years are all amortized at 31 December 2018.

Investments in fixed assets in 2018 amounted to €10.0 million, excluding the internally generated assets. They consisted mainly of costs for the new building, new laboratory and IT equipment, as well as investments in intangible assets, being software and licenses.

Accrued income in 2017 included receivables for tax incentives of €39.7 million; in 2018 the receivable for tax incentives amounted to €48.2 million and was included in other receivables.

Galapagos NV's cash position at the end of 2018 amounted to €1,274.0 million.

The non-consolidated annual accounts of Galapagos NV which we submit for your approval were prepared in accordance with Belgian accounting rules as well as with the legal and regulatory requirements. They show a negative result. The financial year 2018 closed with a loss of €115.7 million compared to a loss of €165.9 million in 2017. Overall, the result of Galapagos NV is affected by the fact that, as from financial year 2010, Galapagos NV capitalized some of its R&D expenses and revenues that were eligible for such capitalization under Belgian GAAP and amortized these costs over a 3-year period until 2015. R&D expenses capitalized as from 2016 onwards are fully amortized in the year itself. This amortization negatively impacted the net result of Galapagos NV by €1.1 million in 2018, compared to a negative impact of €17.4 million in 2017. The non-consolidated annual accounts of Galapagos NV show accumulated losses of €459.5 million as at 31 December 2018; we refer to the Going Concern Statement for justification for the application of the valuation rules under the going concern assumption.

In 2018, neither Galapagos NV nor its affiliates made direct or active use of financial instruments such as hedging instruments.

Disclaimer and other information

This report contains all information required by Belgian law.

Galapagos NV is a limited liability company 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 will be available in the SEC's EDGAR database (https://www.sec.gov/edgar.shtml) and a link thereto will be posted on our website.

Forward-looking statements

This report contains forward-looking statements, all of which involve certain risks and uncertainties. These statements are often, but are not always, made through the use of words or phrases such as "believe," "anticipate," "expect," "intend," "plan," "seek," "estimate," "may," "will," "could," "stand to," "continue," as well as similar expressions. Forward-looking statements contained in this report include, but are not limited to, statements made in the "Letter from the management", the information provided in the section captioned "Outlook 2019", guidance from management regarding the expected operational use of cash during financial year 2019, and statements regarding the expected timing, design and readouts of ongoing and planned clinical trials (i) with filgotinib in rheumatoid arthritis, Crohn's disease, ulcerative colitis, and other indications (ii) with GLPG1690 and GLPG1205 in IPF, (iii) with MOR106 in atopic dermatitis, (iv) with GLPG1972 in osteoarthritis, and (v) with GLPG3312 in inflammation. 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 2019 revenues and financial results and our 2019 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, Gilead, our collaboration partner for GLPG1972, Servier, and our collaboration partners for MOR106, MorphoSys and Novartis), and estimating the commercial potential of our product candidates. A further list and description of these risks, uncertainties and other risks can be found in our Securities and Exchange Commission filing and reports, including in our most recent annual report on Form 20-F filed with the SEC and our subsequent filings and reports filed with the SEC. We also refer to the "Risk Factors" section of this report. Given these uncertainties, the reader is advised not to place any undue reliance on such forward-looking statements. These forward-looking statements speak only as of the date of publication of this document. We expressly disclaim any obligation to update any such forward-looking statements in this document to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements, unless specifically required by law or regulation.

R&D

Research & Development

we **raise** the bar.

The Galapagos pipeline

We are an integrated biopharmaceutical company active in the discovery, development, and preparation for future commercialization of medicines with novel modes of action, addressing disease areas of high unmet medical need. Our pipeline comprises programs ranging from discovery to Phase 3 clinical trials in inflammation, fibrosis, osteoarthritis (OA), and other indications. Our highly flexible platform is applicable across many therapeutic areas. Our clinical stage programs include: filgotinib, which is currently in Phase 3 trials in rheumatoid arthritis (RA), Crohn's disease (CD), and ulcerative colitis (UC) and in Phase 2 trials in multiple additional indications; GLPG1690, our fully proprietary autotaxin (ATX) inhibitor, 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); GLPG1205, our fully proprietary GPR84 inhibitor which is currently in the PINTA Phase 2 proof-of-concept trial in IPF; GLPG1972, which is in the ROCCELLA global Phase 2 trial in OA patients; MOR106, which is being evaluated in Phase 1 and 2 trials in atopic dermatitis (AtD) patients; and the Toledo molecule GLPG3312, aimed at a novel class of targets discovered by us and currently in Phase 1 clinical 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, with Servier for GLPG1972, and with MorphoSys and Novartis for MOR106. In 2018 we outlicensed our CF programs to AbbVie. The following table highlights key aspects of our development program indication areas at the beginning of 2019:

Prolific late stage pipeline

area	preclinical	phase 1	phase 2	phase 3
filgotinib	10+ indications, more pivotal readouts in '19			
IPF/fibrosis	in ph3 and ph2, proprietary			
OA	ph2b underway			
AtD	ph2 underway			
inflammation/fibrosis	>20 programs			

Proprietary target discovery platform

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

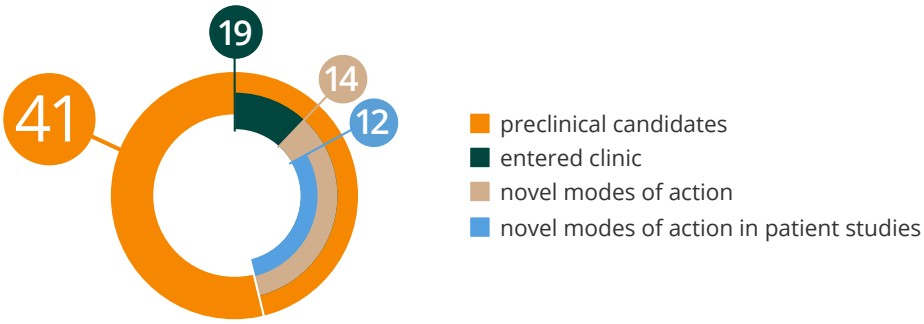
Our product candidate filgotinib acts on a target whose role in the specific disease was discovered by us using our discovery platform and we believe is a proof of success of this approach. Further proof of this approach was shown in 2017 with autotaxin inhibitor GLPG1690 in IPF patients, and with MOR106 directed toward IL-17C in AtD patients. Autotaxin and IL-17C are targets we discovered for these diseases.

The human genome is made up of tens of thousands of genes which code for the proteins that make up the human body. Nearly all chronic diseases and disorders are caused by a disruption in the normal function of certain proteins. The main goal of the industry is to 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 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 drugable genes.

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

This discovery approach provides starting points for the discovery and development of new mode of action drugs. Since 2009, we have generated 41 preclinical candidates of which 23 have novel modes of action. Of these, 19 have entered the clinic, 12 with novel modes of action.



In addition to our pipeline of molecules in the clinic, we have multiple discovery programs which are advancing toward clinical development. 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, and hepatitis.

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

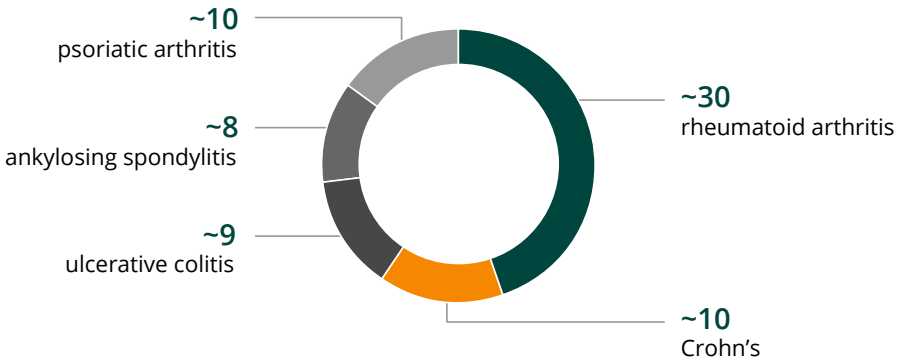
Based on results from our Phase 2 trials and the FINCH Phase 3 trials, we believe that filgotinib is a promising candidate for the treatment of RA, CD and potentially other inflammatory diseases. We are party to a collaboration agreement with Gilead to develop and commercialize filgotinib in multiple diseases. Under the terms of the collaboration, Gilead is primarily responsible for development and seeking regulatory approval of the licensed product. We are required to use commercially reasonable efforts as requested by Gilead to assist Gilead with certain development activities. Gilead initiated Phase 3 clinical programs in RA, CD, and UC in 2016, and we and Gilead initiated Phase 2 trials with filgotinib in additional indications in 2017, with the first readouts from these trials reported in 2018. The following table highlights our filgotinib program and status at the time of publication of this report:

We build a filgotinib franchise

area	phase 1	phase 2	phase 3	status
rheumatoid arthritis				recruited
Crohn's disease				recruiting
ulcerative colitis				recruited
ankylosing spondylitis				study completed
psoriatic arthritis				study completed
small bowel CD				recruiting
fistulizing CD				recruiting
Sjögren's				recruited
cutaneous lupus				recruited
lupus nephropathy				recruited
uveitis				recruiting

Markets for inflammation drugs are 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 $30 billion, with the other main markets combined representing a slightly larger opportunity than in RA:

Inflammation market in ~2027, $B



Based on the Phase 2 and 3 data observed with filgotinib in RA and Phase 2 data in CD, AS, and psoriatic arthritis (PsA) thus far, we believe that filgotinib has the potential to improve treatment standards substantially in RA, inflammatory bowel diseases (IBD), AS, and PsA. Compared with biologic agents, filgotinib is orally administered, with a rapid onset, sustained response, and potential for monotherapy. American College of Rheumatology (ACR) scores with filgotinib in Phase 2 and 3 trials in RA patients are encouraging, and CDAI remission and SES-50 scores are similarly promising with filgotinib in a Phase 2 trial in CD patients who are naïve to TNF therapy. 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 reported in all trials.

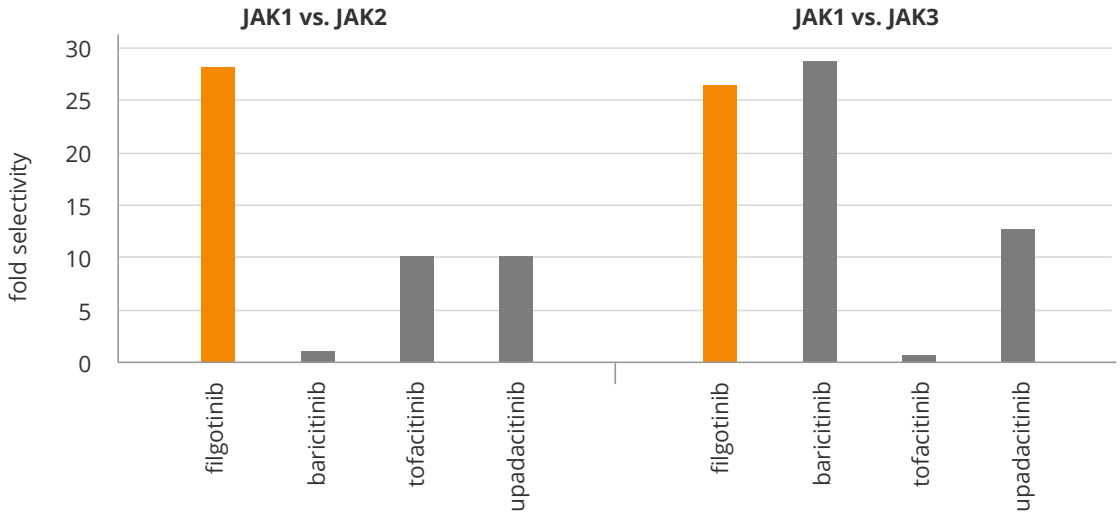
Our filgotinib program in RA

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. According to GlobalData, sales of RA therapeutics across the 10 main healthcare markets was $21.7 billion in 2017, with the current market being dominated by injectable, biological therapies. Biologics, mostly TNF therapies, often lose their effect over time, so there continues to be a considerable unmet need with regard to efficacy, safety, and convenience of use with existing treatments.

New oral therapies that target the Janus kinase (JAK) signaling pathway are emerging to treat inflammatory diseases; some JAK inhibitors, however, are associated with a range of side effects, including 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 discovered filgotinib as a JAK1 specific small molecule inhibitor. In a human whole blood assay 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.

We believe the high selectivity of filgotinib for JAK1 may allow for a positive efficacy profile, with an improved safety profile for filgotinib due to the improved selectivity over JAK2 and JAK3.

Filgotinib
High selectivity for JAK1



Source: Galapagos human whole blood assay

Source: Galapagos biochemical assay

*"*Ex Vivo* Comparison of Baricitinib, Upadacitinib, Filgotinib, and Tofacitinib for Cytokine Signaling in Human Leukocyte Subpopulations," McInnes et al, ACR 2017

DARWIN Phase 2 program with filgotinib in RA

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

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

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

We and our collaboration partner Gilead reported findings from DARWIN 3 at 132 weeks of treatment at ACR 2018. Promising activity levels were maintained and a favorable tolerability profile was reported. Data in DARWIN 3 were consistent with the risk/benefit profiles reported in DARWIN 1 and 2. These data were presented by Dr. Arthur Kavanaugh at the 2018 Annual Meeting of the ACR.

Based on our review of published studies, filgotinib has shown the lowest rates of infection, deep venous thrombosis (DVT) and pulmonary embolisms per 100 patient year experience (PYE) versus other JAKs and other therapy types thus far in RA:

Low incidence of DVT and infections

event per 100 PYE	filgotinib	baricitinib	tofacitinib	upadacitinib	tocilizumab	adalimumab
	50-200 mg	2 and 4 mg QD	5 mg BID	6 and 12 mg BID	4 and 8 mg/kg	
	DARWIN3 wk132	Genovese et al ACR 2017	Wollenhaupt ACR 2017	Genovese ACR 2017	Genovese ACR 2012	Burmester 2011
patient year exp.	2,042	6,637	5,278	725	14,994	23,943
serious infection	1.0	2.9	2.4	2.3	4.5	4.6
herpes zoster	1.5	3.2	3.8	3.7	ND	ND
DVT/ PE	2/2,042* 0.1	31/6,754 0.5	3/1,849 0.2	5/725 0.7	ND	ND
deaths	0.2	0.3	0.6	0.3	0.6	0.8

* one single patient experiencing DVT and PE
DVT/PE = deep venous thrombosis/pulmonary embolism
Note: data not from head-to-head studies, comparisons may not be accurate
Tofacitinib DVT/PE data from Mease, ACR 2017 (5 mg bd), and death data from 2012 FDA Medical review
Baricitinib: DVT/PE Weinblatt ACR 2017

FINCH Phase 3 program with filgotinib in RA

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

FINCH 1 is an ongoing 52 week, randomized, placebo- and adalimumab-controlled trial in combination with methotrexate (MTX) enrolling 1,759 adult patients with moderately to severely active RA who have had inadequate response to MTX. The primary endpoint is ACR20 at week 12. The trial includes radiographic assessment at weeks 24 and 52. We and Gilead reported on 28 March 2019 that FINCH 1 met primary and key secondary endpoints.

FINCH 2 was a 24 week, randomized, placebo-controlled trial in 449 patients who were on conventional disease-modifying anti-rheumatic drugs (cDMARD), and had an inadequate response to biological treatment. In this study, 23.7 percent of patients had received three or more bDMARDs. The primary endpoint was ACR20 at week 12. We and Gilead reported in September 2018 that FINCH 2 met all primary and key secondary endpoints.

FINCH 3 is an ongoing 52 week, randomized trial in 1,252 MTX-naïve patients to study filgotinib in combination with MTX, as well as monotherapy. The primary endpoint is ACR20 at week 24. Radiographic progression will also be assessed. We and Gilead reported on 28 March 2019 that FINCH 3 met the primary endpoint.

In addition, Gilead is performing a dedicated male patient testicular safety trial in UC patients, called MANTA, concurrent to all Phase 3 programs. This randomized, double-blind, placebo-controlled trial is intended to enroll adult male UC patients with a treatment phase of up to 26 weeks.

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.

Top-line FINCH 1 efficacy^ 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

^ All efficacy time points assessed at Week 12 except mTSS which was assessed at Week 24

The safety profile of filgotinib in FINCH 1 is consistent with prior studies up to Week 24. Serious adverse events occurred in 4.4 percent, 5.0 percent, 4.3 percent and 4.2 percent of the patients in the filgotinib 200 mg, filgotinib 100 mg, adalimumab and placebo groups, respectively. There were five deaths, two patients were assigned to the placebo group, two to the filgotinib 200 mg group and one to the filgotinib 100 mg group. Five patients with a malignancy were also reported -- three receiving placebo, one receiving adalimumab and one receiving filgotinib 100 mg, respectively. Three venous thrombotic events were observed (two in the placebo group, one in the filgotinib 200 mg group), and there were four adjudicated major adverse cardiovascular events, two in the placebo, one in the adalimumab and one in the filgotinib 100 mg groups. The proportion of patients with herpes zoster was similar across treatment groups (filgotinib 200 mg = 0.4 percent, filgotinib 100 mg = 0.4 percent, adalimumab = 0.6 percent, placebo = 0.4 percent), as was the rate of serious infections (filgotinib 200 mg = 1.7 percent, filgotinib 100 mg = 1.7 percent, adalimumab = 2.5 percent, placebo = 0.8 percent).

FINCH 2 results

Filgotinib achieved its primary endpoint in the FINCH 2 trial in the proportion of patients achieving an 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 100mg or 200mg compared to patients receiving placebo. Topline efficacy data are summarized in the table below:

non-responder imputation	week 12			week 24		
	placebo	filgotinib 100 mg	filgotinib 200 mg	placebo	filgotinib 100 mg	filgotinib 200 mg
	(n=148)	(n=153)	(n=147)	(n=148)	(n=153)	(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

Filgotinib was generally well-tolerated in the FINCH 2 trial, with no new safety signals compared to those reported in previous trials of filgotinib. Treatment-emergent adverse events and serious adverse events were mostly mild or moderate in severity. Serious adverse events occurred in 3.4, 5.2 and 4.1 percent of the patients in the placebo, 100mg and 200mg groups, respectively. The proportion of patients who discontinued study drug due to treatment-emergent adverse events was also similar across groups. Two cases of uncomplicated herpes zoster were reported in each filgotinib group. Two MACE were identified, one subarachnoid hemorrhage in the placebo group and one myocardial ischemia in the filgotinib 100mg group. There was one case of non-serious retinal vein occlusion in the filgotinib 200mg group and no reports of VTE or pulmonary embolism. There were no deaths, malignancies, gastrointestinal perforations, or opportunistic infections, including active tuberculosis.

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).

Top-line FINCH 3 efficacy^ 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

& 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

^ Efficacy assessed at Week 24 for all endpoints

The safety profile of filgotinib in FINCH 3 is consistent with prior studies up to Week 24. Serious adverse events occurred in 4.1 percent, 2.4 percent, 4.8 percent, and 2.9 percent of patients receiving filgotinib 200 mg plus MTX, filgotinib 100 mg plus MTX, filgotinib 200 mg monotherapy and MTX alone, respectively. There was one venous thrombotic event (in the MTX group), five cases of adjudicated major adverse cardiovascular events (two in the filgotinib 200 mg plus MTX group, one in the filgotinib 200 mg group and two in the MTX group) and one malignancy (in the MTX group). There was one death, reported in the filgotinib 200 mg plus MTX group. Serious infections occurred in 1.0 percent, 1.0 percent, 1.4 percent and 1.0 percent of the patients in the filgotinib 200 mg plus MTX, filgotinib 100 mg plus MTX, filgotinib 200 mg monotherapy and MTX groups, respectively. The proportion of patients reporting herpes zoster was 0.5 percent in each of the treatment groups.

FINCH and DARWIN 3 safety

We and Gilead also announced interim safety information from four studies of the investigational compound filgotinib for the treatment of rheumatoid arthritis (RA). The data include 24 week results of the ongoing Phase 3 FINCH 1, 2, and 3 trials, and updated Week 156 safety data from the Phase 2b DARWIN 3 long term extension study in patients with RA.

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/ MTX	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

The Phase 2b DARWIN 3 long term extension trial initially enrolled 739 patients, who received filgotinib 100 mg twice daily, 100 mg or 200 mg once daily. Safety data are summarized in the table below. Results represent treatment through 156 weeks or longer, and comprise 2,203 patient-years of exposure (PYE) to filgotinib.

	number of events (events per 100 patient-years)
	PYE=2,203
serious infections	27 (1.2)
herpes zoster	34 (1.5)
DVT/PE	2 (0.1)
death	5 (0.2)
malignancy excluding NMSC	11 (0.5)
MACE	3 (0.1)

DVT, deep venous thrombosis; PE, pulmonary embolism; NMSC, non-melanoma skin cancer; MACE, major adverse cardiac events

Our filgotinib program in inflammatory bowel disease (IBD)

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

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

Our clinical program with filgotinib in CD

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

Overall, in the FITZROY trial at 20 weeks of treatment, filgotinib demonstrated a favorable safety profile consistent with the DARWIN trials in RA. An increase in hemoglobin was also observed in FITZROY, without difference between filgotinib and placebo. No clinically significant changes from baseline in neutrophils or liver function tests were observed.

Gilead initiated a Phase 3 trial (DIVERSITY) with filgotinib in CD in November 2016. The DIVERSITY Phase 3 trial investigates efficacy and safety of 100 mg and 200 mg filgotinib once-daily compared to placebo in patients with moderately to severely active disease including those with prior antibody therapy failure. Gilead will recruit approximately 1,300 patients from the United States, Europe, Latin America, Canada, and Asia/Pacific regions. Men and women in the DIVERSITY trial will be randomized to receive placebo, 100 mg or 200 mg filgotinib. In the United States, males may receive 200 mg if they failed at least one anti-TNF and vedolizumab, a monoclonal anti-integrin antibody marketed by Takeda. We expect Gilead to complete recruitment for DIVERSITY in the third quarter of 2020.

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

Our clinical program with filgotinib in UC

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

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

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 proceed into Phase 3 as planned at both the 100 mg and 200 mg once daily dose level in biologic-experienced and biologic-naïve patients. Gilead completed screening for SELECTION in 2019.

Other clinical programs with filgotinib

In the course of 2017, Gilead initiated clinical trials with filgotinib in Sjögren's disease, cutaneous lupus erythematosus, lupus membranous nephropathy, and uveitis. We initiated patient trials with filgotinib in PsA and AS, for which we reported topline results in 2018. In 2019, Gilead reported completion of recruitment for Sjögrens disease and cutaneous lupus erythematosus, and that they are no longer recruiting for lupus membranous nephropathy.

Psoriatic arthritis

PsA is an inflammatory form of arthritis, affecting up to 30% of psoriasis patients. There are approximately 1 million patients in the U.S. and European Union today, with men and women being affected equally. 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.

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 moderately to severely 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%, $p<0.01$).

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).

Ankylosing spondylitis (AS)

AS, a systemic, chronic, and progressive inflammatory arthritis, is one of the most common rheumatic diseases across the globe, affecting approximately 2 million patients in the U.S., Europe, and Japan today. AS primarily affects the spine and sacroiliac joints and progresses into severe inflammation that fuses the spine, leading to permanent painful stiffness of the back. Currently, there is no known cure for AS, but there are treatments and medications available to reduce symptoms and manage pain. Recent studies show that the newer biologic medications can potentially slow disease progression in some 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 moderately to severely 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%, $p<0.0001$).

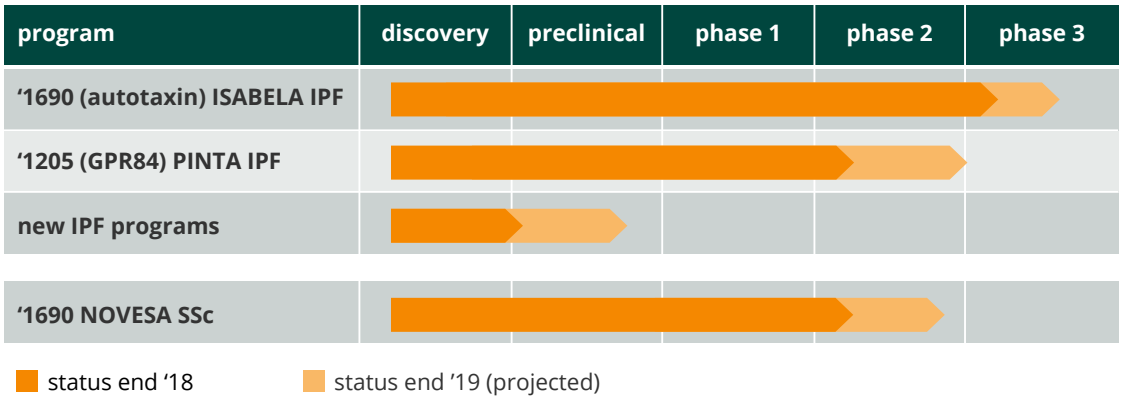
Adverse events were generally mild or moderate in severity and were reported in an equal proportion of patients in the filgotinib and placebo groups. Laboratory changes were consistent with those previously reported for filgotinib, and no new safety signals were observed in the trial. There was one treatment-emergent 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).

Our fibrosis programs

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. We also recently expanded clinical research into SSc, and plan to explore additional fibrotic indications with our earlier stage compounds in 2019.

Moreover, we actively pursue business development opportunities in the space. In January 2019, we announced a global collaboration with Fibrocor, focused on a novel target for IPF and other fibrotic indications, followed by a collaboration with Evotec for an undisclosed target in fibrosis, announced in February.

The following is an overview of our IPF portfolio and expected clinical development in 2019:



About IPF

IPF is a chronic, relentlessly progressive fibrotic disorder of the lungs that typically affects adults over the age of 40. According to GlobalData, IPF affects approximately 200,000 patients in the United States and Europe, and this population is expected to grow, in part thanks to improved diagnosis. Furthermore, prevalence is expected to increase with the aging population[3]. The clinical prognosis of patients with IPF is poor, as the median survival at diagnosis is two to four years. Currently, no medical therapies have been found to cure or stop the progression of IPF. The medical treatment strategy aims to slow disease progression and improve quality of life. Lung transplantation may be an option for appropriate patients with progressive disease and minimal comorbidities.

Regulatory agencies have approved Esbriet[4] and Ofev[5] for the treatment of mild to moderate IPF. Both Esbriet and Ofev have been shown to slow the rate of functional decline in IPF and are gaining ground as the standard of care worldwide. Combined sales of both drugs reached $1.9 billion in 2017, with 74% of global revenues being in the United States. 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, liver function test abnormalities with Ofev; nausea and rash with Esbriet). Therefore, there is still a large unmet medical need as IPF remains a major cause of morbidity and mortality. We estimate that the market of approved IPF drugs will grow to $5 billion by 2025.

[3] https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3848422/
[4] Esbriet® (pirfenidone) is an approved drug for IPF, marketed by Roche/Genentech
[5] Ofev® (nintedanib) is an approved drug for IPF, marketed by Boehringer Ingelheim

Our IPF trials

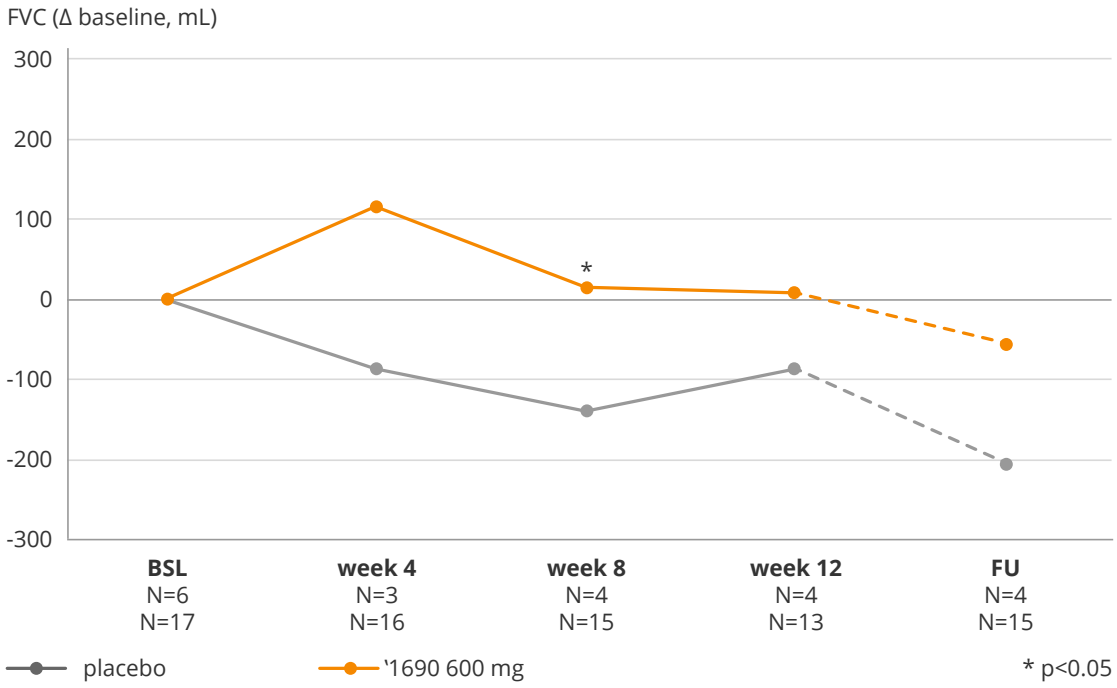
GLPG1690

Our most advanced IPF asset is our product candidate GLPG1690, a potent and selective inhibitor of ATX, which is fully proprietary to us. We identified ATX as a potential target for IPF, after finding the target using an inflammation assay in our target discovery platform. Pharmacology and translational studies published by other parties since then suggest that ATX may also play a role in metabolic disease, arthritic pain, oncology, and lung disease. Palmer *et al* published in *Chest* in 2018 on Bristol Meyers Squibb's LPA1 inhibitor tested in Phase 2, showing activity in reducing loss of Forced Vital Capacity in mL (FVC) in IPF patients. LPA1 is downstream of ATX, supporting further evaluation of ATX inhibition. 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.

In August 2017, we announced positive topline results for our Phase 2a FLORA trial in IPF patients. This randomized, double-blind, placebo-controlled trial investigated a once-daily 600 mg oral dose of GLPG1690, administered for 12 weeks in 23 IPF patients, 17 of whom received GLPG1690 and six placebo. Primary objectives of the trial were to assess safety, tolerability, pharmacokinetics and pharmacodynamics of GLPG1690 in an IPF patient population. Secondary objectives included the evaluation of lung function, changes in disease biomarkers, functional respiratory imaging (FRI), and quality of life. The IPF diagnosis was confirmed by central reading.

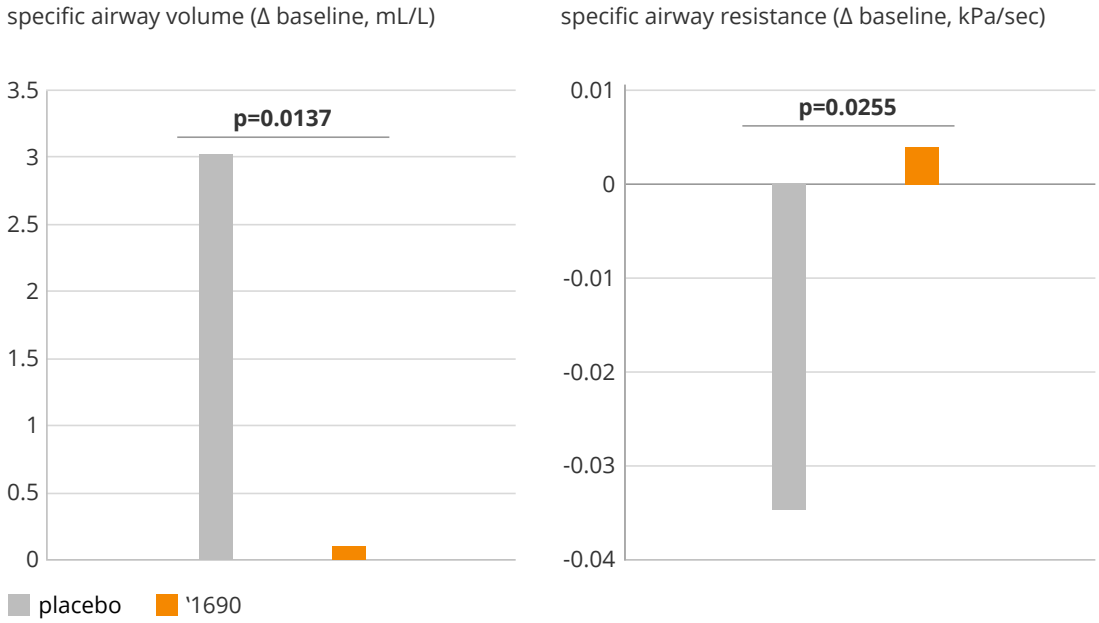
Over the 12-week period, patients receiving GLPG1690 showed an FVC increase of 8 mL, while patients on placebo showed an FVC reduction of 87 mL (mean from baseline):

FVC: stabilization by '1690



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

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



Source: Mignot et al. ATS 2018

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 trial. Rates of discontinuation due to adverse events, as well as serious adverse event rates, were similar between patients on GLPG1690 and placebo.

Following these encouraging results, 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 will continue on their standard of care and will be randomized to one of two doses of GLPG1690 or placebo. The primary endpoint will be the rate of decline of FVC (in mL) until week 52. Secondary assessments will 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

- 1500 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 52 weeks
- Secondary: hospitalizations, mortality, quality of life, safety/tolerability

First patient dosing in ISABELA was announced in December 2018, and new centers are currently being opened, as recruitment efforts will continue throughout 2019.

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

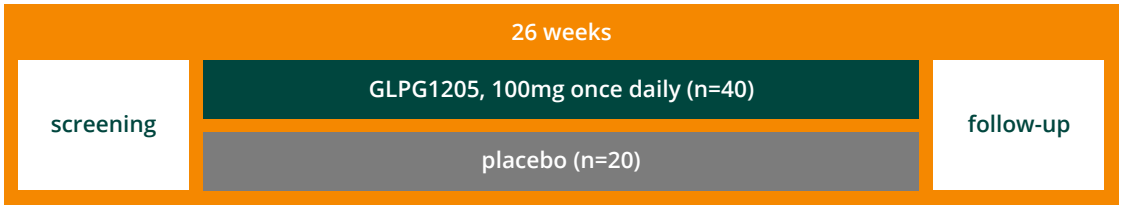
GLPG1205

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

GLPG1205 is a fully proprietary 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 100 mg 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 is planned in 10 countries in Europe, North Africa, and the Middle East. The first patient dosing was announced in October 2018, and we expect to complete recruitment of this trial in the course of 2019.

PINTA Phase 2 in IPF



- 60 IPF patients on local standard of care
- Primary endpoint: forced vital capacity (FVC) at 26 weeks
- Secondary: safety, tolerability, broad range of measurements, incl. FRI
- Recruitment in 10 countries in Europe, North Africa, & Middle East

Recruitment completion targeted Q4 '19

Note: FRI = Functional respiratory imaging

Our fibrosis trials

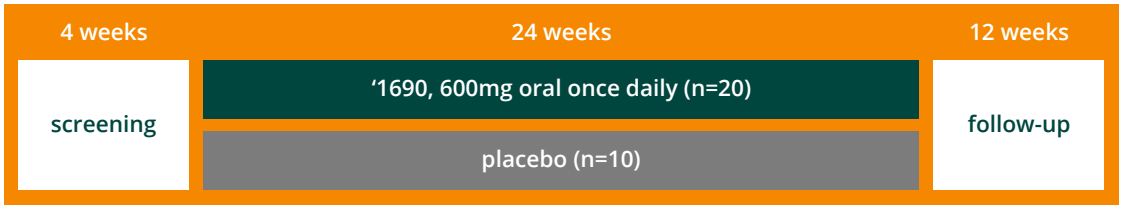
Systemic sclerosis (SSc)

SSc is a severe autoimmune disease. One of the most visible manifestations is hardening of the skin. SSc affects approximately 95,000-155,000 patients in the U.S. and Europe, with a predominance of female patients (over 75%). Broadly speaking, there are two types of SSc: limited cutaneous SSc, where the skin involvement is restricted, and diffuse cutaneous SSc. In diffuse cutaneous SSc, which represents about 35% of the SSc patient population, skin thickening affects several body areas, and patients have a higher risk of developing fibrosis of various internal organs, such as the lung.

Currently, there are no approved drugs for this disease, which has one of the highest mortality rates among rheumatic diseases. Hence, SSc represents a significant unmet medical need. Current treatment mainly consists of immunosuppressive drugs and other symptom-alleviating therapies such as methotrexate or cyclophosphamide. These aim to avoid cutaneous fibrosis, interstitial lung disease and renal crisis.

NOVESA is a double-blind, placebo-controlled Phase 2a trial evaluating the efficacy, safety and PK/PD of GLPG1690 in patients with SSc. NOVESA is planned to recruit 30 patients with diffuse cutaneous SSc.

NOVESA Phase 2 in SSc



- 30 patients with progressive diffuse (multi-organ) SSc
- Recruitment in U.S. & 5 EU countries
- Primary endpoint: modified Rodnan Skin Score at 24 weeks
- 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 24 weeks. 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.

Early in 2019 we recruited our first patient for NOVESA.

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. According to GlobalData, OA will be the fourth leading cause of disability by the year 2020. GlobalData estimates that diagnosed cases will grow to approximately 131 million cases by 2024.

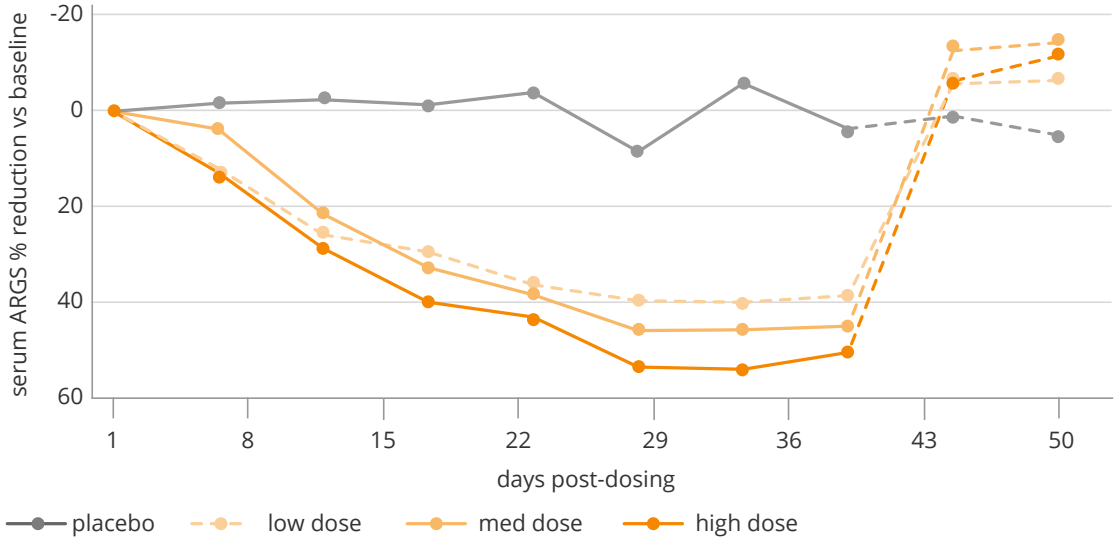
In normal joints, a firm, rubbery material called cartilage covers the end of each bone. Cartilage provides a smooth, gliding surface for joint motion and acts as a cushion between the bones. In OA, the cartilage breaks down, causing pain, swelling and problems moving the joint. As OA worsens over time,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

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

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 human OA patients.

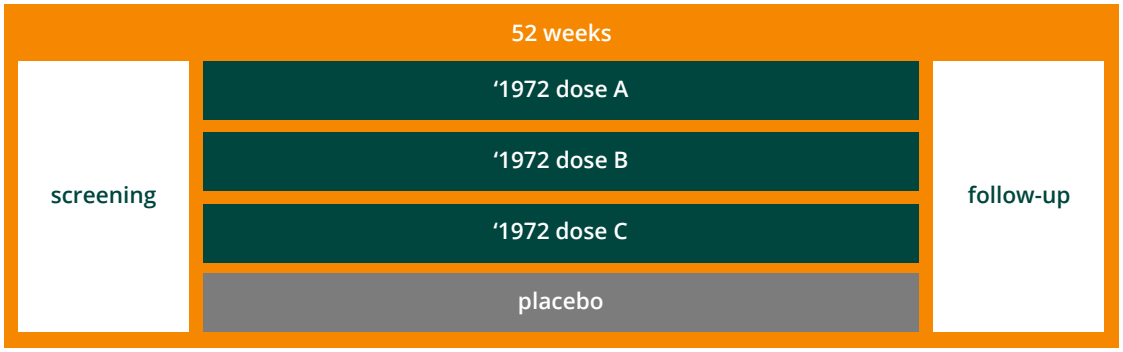
In a Phase 1b trial in OA patients in the U.S., GLPG1972 reduced the ARGS neoepitope, a cartilage breakdown biomarker measured in the serum, by over 50% over a four-week period:

Strong reduction of ARGS
'1972 Ph1b study in OA patients



Given 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 52 weeks
- Secondary: 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 osteoarthritis. 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 will run 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 intend to finalize recruitment of ROCCELLA in the second half of 2019.

We work with Servier to develop GLPG1972. We are eligible to receive milestones and single-digit royalties on potential commercial sales for GLPG1972, while we retain full commercial rights in the United States.

Our AtD program

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

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

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

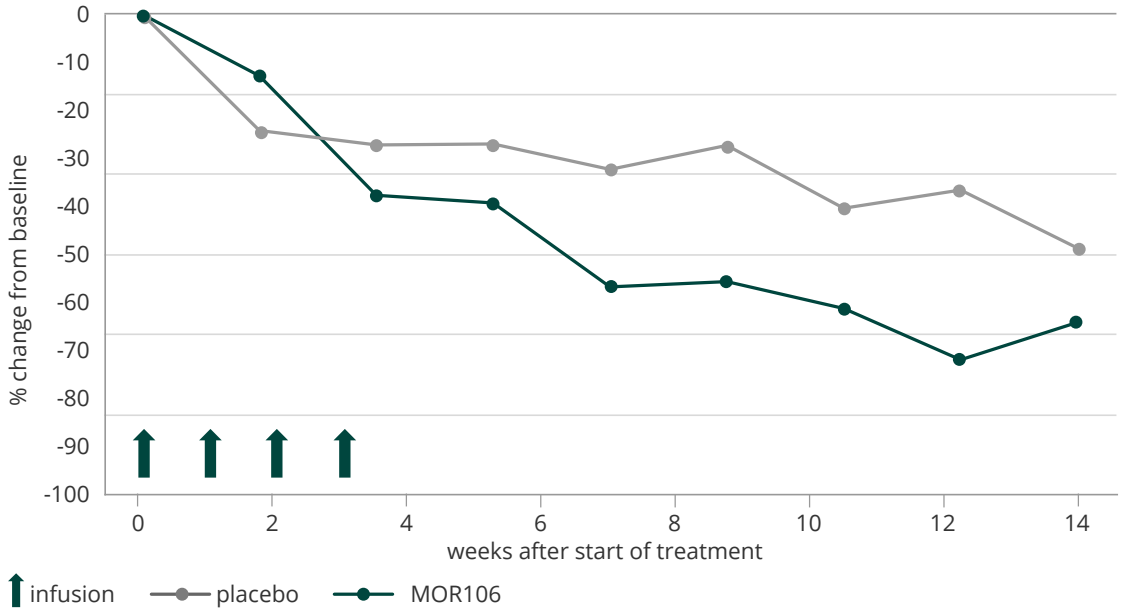
MOR106 arises from an alliance between us and MorphoSys, in which both companies contributed their core technologies and expertise and equally shared costs and benefits. In July 2018, we and MorphoSys announced that we entered into a collaboration regarding MOR106 with Novartis.

We evaluated MOR106 in a randomized, double-blind, placebo-controlled Phase 1 trial, with the first part evaluating single ascending doses (SAD) followed by multiple ascending doses (MAD) compared to placebo in approximately 25 patients with moderate to severe AtD in several European centers. Topline results of the complete trial were reported in September 2017. In the MAD portion with MOR106 in patients, all adverse drug reactions observed were mild-to-moderate and transient in nature and did not lead to clinically relevant safety signals. No serious adverse events and no infusion-related reactions were recorded.

Even though the trial was not statistically powered to show differences in efficacy between treatment groups, at the highest dose level of MOR106, in 83% of patients (five out of six) an improvement of at least 50% in signs and symptoms of AtD measured by the Eczema Area and Severity Index (EASI-50) was recorded at week four. The onset of activity was rapid and occurred within a few weeks and was maintained for over two months after the last treatment. Among patients receiving placebo, in 17% of patients (one out of six) an EASI-50 improvement was seen at week four.

As reported at AAD 2018, the pooled, mean EASI scores over time versus placebo show a sustained effect for weeks after completion of dosing:

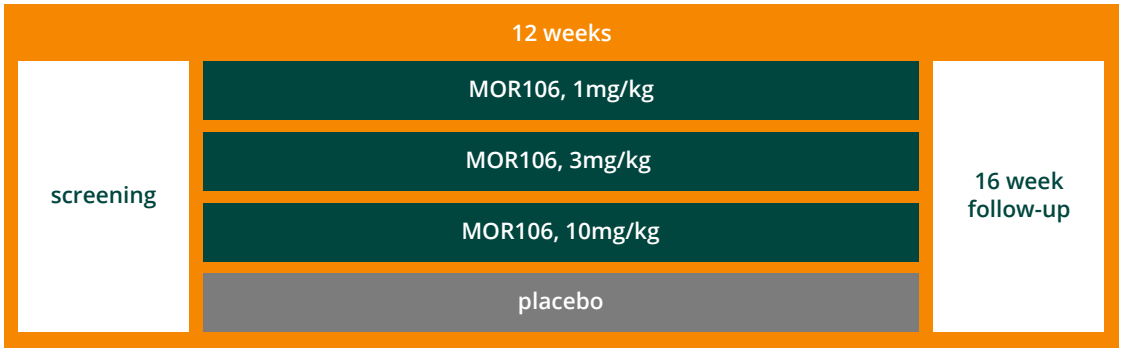
MOR106 Ph1b
EASI, % change from baseline, pooled data, median



Following the results of MOR106, together with Morphosys and then Novartis, we established a Phase 2 development program to enable a Phase 3 program that will be conducted by Novartis. We conduct all of the Phase 2 clinical research, with funding from Novartis.

We initiated the Phase 2 IGUANA trial with MOR106 in May 2018. This trial is aimed at evaluating various dosages and administration frequency. In the IGUANA Phase 2-trial, approximately 240 patients with moderate-to-severe AtD are treated over a 12-week period with one of three different intravenous doses of MOR106 (1, 3 or 10 mg/kg) or placebo using two different dosing regimens, in multiple centers across Europe. The placebo controlled, double-blind study will evaluate the efficacy, safety and pharmacokinetics of MOR106. Dosing at two or four-week intervals will be evaluated over the 12-week treatment period, followed by a 16-week observation period. The primary objective will be assessed by the percentage change from baseline in EASI score at week 12.

IGUANA Phase 2 trial

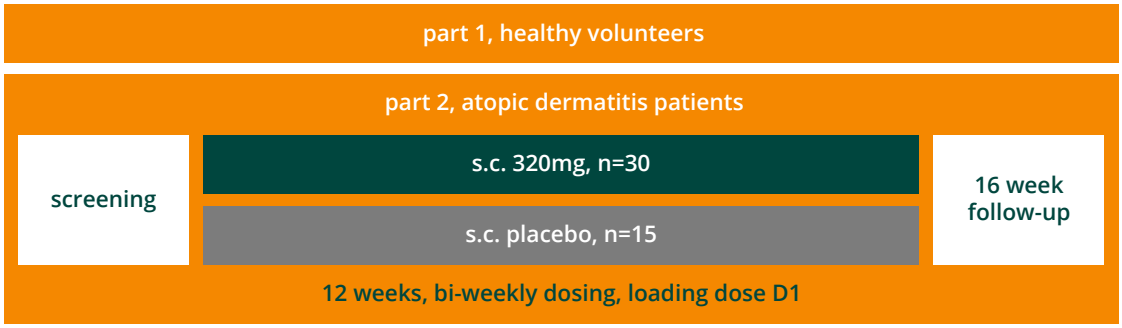


- ~240 patients with moderate-to-severe AtD
- IV infusion at 2 or 4 week intervals for 1 & 3 mg/kg
- IV infusion at 2 week interval for 10 mg/kg
- Recruitment in Europe
- Primary endpoint: % change from baseline in EASI score at week 12

We expect to report the primary analysis from IGUANA in 2019.

In September 2018 we initiated a Phase 1b bridging trial testing a subcutaneous formulation of MOR106. This bridging trial is a parallel-design Phase 1 clinical trial conducted in two parts. Part 1 is a single center, randomized, open-label trial in healthy volunteers who are treated with different single dose levels of MOR106 administered subcutaneously or intravenously. Part 2 is a multiple center, randomized, placebo-controlled, multiple dose trial in patients with moderate to severe AtD who will be treated subcutaneously for 12 weeks. Safety and tolerability, pharmacokinetics and occurrence of anti-drug-antibodies after administration of MOR106 will be assessed as endpoints. In addition, the efficacy of MOR106 will be explored in subjects with moderate to severe AtD.

MOR106 Phase 1b bridging trial



- Primary endpoints: safety, tolerability, PK
- Recruitment in EU
- Secondary endpoints Part 2: EASI/other efficacy scores, patient reported outcomes

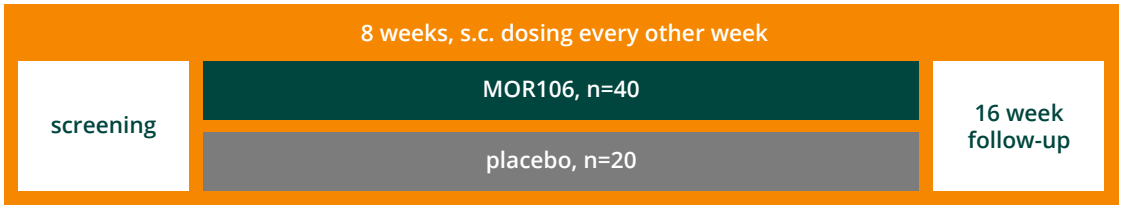
We expect to report the topline results of this trial in 2019.

We initated a Phase 2 trial testing a subcutaneous formulation of MOR106 in combination with topical corticosteroids in patients with moderate to severe AtD. This trial, called GECKO, aims to randomize 60 patients who receive either a dose of MOR106 or placebo subcutaneously for 8 weeks, together with topical steroids, with a 16 week follow-up period foreseen. The primary endpoint of GECKO is the incidence of treatment emergent adverse events and severe adverse events through day 169.

Pharmacokinetics and occurrence of anti-drug-antibodies after administration of MOR106 will be assessed as secondary endpoints. In addition, the efficacy of MOR106 will be explored.

Recruitment for GECKO will take place in the U.S. and Canada and will serve as a first trial under an IND to be submitted to the FDA.

GECKO Phase 2 trial

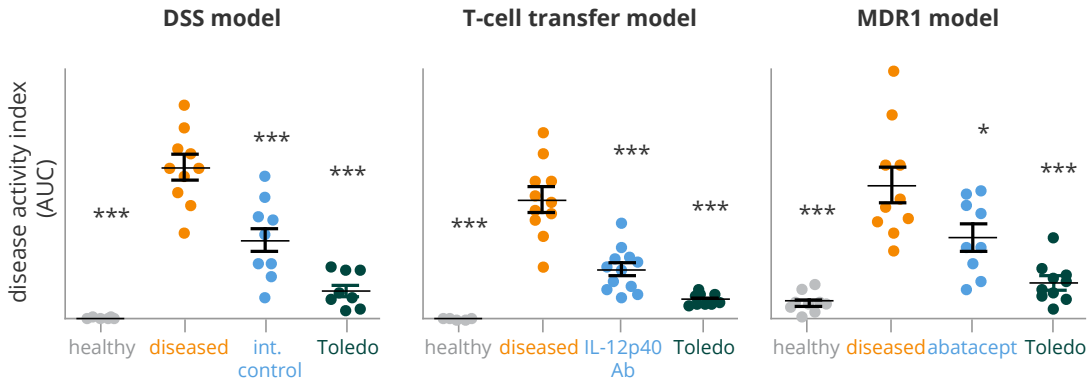


- Patients with moderate-to-severe AtD, remain on topical steroid
- Double (loading) dose on day 1 only
- Primary endpoint: incidence of TEAEs and SAEs through day 169
- Secondary measures: PK & immunogenicity
- Exploratory measures: EASI and other efficacy scores
- Recruitment in Canada & U.S.

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 the class.

Below are the results for the first Toledo compound, GLPG3312, in three preclinical models, each demonstrating a different mechanism of IBD. These results were first reported at our R&D Update in October 2018. Prior to discovering Toledo, no single compound showed activity in all three of these preclinical models in our research:



*p < 0.05; ***p < 0.001

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 up to 76 adult healthy male volunteers.

In the second half of 2019, we aim to report topline results for GLPG3312 as well as initiate a Phase 1 trial with the second Toledo compound, GLPG3970.

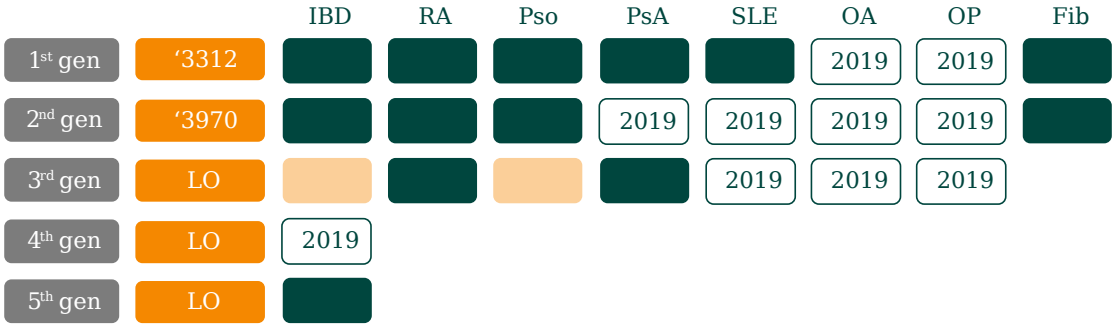
The development strategy for Toledo is to advance multiple Toledo candidates across different selectivity profiles, and to test these in a broad panel of *in vivo* disease models targeting a number of indications.

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, GLPG3312, has delivered promising preclinical results in IBD, RA, Pso, PsA and Fib, and we expect to generate preclinical data in SLE, OA and OP in 2019. The second generation, GLPG3970, has shown results in IBD, RA, Pso, SLE and fibrosis, with preclinical read-outs for PsA, SLE, OA and OP planned for 2019. The third, fourth and fifth generation are currently in the lead optimization (LO) stage.

As a next step, we plan on setting up multiple parallel-running proof-of-concept (PoC) trials in patients to investigate swiftly and efficiently the potential across the different Toledo compounds. A PoC trial for the 1st generation Toledo compound, GLPG3312, is planned for late 2019, pending satisfactory results of the Phase 1 trial currently ongoing.

Our Toledo development strategy

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



CF program

Cystic fibrosis (CF) is a rare, life-threatening, genetic disease affecting the lungs and the digestive system, impacting approximately 80,000 patients worldwide.

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 will be responsible for all future activities and will bear all costs associated with the portfolio in CF going forward.

We are eligible to receive up to $200 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.

Risk factors

Description of the risks of which investors should be aware

we **raise** the bar.

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, MOR106, and GLPG3312. We cannot give any assurance that any product candidate will successfully complete clinical trials or receive regulatory approval, which is necessary before it can be commercialized.

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

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

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

The rates at which we complete our scientific studies and clinical trials depend on many factors, including, but not limited to, patient enrolment. Patient enrolment is a significant factor in the timing of clinical trials and is affected by many factors including competing clinical trials, clinicians' and patients' perceptions as to the potential advantages of the drug being studied in relation to other available therapies and the relatively limited number of patients. Any of these occurrences may harm our clinical trials and by extension, our business, financial condition and prospects.

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

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

Based on 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.

In addition, there may be dose limitations imposed for male patients that are prescribed filgotinib, if approved. In connection with the DARWIN clinical program, we agreed with the FDA to exclude the 200 mg filgotinib daily dose for male subjects in the United States; males received a maximum daily dose of 100 mg in the U.S. sites in these trials. This limitation was not imposed by any other regulatory agency in any other jurisdiction in which the DARWIN clinical program is being conducted. We agreed to this limitation because in both rat and dog toxicology studies, filgotinib induced adverse effects on the male reproductive system and the FDA determined there was not a sufficient safety margin between the filgotinib exposure at the no-observed-adverse-effect-level, or NOAEL, observed in these studies and the anticipated human exposure at the 200 mg daily filgotinib dose. Accordingly, in connection with the DARWIN 3 clinical trial, in the United States, male subjects are dosed at a daily dose of 100 mg only. Male participants in this study and their partners are required to use highly effective contraceptive measures for the duration of the study and during a washout period thereafter. As an additional safety measure, we monitor clinical laboratory changes in hormone levels for subjects in the DARWIN 3 clinical trial.

More recently generated non-clinical data showed filgotinib did not induce any macroscopic or microscopic findings in the male reproductive system in animals with higher filgotinib exposure versus previous studies.

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

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

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

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

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

Risks related to our 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, we have incurred significant operating losses. We expect to continue incurring significant research, development and other expenses related to our ongoing operations, and to continue incurring operating losses for the foreseeable future. We do not anticipate generating revenues from sales of products for the foreseeable future, if ever. Because of the numerous risks and uncertainties associated with pharmaceutical product development, we are unable to predict the timing or amount of expenses and when we will be able to achieve or maintain profitability, if ever.

We will require substantial additional future capital which may not be available to us on acceptable terms, or at all, in order to complete clinical development and, if we are successful, to commercialize any of our current product candidates. In addition, raising additional capital may cause dilution to our existing shareholders, restrict our operations or require us to relinquish rights to our product candidates or technologies. The incurrence of additional indebtedness could result in increased fixed payment obligations and could also result in certain additional restrictive covenants that could adversely impact our ability to conduct our business. In the event that we enter into collaborations and/or licensing arrangements in order to raise capital, we may be required to accept unfavorable terms, including relinquishing or licensing to a third party on unfavorable terms our rights to technologies or product candidates.

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

Risks related to our reliance on third parties

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

The collaboration arrangements that we have established, and any collaboration arrangements that we may enter into in the future, may ultimately not be successful, which could have a negative impact on our business, results of operations, financial condition and growth prospects. It is possible that a collaboration partner may not devote sufficient resources to the development or commercialization of our product candidate or may otherwise fail in development or commercialization efforts, in which event the development and commercialization of such product candidate could be delayed or terminated and our business could be substantially harmed.

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

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

As part of our strategy to mitigate development risk, we seek to develop product candidates with validated mechanisms of action and we utilize biomarkers to assess potential clinical efficacy early in the development process. This strategy necessarily relies on clinical data and other results obtained by third parties. If the third-party data and the results that we rely on prove to be inaccurate, unreliable or not applicable to our product candidates, we could make inaccurate assumptions and conclusions about our product candidates and our research and development efforts could be materially adversely affected.

Risks related to our competitive position

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

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

Risks related to our intellectual property

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

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

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

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

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

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

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

Risks related to our organization, structure and operation

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

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

We currently have a limited 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.

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

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

The United Kingdom held a referendum on 23 June 2016 in which a majority voted for the United Kingdom's withdrawal from the European Union (referred to as "Brexit"). While the United Kingdom's withdrawal from the European Union is expected to take effect shortly after the date of publication of this report, significant uncertainty remains regarding the future relationship between the United Kingdom and the European Union, in particular if the United Kingdom and the European Union fail to reach agreement on the terms of such withdrawal (referred to as a "No-Deal Brexit"). The effects of Brexit have been and are expected to continue to be far-reaching. Brexit and the perceptions as to its impact may adversely affect business activity and economic conditions in Europe and globally and could continue to contribute to instability in global financial and foreign exchange markets. Brexit could also have the effect of disrupting the free movement of goods, services and people between the United Kingdom and the European Union. In the event of a No-Deal Brexit, we anticipate incurring additional costs for customs duties and declarations, and handling and storage of supplies. In addition, we expect that Brexit could lead to legal uncertainty and potentially divergent national laws and regulations. If the United Kingdom significantly alters its regulations affecting the pharmaceutical industry, we could face significant new costs and altered regulations could also add time and expense to the process by which our product candidates receive regulatory approval in the United Kingdom and European Union. Given these possibilities and others we may not anticipate, as well as the lack of comparable precedent, the full extent to which our business, results of operations and financial condition could be adversely affected by Brexit is uncertain.

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

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

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

When taken in combination with tax losses carried forward and research and development incentives mentioned above, we expect that this will result in a long-term low rate of corporation tax for us. It should be noted however that the Belgian corporate income tax reform introduced as of assessment year 2019 a *de facto* minimum taxable base, whereby the existing tax attributes have to be allocated into 2 so-called "*baskets*": a first basket which contains the tax deductions that can be applied without any restrictions and a second basket which contains the tax deductions that are subject to restrictions. The first basket contains (in order of deduction) the non-taxable items (such as deductible gifts), current year dividends received deduction (DRD), grandfathered patent income deduction (PID), current year innovation income deduction (IID) and investment deduction. The second basket contains (in order of deduction and subject to the restrictions as mentioned hereunder) the current year notional income deduction (NID), DRD carry-forward, IID carry-forward, tax loss carry-forward, unlimited NID carry-forward and NID carry-forward subject to the 7-year limitation. The taxable base can be reduced without any limitation with the deductions contained in the first basket. Any remaining taxable basis below €1 million can be fully compensated with deductions contained in the second basket. If the remaining taxable basis exceeds €1 million, the excess above €1 million can only be compensated with deductions of the second basket up to 70%. Such minimum taxable basis may have an impact on our future cash flows. At the end of 2018 we had €195.4 million of carryforward innovation income deduction in Belgium.

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

We have received several technological innovation grants to date, to support various research programs from an agency of the Flemish government to support technological innovation in Flanders. If we fail to comply with our contractual obligations under the applicable technological innovation grant agreements, we could be forced to repay all or part of the grants received. Such repayment could adversely affect our ability to finance our research and development projects.

We annually establish a detailed budget that is submitted to the board of directors for review and approval. Our performance compared to the budget is continuously monitored by our executive committee and is discussed with the board of directors at least once per quarter. For the establishment of our financial information, we have processes and methods in place that enable the preparation of consolidated financial statements for our annual and quarterly reporting. Our management reporting systems – which include an advanced integrated ERP system – secure the generation of consistent financial and operational information, allowing management to follow-up our performance on a daily basis.

Market risks relating to the Galapagos shares

We have identified the following major market risks:

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

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

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

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

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

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

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

General statement about Galapagos' risks

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

CSR report

Improving lives

we **raise** the bar.

Our commitment

Our commitment to Corporate Social Responsibility (CSR) is to find new ways to improve healthcare and quality of life for patients and their families with our novel mode of action investigational medicines. Our core business is discovery of breakthrough therapies for diseases with large unmet medical needs in primarily inflammation and fibrosis. On a daily basis, we aim to make a lasting contribution to society with our discovery and clinical development efforts. Filgotinib, GLPG1690, and MOR106 are the first clinical examples of how our approach to finding novel medicines may be able to make a difference for patients in many disease areas. We have a substantial pipeline of novel candidate medicines in inflammation and fibrosis. This approach addresses the disease itself rather than just treating the symptoms. In this way, we aim to make a lasting positive contribution to society through discovery of breakthrough therapies. We aim to bring impactful medicines to patients ourselves.

Implementing our CSR initiatives

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

Starting in 2019, the audit committee of the board of directors will regularly review CSR initiatives, ensuring that we implement our planned initiatives and communicate them effectively and accurately to our employees and shareholders. Our CSR report discloses the main highlights of our CSR initiatives but does not reflect all of our ongoing initiatives and procedures. As part of our commitment to CSR, we monitor new developments and practices and will consider implementing new initiatives that could further enhance our CSR activities in the future.

Our CSR report focuses on:

- Improving people's lives
- Diversity and human capital management
- Business ethics
- Environment, health, and safety

This CSR report provides the non-financial information required by article 96, §4 and article 119, §2 of the Belgian Companies Code. We have further considered reporting frameworks, such as the Global Reporting Initiative (GRI) Sustainability Reporting Standards (SRS) and the 'European Federation of Financial Analysts Societies Guideline for the Integration of ESG into Financial Analysis and Corporate Valuation' and used different elements as an inspiration to build this report.

For a discussion of risks, please see the section called "Risk Factors" in this Annual Report.

The KPIs for our new drug development, handled in the section Improving People's Lives, are the most material non-financial KPIs in our report.

Improving people's lives

We seek to discover, develop, and eventually commercialize medicines with novel modes of action, addressing disease areas of high unmet medical need. Our main mission is to improve lives with medicines which offer new treatment options to patients. Our pipeline comprises programs ranging from discovery to Phase 3 clinical trials in inflammation, fibrosis, osteoarthritis (OA), and other indications.

There is a real need for medicines with novel mechanisms of action. 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 clinical outcomes. New mechanism of action medicines offer opportunity for new clinical options for caregivers and patients, and could possibly decrease the burden for society, including lowered healthcare costs.

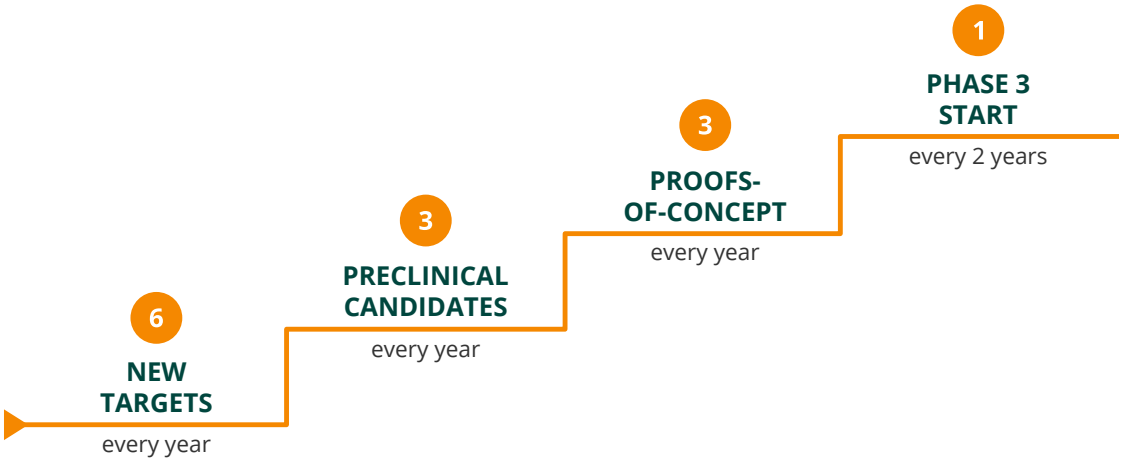
Our highly flexible target and drug discovery platform has been applied across many therapeutic areas, and our pipeline today ranges from inflammation to fibrosis candidate drugs.

Almost all of these programs are based on inhibiting targets which were identified using our proprietary target discovery platform. Using human primary cells, we discover which proteins ('targets') play a key role in causing diseases. We then discover and develop small molecules that inhibit these targets, restore the balance, and thereby positively influence the course of the disease. This approach addresses the disease itself rather than just treating the symptoms. In this way, we aim to make a lasting positive contribution to society through discovery of breakthrough therapies.

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

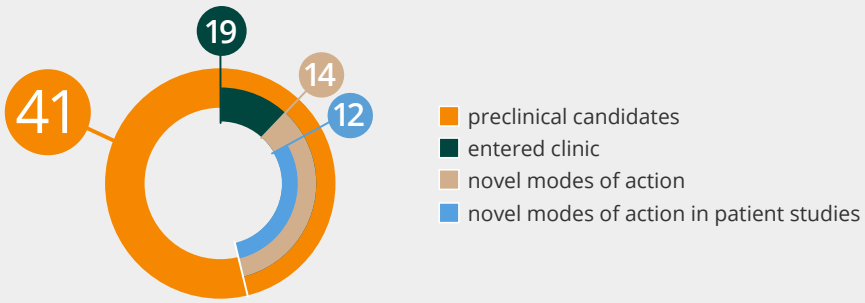
R&D goal



We aim to initiate a Phase 3 trial every other year, while conducting three proof-of-concept trials, delivering three preclinical product candidates and six new validated targets every year following the determination of more stringent, general target validation criteria in 2018. We aim to select promising programs for internal development and commercialization and establish ourselves as a fully integrated biopharmaceutical company.

Improving people's lives - 2018 actions

- We delivered 2 new validated targets, compared to our goal of 6
- We nominated 4 new preclinical candidates, all with a novel mechanism of action, compared to our goal of 3
- We started 4 proof-of-concept trials, compared to our goal of 3
- We initiated the ISABELA 1 & 2 Phase 3 program, meeting our goal of 1
- These successes brought us to 41 preclinical candidates since 2009, most of which have novel modes of action. Of these 19 have entered the clinic, 12 with novel modes of action



- We dedicated 50 FTEs to discovery efforts exploring the Toledo class of targets in inflammation

Future ambitions

- Expand capabilities to support more than 40 planned clinical trials in 2019
- Continue to deliver on our annual research & development ambition targets
- Invest in our target discovery capabilities to maintain our competitive edge in novel targets

Diversity and Human Capital Management

We believe that attracting, developing, and retaining human capital is key to our success in developing novel mechanism of action drugs which can make a difference for patients. We are dedicated to ensuring diversity of our workforce, while continuously striving to offer our employees a nurturing and rewarding work environment which facilitates their professional success. With the goal to execute more than 40 clinical trials in 2019, our organization continues to expand and build capability.

Approximately 125 new employees joined us in 2018, an increase of 21% versus 2017. Most new employees started in our Drug Development departments such as Clinical Operations, Biometrics, Medical Science, Clinical Pharmacology, and Project Management, but we also filled key positions in the new Commercial team. The recruitment of new colleagues will enable us to bring our novel product candidates further through development, with the ultimate goal to obtain approval for these therapies for patients as quickly as possible.

We expect that our Drug Development departments will continue to grow rapidly and, in 2019, our Commercial team will expand substantially as well. We continue to invest in Drug Discovery and our Shared Services departments. Expansion of staff is foreseen at all sites, including Basel, Switzerland and Boston, Massachusetts, U.S. We seek approximately 130 additional colleagues in 2019 across the business in order to meet our business goals.

Diversity

We aim to develop a balanced workforce across a number of criteria such as gender, nationality, ethnicity, experience level, and disability. Our Executive Committee reviews the diversity of the workforce annually and is committed to creating equal opportunities for inclusion of diverse talent.

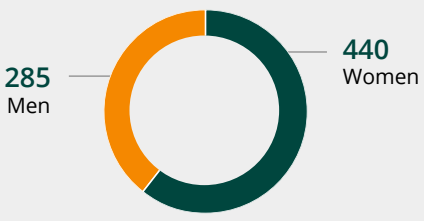
Diversity - actions 2018

In 2018 we report a healthy balance in diversity, which continues to improve.

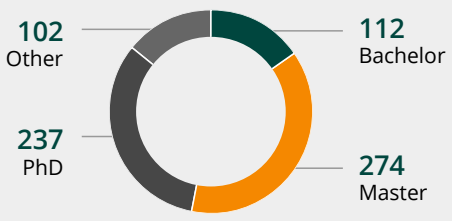
Number of employees Galapagos group

725

gender:



education:



Average age:	Number of employees older than 45:	Nationalities:	Average years of service:	Employee turnover:
41	269	38	7	10.7%

- Our board of directors currently comprises seven members of whom three are female (we refer to the section Board of directors of our Annual Report 2018 for further information on each board member)
- We attracted 125 new employees in 2018, an increase of 21% versus 2017
- We report stability in gender mix evolution, with 61% of staff overall being female in 2018, 53% of mid-level staff and 33% of senior management level
- Across all functions, over 10% of internal staff at Galapagos R&D experienced a personal growth step through promotion, extended responsibilities, or new project assignments in 2018
- We became more international with staff from 38 nationalities (compared to 25 in 2017)
- An additional ombudsperson ("vertrouwenspersoon") was hired at our Mechelen site

Diversity future goals

- Continue the commitment to build a diverse workforce

Human capital management

We invest in the development of employee knowledge, skills, and competencies to continue to deliver innovative science at our company. Furthermore, we aim to ensure that training of employees takes place on all handling of hazardous materials, laboratory and other safety aspects, and other relevant policies for conducting our business.

We have policies in place to ensure the well-being of our employees, for example, addressing different forms of leave and allowing flexible working. We aim to ensure an inclusive, open, and supportive professional work environment across our international locations. We organize regular engagement meetings for research and development staff 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 other employees at different sites. We organize an all-staff day to reflect upon our core values and last year's day was reserved for charitable activities.

We use a variety of indicators to measure employee satisfaction, including the rates of absenteeism and turnover among our employees. These and other indicators allow us to consider actions to optimize our work environment or working practices.

Human capital management - actions 2018

- Strengthened our human resources team to build and implement an innovative workplace strategy
- Streamlined the onboarding process across sites, designation of mentor for each new employee
- Identified four core values which we wish to maintain and develop within our company, and which are designed to foster employee engagement and work satisfaction: *Act as a pioneer*, *Raise the bar*, *Embrace change*, and *Make it happen*
- Incorporated a focus on our core values in our recruiting, onboarding, and development programs for employees
- Across all functions, over 10% of internal staff experienced a personal growth step through promotion, extended responsibilities, or new project assignments in 2018
- Raised EUR 27,578 for Sjarabang (a charity) in Mechelen, planted city gardens and created dolls for a Unicef project in Romainville, sported with kids, refurbished elderly homes and taught asylum seekers in the Netherlands the Dutch language during corporate sponsored charity activities
- Implemented a new travel policy to streamline policy with travel needs
- 1.4% annual absenteeism reported by Mechelen, Leiden, Romainville sites
- 10.7% turnover of employees for the Galapagos group
- 93% of employees are trained in our codes of conduct, including insider trading, and other policies & procedures required by Sarbanes Oxley

Human capital management future goals

- Deploy a senior leader-led program to foster culture and build leadership capability across the group
- Continue to incorporate our core values into how we attract, onboard, and develop employees
- Revisit our performance management approach to deliver a meaningful and impactful way to drive performance, support personal growth, build a strong company culture, and have a competitive reward & recognition

Business ethics

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

We believe that ethical behavior when discovering and developing drugs touches particularly on these key areas for us in this point in our corporate development: preclinical and clinical testing, expanded access to drugs currently in development, and our codes of ethical conduct while doing business.

Preclinical testing

We are required by law to carry out preclinical testing of our product candidates. For preclinical development studies including those that help assess safety, pharmacology, toxicology, and absorption, distribution, metabolism and excretion of our product candidates, we strive to follow the "Three Rs" (3Rs) of Refinement, Reduction, and Replacement in our preclinical testing involving use of animals. For example, we plan to use more in silico (computer modelling) and in vitro (cellular testing) designs and approaches for assessing pharmacodynamics, for example, DEREK software and in vitro micronucleus assay for evaluating genotoxicity, in vitro hERG assay for evaluating cardiotoxicity. These examples show how we reduce and replace preclinical testing involving use of animals.

In addition, we follow Directive 2010/63/EU[6] in Europe with regards to preclinical 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 preclinical testing, and we monitor animal welfare in the European laboratories that we have engaged on a regular basis. We require compliance with local animal welfare regulations in laboratories outside of the European Union. In the United States, for example, we work only 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) and Good Pharmacovigilance Practice guidelines of the International Council for Harmonisation. Our adherence to these internationally recognized guidelines ensure 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, the EU Directive on Clinical Trials[7], etc.

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 the trial subject will always supersede the interests of science, commerce, as well as those of society.

[6] Directive 2010/63/EU of the European Parliament and of the Council of 22 September 2010 on the protection of animals uses for scientific purposes, OJ L 276, 20 October 2010

[7] Directive 2001/20/EC of the European Parliament and of the Council of 4 April 2001 on the approximation of the laws, regulations and administrative provisions of the Member States relating to the implementation of good clinical practice in the conduct of clinical trials on medicinal products for human use, OJ L 121, 1 May 2001

Our trials are only initiated if they are scientifically and medically justified and when they have external validation by clinical experts, and will always be reviewed by local health authorities and ethical committees before they are initiated. Trial participants (or the legally authorized representative) must give written consent after being properly informed of the trial, including the 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 taken.

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 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 or at relevant scientific meetings and congresses. As a publicly listed company we may also have obligations to communicate trial results by other means, such as via press releases.

Expanded access policy

In our pursuit of the development and commercialization of novel medicines that will improve people's lives, we encourage patients to participate in clinical trials whenever possible. These clinical trials are critical to developing the information (or data) needed to evaluate investigational products and seek their approval by health authorities, such as the FDA and the EMA. In rare cases, patients are unable to participate in clinical trials and have exhausted all available treatment options. In these cases, Galapagos may consider providing an investigational product 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.

Our code of business conduct and ethics

We have established a code of business conduct and ethics (the code) 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. The code is available at www.glpg.com/charters-and-codes.

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.

Business ethics - actions 2018

- We completed an Animal Welfare Agency audit in Romainville. There were no citations recorded
- We formalized our clinical trials ethics policy
- We established a compassionate use policy, in compliance with the 21st Century Cures Act in the U.S.
- We trained 93% of all employees in our codes of conduct, including insider trading, and other policies required by Sarbanes-Oxley
- We were not informed of any breaches of our code of business conduct and ethics in 2018

Future goals

- Promote the 3R's further in preclinical testing
- Monitor and adjust training to ensure full compliance with our business ethics guidelines

Environment, health, and safety

We are committed to acting in a sustainable and responsible manner by keeping our environmental impact to a minimum, reducing waste, and handling it in a safe and responsible way. We operate in a highly regulated sector and are subject to numerous laws and regulations pertaining to impact on the environment, well-being of employees, safety, and management of laboratory waste, which also is audited. The effectiveness of our Environmental, Health, and Safety (EHS) efforts is anchored in the shared responsibility of our staff in ensuring a safe, healthy and environmentally friendly work environment: every employee is responsible for protecting people and environment, in and around his or her workplace.

We currently have a limited impact on the environment, as at present, we have no production sites, we own no buildings, and our administrative facilities have only minor environmental liabilities such as waste handling and emissions from fume hoods. Nonetheless, we aim to reduce our environmental impact further by recycling and replacing paper for digital means altogether. 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 other relevant policies for conducting our business.

We also take reasonable and practical initiatives to eliminate accidents and ill health and to provide a safe work environment and processes. Our goal is to have work form part of a satisfying life, which is to the benefit of both the individual and the organization.

Environmental, health, and safety - actions 2018

- We hired a full time EHS Manager for the group with the mandate to assess current EHS efforts and establish an improvement roadmap
- We established a company-wide EHS framework based on ISO 45001 (HS)+ISO 14001 (E)
- There were no safety incidents reported, no recordable injury counts, no fatalities, and no days away from work reported due to safety issues in 2018
- We completed an environmental audit in Leiden and a Federal Agency for nuclear control audit in Mechelen. There were no major citations recorded in these audits, and all sites were compliant with applicable EHS laws & regulations in 2018
- We completed compliance reviews for health and safety and environment in each of the Leiden, Mechelen, and Romainville sites, with a number of improvement items identified. Following the findings, we set priorities and prepared action plans for each site, completing most actions
- At our Mechelen site we decommissioned one of our two radio-isotope laboratories. Fluorescence and luminescence-based technologies were used instead and we did not use radioisotopes in 2018. This further reduced our toxic and dangerous waste flows
- We rolled out a company-wide implementation of Skype video meetings in an effort to reduce business travel by employees

Future goals

- We organized exclusive use of green energy at our Mechelen site starting in 2019
- We plan to establish green car options in our company car fleet to start in 2019
- Investigate the possibilities to expand green energy use to other sites
- Make employees more aware of the need to limit the environmental impact in their workplaces
- We aim to use fewer radio-isotopes
- Establish further EHS key performance indicators for internal monitoring and external reporting

Corporate governance

Corporate governance at Galapagos in 2018

we **raise** the bar.

Galapagos' corporate governance policies

We have adopted the Belgian Corporate Governance Code 2009 (which can be consulted on www.corporategovernancecommittee.be) as our reference code. Galapagos NV's board of directors approved a corporate governance charter (which is available on our website, www.glpg.com). The corporate governance charter applies in addition to the law, Galapagos NV's articles of association and the corporate governance provisions included in the Belgian Companies Code and the Belgian Corporate Governance Code 2009.

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

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

Board of directors of Galapagos NV

Composition of Galapagos NV's board of directors

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

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

Werner Cautreels, Ph.D. has served as a member of our board of directors since 2009. Dr. Cautreels was the President and Chief Executive Officer and member of the board of Selecta Biosciences, Inc. from 2010 until December 2018. He is a co-founder and board member of Accoy Pharmaceuticals since 2016. Previously, Dr. Cautreels joined Solvay Pharmaceuticals SA in 1998 where he was Global Head of R&D and later Global Chief Executive Officer from 2005 onwards, until it was acquired by Abbott Laboratories Inc. in February 2010. Prior to joining Solvay he was employed by Sanofi SA, Sterling Winthrop, Inc. and Nycomed Amersham PLC in a variety of R&D management positions in Europe and in the United States from 1979 to 1998. Dr. Cautreels was a director of Innogenetics NV and ArQule, Inc. from 1999 until 2006, and of Seres Therapeutics Inc. from 2012 until 2016. He

was the President of the Belgian-Luxemburg Chamber of Commerce for Russia and Belarus until June 2010. He graduated from the University of Antwerp, with a Doctorate in Chemistry, specializing in mass spectrometry. He received his management and financial education from the Harvard Business School.

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

Katrine Bosley has served as a member of our board of directors since 2013. Ms. Bosley 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 currently serves on the boards of Genocea Biosciences, Inc., the Biotechnology Innovation Organization and of the Massachusetts Eye and Ear Institute.

Christine Mummery, Ph.D. has served as a member of our board of directors since 30 September 2015. Dr. Mummery has served as a Professor of Developmental Biology and Chair of the Department of Anatomy and Embryology at the Leiden University Medical Centre (LUMC) since 2008 and a Professor of Vascular Modelling at the Technical University of Twente in the Netherlands since September 2015. In 2007, she was a Radcliffe fellow at the Harvard Stem Cell Institute and Massachusetts General Hospital when human-induced pluripotent stem cells were being developed, and she was the first to derive these from patients in the Netherlands. In 2002, she became a Professor at the Utrecht University Medical Centre in the Netherlands. She was a postdoctoral fellow from 1981 to 1984 at the Hubrecht Institute in Utrecht, where she later also served as a staff scientist and group leader until 2008. Dr. Mummery obtained her B.S. in Physics, Electronics, and Mathematics at the University of Nottingham and her Ph.D. in BioPhysics at London University in the United Kingdom. Her primary research focus is currently the development and use of stem cells in cardiovascular development and disease. She served on the Ethical Councils of the Dutch Ministry of Health, is member of the Royal Netherlands Academy of Arts and Sciences (KNAW), the KHMW, editor of the Cell Press journal Stem Cell Reports, (vice) president of the International Society for Stem Cell Research and past-president of the International Society of Differentiation. She was co-founder of Pluriomics BV (now Ncardia BV). In addition, she chairs the executive board of the Institute for human Organ and Disease Model Technologies (hDMT), a non-profit R&D institute of which the LUMC is a founding partner. She is a review committee member of the European Research Council, the Leducq Foundation, the Wellcome Trust (*ad hoc*) and the Heineken Jury Prize (KNAW). She is further on the scientific advisory boards of the Gurdon Institute (Cambridge, UK), Stem Cell Australia and the Allen Institute, Seattle.

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.

About Galapagos NV's board of directors

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

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

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

In 2018, the following persons were members of the board: Dr. Parekh (Chairman), Mr. Van de Stolpe (CEO), Dr. Van Barlingen (until 24 April 2018), Dr. Cautreels, Mr. Rowe, Ms. Bosley, Dr. Mummery and Dr. Kerr; the latter four directors were appointed as independent directors within the meaning of article 526*ter* of the Belgian Companies Code. Dr. Cautreels, who had previously served as an independent director, no longer met the independence criteria upon his reappointment for a fourth consecutive term on 24 April 2018 because article 526*ter*, 2° of the Belgian Companies Code only allows for a maximum of three consecutive terms for independent directors.

In 2018, the board thus consisted of three women and five men (as from 24 April 2018: four men), representing four different nationalities and different age categories.

Name	Nationality	Year of birth
Onno van de Stolpe	**Dutch**	**1959**
Rajesh Parekh	**British**	**1960**
Harrold van Barlingen(1)	**Dutch**	**1965**
Werner Cautreels	Belgian	1952
Howard Rowe	British and U.S.	1969
Katrine Bosley	U.S.	1968
Christine Mummery	British and Dutch	1953
Mary Kerr	British	1961

(1) Until 24 April 2018

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

During 2018, Galapagos NV complied with the Law of 28 July 2011 with respect to gender diversification in the board of directors, and the board will continue to monitor future compliance. In proposing candidates, particular consideration is given to diversity in gender, age, nationality, educational and professional background, as well as complementary skills, knowledge and experience.

The board's role is to pursue the long-term success of Galapagos. The board does so by assuming the authority and responsibilities assigned to it by Belgian corporate law and by combining entrepreneurial leadership with appropriate risk assessment and management. Each of the directors' expertise and experience is exemplified by the varied professional activities they carry out and offices they hold. During its meetings in 2018, the board dealt with matters pertaining to, among other things, our strategy and growth, the evaluation of business development opportunities, convening of the shareholders' meeting and preparation of resolutions to be submitted for approval to the shareholders, review and approval of our financial reporting and assessment of the board and its committees.

In 2018, the board of directors held four regular meetings, eight meetings by telephone conference to discuss specific matters and two meetings in the presence of a notary (relating to the issuance of Warrant Plan 2018 and Warrant Plan 2018 RMV, and the issuance of shares with cancellation of the shareholders' preferential subscription rights). One meeting in the presence of a notary was attended by Dr. Cautreels and Dr. Van Barlingen via telephone conference; all other directors were represented by proxy. The other meeting in the presence of a notary was attended by Mr. Van de Stolpe and Dr. Cautreels; all other directors were represented by proxy.

The attendance rate for the other meetings was as follows: Dr. Parekh: 67%; Mr. Van de Stolpe: 92%; Dr. Cautreels: 100%; Dr. Van Barlingen: 100%; Mr. Rowe: 83%; Ms. Bosley: 75%; Dr. Mummery: 92% and Dr. Kerr: 92%. The overall attendance rate was 88%. 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.

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

About the executive committee of Galapagos NV

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

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

On 31 December 2018, the executive committee consisted of five people: Mr. Van de Stolpe (CEO, also executive director), Mr. Filius (CFO and COO), Dr. Wigerinck (CSO), Dr. Hoekema (CBO), and Dr. Abi-Saab (CMO), representing four different nationalities and different age categories.

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

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

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

Audit committee

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

At the end of 2018, the audit committee consisted of the following three directors: Mr. Rowe (chairman), Dr. Kerr and Dr. Cautreels . Dr. Kerr replaced Dr. Van Barlingen on the audit committee as from 20 March 2018. Mr. Rowe took over from Dr. Cautreels as audit committee chairman on 23 April 2018. Dr. Cautreels did remain in office as audit committee member. All members of the audit committee are non-executive directors, the majority of whom are independent within the meaning of article 526*ter* of the Belgian Companies Code. The chairman is an independent non-executive director. All members of the audit committee have extensive experience in the life sciences industry. Dr. Cautreels 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 2018, the audit committee held seven meetings, in which it dealt with matters pertaining to, among other things, audit review, risk management, monitoring financial reporting, the monitoring of Sarbanes-Oxley compliant internal and external audit systems and corporate social responsibility initiatives. The audit committee acts as a collegial body. The overall attendance at the audit committee meetings in 2018 was 100%. Some of the meetings were attended by the statutory auditor.

Nomination and remuneration committee

The nomination and remuneration committee's role is twofold: providing recommendations to the board of directors regarding the remuneration policy of Galapagos and the remuneration of directors and members of the executive committee, and selecting the appropriate candidates and making recommendations to the board of directors in relation to the appointment of directors and members of the executive committee.

At the end of 2018, 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. Mr. Rowe replaced Dr. Cautreels on the nomination and remuneration committee as from 20 March 2018. The committee has the necessary expertise in the area of remuneration policy.

The nomination and remuneration committee meets at least twice per year. In 2018, the nomination and remuneration committee held three meetings, dealing with, among other things, matters pertaining to grants of warrants and bonuses, the nomination and remuneration of directors and salary increases. The nomination and remuneration committee acts as a collegial body. The overall attendance rate at the nomination and remuneration committee meetings in 2018 was 88%. Mr. Rowe's attendance rate was 50% whereas the other committee members' attendance rates were all 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		*
Werner Cautreels	•	
Howard Rowe(1)	*	•
Katrine Bosley(1)		•
Christine Mummery(1)		
Mary Kerr(1)	•	

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

Galapagos NV's share capital and shares

Share capital increases and issue of shares by Galapagos NV in 2018

On 1 January 2018, the share capital of Galapagos NV amounted to €275,509,753.48 represented by 50,936,778 shares. In the course of 2018 there were four capital increases resulting from the exercise of warrants, resulting in the issuance of 567,270 new shares, an increase of the share capital by €3,068,930.70 and an increase of the issuance premium account by €4,587,747.80. In addition, on 17 September 2018, Galapagos NV completed the offering in the U.S. of 2,961,373 new shares in the form of American Depositary Shares at a price of $116.50 per share. This resulted in a share capital increase of €16,021,027.93 and an increase of the issuance premium account by €280,167,119.82.

At the end of 2018, the share capital of Galapagos NV amounted to €294,599,712.11 represented by 54,465,421 shares.

On 19 April 2018, the board of directors issued 1,235,245 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 2018" and "Warrant Plan 2018 RMV").

The offer of warrants to the directors and to the members of the executive committee under Warrant Plan 2018 was approved by the annual shareholders' meeting of 24 April 2018. The warrants issued under Warrant Plan 2018 and Warrant Plan 2018 RMV have a term of eight years and an exercise price of €79.88.

Number and form of Galapagos shares

Of the 54,465,421 shares of Galapagos NV outstanding at the end of 2018, 6,762,666 were registered shares and 47,702,755 shares were dematerialized shares. All shares are issued and fully paid up and are of the same class.

Rights attached to Galapagos shares

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

Galapagos NV's authorized capital

In accordance with the articles of association, the extraordinary shareholders' meeting of Galapagos NV authorized the board of directors to increase the share capital of Galapagos NV, in one or several times, and under certain conditions set forth *in extenso* in the articles of association of Galapagos NV. This authorization was renewed and is valid for a period of five years from the date of publication of this renewal in the Annexes to the Belgian State Gazette, i.e. 31 May 2017. The board of directors may increase the share capital of Galapagos NV within the framework of the authorized capital for an amount of up to €82,561,764.93. In 2018, 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 19 April 2018, in connection with the issuance of Warrant Plan 2018 and Warrant Plan 2018 RMV, under which a maximum of 1,235,245 new shares can be issued for a total maximum capital increase of €6,682,675.45 (plus issuance premium); and (2) on 17 September 2018, in connection with the public offering in the U.S. of 2,961,373 new shares in the form of American Depositary Shares, resulting in an increase of the share capital by €16,021,027.93 (plus issuance premium). On 31 December 2018, an amount of €59,858,061.55 still remained available under the authorized capital.

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

Procedure for changes in Galapagos NV's share capital

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

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

Purchase and sale of Galapagos treasury shares

In accordance with the Belgian Companies Code, Galapagos NV may purchase, subject to the provisions of the Belgian Companies Code, Galapagos NV's own shares and dispose thereof by decision of the extraordinary shareholders' meeting approved by a majority of 80% of the votes cast, at a meeting where at least 50% of the share capital of Galapagos NV is present or represented. If the attendance quorum of 50% is not met, a new

extraordinary shareholders' meeting must be convened at which the shareholders may decide on the agenda items, irrespective of the percentage of share capital present or represented at such meeting. The aforementioned rules are also applicable to the acquisition of shares of Galapagos NV by its subsidiaries.

The board of directors has currently not been authorized by an extraordinary shareholders' meeting to purchase or sell its own shares.

On 31 December 2018, neither Galapagos NV nor any subsidiary of Galapagos NV held any shares in Galapagos NV, nor did any third party hold any shares in Galapagos NV on behalf of Galapagos NV or any of its subsidiaries either.

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

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

Anti-takeover provisions under Belgian law

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

Material contracts containing change of control clauses

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

The 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 exclusive license agreement among Galapagos NV, MorphoSys AG and Novartis Pharma AG ("Novartis") dated 19 July 2018 contains provisions granting certain rights to Novartis 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 3.7 (*Change of Control*), entitling Novartis, in the event of a change of control of Galapagos NV, to have Galapagos NV's representatives removed from the joint committees.

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

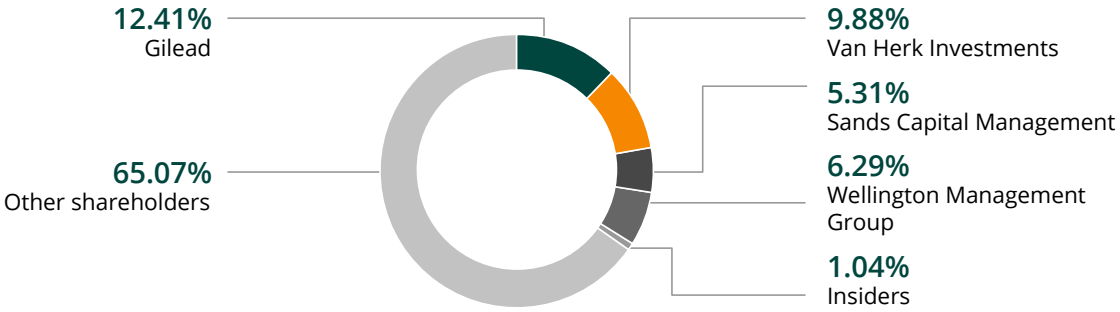
Pursuant to the Belgian Companies Code, any amendment to the articles of association, such as an increase or decrease in the share capital of Galapagos NV, and certain other matters, such as the approval of the dissolution, merger or de-merger of Galapagos NV may only be authorized with the approval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

Shareholders

Major shareholders of Galapagos NV

Based on the transparency notifications received by Galapagos NV under Belgian law and the statements of acquisition of beneficial ownership filed on Schedule 13G with the U.S. Securities and Exchange Commission under U.S. securities law, the shareholders owning 5% or more of Galapagos NV's shares on 31 December 2018 were Gilead Therapeutics A1 Unlimited Company (6,760,701 shares or 12.41%), Van Herk Investments B.V. (5,379,305 shares or 9.88%), Wellington Management Group LLP (3,427,128 shares or 6,29%) and Sands Capital Management LLC (2,894,535 shares or 5.31%).

Major shareholders on 31 December 2018



At the end of 2018, our CEO owned 478,289 shares of Galapagos NV and 786,874 warrants. The other members of our executive committee held an aggregate of 67,502 shares and 1,352,500 warrants. The other members of our board held an aggregate of 17,974 shares and 216,780 warrants. Each warrant entitles its holder to subscribe to one share of Galapagos NV.

Agreements between Galapagos NV shareholders

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

Agreements with major Galapagos NV shareholders

On 16 December 2015, we signed an exclusive license and collaboration agreement to develop and commercialize filgotinib in multiple indications with Gilead Biopharmaceutics Ireland Unlimited Company. This agreement was assigned to another affiliate of Gilead on 7 December 2017. Under the terms of the collaboration, Gilead is primarily responsible for development and for seeking regulatory approval of the licensed product. We are required to use commercially reasonable efforts as requested by Gilead to assist Gilead with certain development activities. In addition, we agreed on a 20-80 cost split for development costs of the licensed product, i.e. we will bear 20% of all development costs. We have retained certain mechanisms to give us cost protection as filgotinib advances in clinical development. We can defer our portion of the global co-development study costs if they exceed a predetermined level, which we expect to reach at the end of 2019, and this deferment would be credited against future milestones, royalties or profit sharing at our option. If there are no future amounts to be paid by Gilead, we will not be obligated to make any payments to Gilead for such deferment.

In the framework of the closing of the transaction on 19 January 2016, Gilead paid a license fee of $300 million (or €275.6 million) and made a $425 million (or €392 million) equity investment in Galapagos NV by subscribing to new shares at a price of €58 per share, including issuance premium. This resulted in Gilead owning 6,760,701 ordinary shares of Galapagos NV, representing 14.75% of the then outstanding share capital of Galapagos. In the framework of this transaction, the parties agreed to a lock-up arrangement and a standstill arrangement, both of which expired on 31 December 2017.

Remuneration report

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

The procedure for establishing the remuneration policy and setting remuneration for members of the board of directors and of the executive committee is determined by the board of directors on the basis of proposals from the nomination and remuneration committee, taking into account relevant benchmarks with appropriate peer companies and, for the members of the executive committee, also the group's performance rating system.

The remuneration of the members of the board and the grant of warrants to members of the board are submitted by the board for approval to the shareholders' meeting, and are only implemented after such approval.

The fixed and variable remuneration of the CEO (who is a member of the board) is established by the board of directors based upon an authorization from the shareholders' meeting. The fixed and variable remuneration of, and grant of warrants to, the other members of the executive committee is established by the board of directors, upon recommendation of the nomination and remuneration committee.

Our remuneration policy

Principles

The objective of our remuneration policy is to attract, motivate and retain the qualified and expert individuals that we need in order to achieve our strategic and operational objectives. In light of the remuneration policy, the structure of the remuneration package for the executive committee is designed to balance short-term operational performance with the long-term objective of creating sustainable value, while taking into account the interests of all stakeholders.

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

The remuneration of the CEO and of the other members of the executive committee consists of a fixed part and a variable part (bonus). Remuneration increases and bonuses are merit-driven and based on our performance rating system that is based on individual performance (including exceptional deliverables) in combination with our overall performance, compared to individual and corporate objectives that are established annually. The corporate objectives and the CEO's objectives are established annually by the board of directors upon recommendation of the nomination and remuneration committee, and the objectives of the other members of the executive committee are established annually by the CEO and are in relation to the corporate objectives set by the board. For 2018, the corporate objectives included elements of clinical trial progression, cash position, corporate development and business development; all of these objectives were considered to be of equal importance. The level of achievement of the objectives for the CEO is reviewed at the end of each year by the nomination and remuneration committee and discussed and finally established by the board, and the level of achievement of the objectives of the other members of the executive committee is assessed by the CEO at the end of the year in connection with appraisal discussions, discussed by the nomination and remuneration committee and finally established by the board of directors.

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

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

To be entitled to any deferred payment under the bonus scheme, the beneficiary must still be in our employ, except in case of retirement with Galapagos' consent or in case of redundancy. If employment within the Galapagos group ends because of either retirement with Galapagos' consent or redundancy, then the deferred bonus will become payable on the last day of employment of the beneficiary with the Galapagos group. In this case, the increase or decrease in the deferred bonus will be calculated in a similar manner to that quoted above with the exception that the final reference share price will be the price at the close of business on the Amsterdam/Brussels Euronext Exchange on the last working day immediately preceding the last day of employment and the final reference value of Next Biotech Index will be the value quoted at the close of trading on the day preceding the last day of employment.

In addition, exceptional special bonuses, outside the scope of the regular bonus schemes, can be considered by the board upon recommendation of the nomination and remuneration committee in the event of and for exceptional achievements.

Relative importance of the various components

The CEO's bonus under the Senior Management Bonus Scheme can be maximum 100% of the fixed part of his annual remuneration of the year for which the bonus is awarded. The aggregate bonuses of the other members of the executive committee under the Senior Management Bonus Scheme can be maximum 75% of the total amount of the fixed part of their aggregate annual remuneration of the year for which the bonus is awarded. In addition, the CEO and/or the other members of the executive committee enjoy a number of benefits such as pension payments, insurances and other fringe benefits, the monetary value of which is, however, limited.

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

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

Information on the remuneration policy for the next two years

Upon recommendation of the nomination and remuneration committee, the board of directors of 18 February 2019 resolved to update the compensation package of the members of the executive committee, based on a benchmarking exercise performed by an independent advisor. This update aims to (i) bring the short-term compensation in line with the median of the benchmark (cash and bonus), (ii) bring the total compensation in line with the median of the benchmark, and (iii) increase the share-based portion of long-term incentives, reflecting practices within relevant peer companies.

Under the updated compensation structure, a part of the variable remuneration will consist of restricted share units ("RSUs"). Each RSU reflects the value of one Galapagos share and will be payable, at the company's discretion, in cash or in shares after a vesting period of three years, subject to continued employment. If employment within

the Galapagos group ends because of either retirement with Galapagos' consent or redundancy, then the RSUs will become payable on the last day of employment of the beneficiary with the Galapagos group. The allocation of RSUs will be partly performance-based against the previous year's objectives, and partly upon the discretion of the board of directors.

The updated compensation package is being implemented per 1 January 2019 for salary increases, April 2019 for discretionary grant of RSUs and as from 2020 for objective-related RSUs and cash bonus.

Remuneration of non-executive directors of Galapagos NV

Upon recommendation of the nomination and remuneration committee, the annual shareholders' meeting of 24 April 2018 resolved that the compensation (excluding expenses) of the non-executive directors for the exercise of their mandate during the financial year ending 31 December 2018 was established as follows: (i) chairman of the board (Dr. Parekh): €80,000; (ii) other non-executive board members (Dr. Cautreels, Mr. Rowe, Ms. Bosley, Dr. Mummery and Dr. Kerr): €40,000 each; (iii) annual additional compensation for membership of a board committee (audit committee: Mr. Rowe and Dr. Van Barlingen, replaced by Dr. Kerr as from 20 March 2018; nomination and remuneration committee: Dr. Cautreels, replaced by Mr. Rowe as from 20 March 2018, and Ms. Bosley): €5,000; (iv) annual additional compensation for the chairmanship of a board committee (audit committee: Dr. Cautreels, replaced by Mr. Rowe as from 23 April 2018; nomination and remuneration committee: Dr. Parekh): €10,000.

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

In 2018, 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 2018 and Warrant Plan 2018 RMV. In accordance with the resolution of the annual shareholders' meeting of 24 April 2018, the following number of warrants were offered under Warrant Plan 2018 to the non-executive directors: Dr. Parekh: 15,000 warrants; and Dr. Cautreels, Ms. Bosley, Mr. Rowe, Dr. Mummery and Dr. Kerr: each 7,500 warrants. All directors accepted the warrants offered. These warrants have a term of eight years. The exercise price of the warrants is €79.88. 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 2018 RMV. The board of directors does not consider the above warrants as variable remuneration as defined by the Belgian Companies Code as they are not subject to any performance-related criteria.

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

In addition to the benefits set forth above, the non-executive directors also received benefits consisting of tax advisory services in 2018 for an aggregate amount of €3,700.

Remuneration of executive directors of Galapagos NV

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

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

The executive director (CEO) and the members of the executive committee are eligible for performance-based remuneration (bonus). The level of the achieved bonus is established annually by the board of directors upon recommendation of the nomination and remuneration committee (with respect to the other members of the executive committee, such recommendation is based on proposals from the CEO). The award of a bonus is merit-driven and based on the group's performance rating system that is based on annual individual performance (including exceptional deliverables) in combination with our overall performance, compared to the level of achievement of individual and corporate objectives that are established annually. The corporate objectives and the CEO's objectives are established annually by the board of directors, and the objectives of the other members of the executive committee are established annually by the CEO. For 2018, the corporate objectives included elements of clinical trial progression, cash position, corporate development and business development. Each of the corporate objectives is clear and measurable so that it is easy to determine whether or not a specific objective has been achieved or not.

Gross remuneration of our CEO for financial year 2018

i. Base salary (fixed): €500,193.18 (including €18,859.44 in the form of pension contributions).

ii. Variable remuneration (bonus): given the level of achievement of the criteria from the Senior Management Bonus Scheme to be entitled to a bonus (i.e. the corporate objectives for 2018), a bonus equal to 100% of the 2018 base salary was awarded over 2018, of which 50% was paid early January 2019, and the other 50% was deferred for 3 years. The value of the 50% deferred part of the bonus awarded over 2015 was established at the end of 2018 and resulted in a payment in early January 2019 of an amount of €381,909.00 (a multiple of 1.7 of the deferred bonus, as a result of the share price performance over the period 2015-2018 as per the provisions of the Senior Management Bonus Scheme). In addition, an amount of €266,836.00 was paid in June 2018, being a multiple of 1.9 of the deferred 50% of the exceptional special bonus awarded for the successful Nasdaq listing in 2015.

iii. Pension: €62,292.17 (of which €18,859.44 is part of the base salary).

iv. Other components of the remuneration: company car, tax advisory services, and payments for invalidity and healthcare cover, totaling €38,958.28.

During its meeting of 18 February 2019, the board of directors decided, upon recommendation of the nomination and remuneration committee, to update the structure of the remuneration of the CEO as set forth above under "information on the remuneration policy for the next two years". This includes salary increases as from 1 January 2019 and the grant of RSUs as from April 2019.

Aggregate gross remuneration of the other executive committee members for financial year 2018

i. Base salaries (fixed): €1,474,111.39 (including €35,000.00 in the form of pension contributions).

ii. Variable remunerations (bonuses): given the level of achievement of the criteria from the Senior Management Bonus Scheme to be entitled to a bonus (i.e. the corporate objectives for 2018), an aggregate bonus of €1,015,000.00 (i.e. 100% of the aggregate bonus pool) was awarded over 2018 of which 50% was paid early January 2019, and the other 50% was deferred for 3 years. The value of the 50% deferred part of the bonus awarded over 2015 was established at the end of 2018 and resulted in a payment in early January 2019 of an amount of €435,922.00 (a multiple of 1.7 of the deferred bonus, as a result of the share price performance over the period 2015-2018 as per the provisions of the Senior Management Bonus Scheme). In addition, an amount of €727,735.00 was paid in June 2018, being a multiple of 1.9 of the deferred 50% of the exceptional special bonus awarded for the successful Nasdaq listing in 2015.

iii. Pensions: €243,345.59 (of which €35,000.00 are part of the fixed base salary).

iv. Other components of the remunerations: company cars, tax advisory services, and payments for invalidity and healthcare cover, totaling €68,073.03.

During its meeting of 18 February 2019, the board of directors decided, upon recommendation of the nomination and remuneration committee, to update the structure of the remuneration of the members of the executive committee as set forth above under "Information on the remuneration policy for the next two years". This includes salary increases as from 1 January 2019 and the grant of RSUs as from April 2019.

Shares, warrants or other rights to acquire shares awarded to, exercised by or expired for the executive committee members during financial year 2018

In 2018, only warrants were offered to the members of the executive committee, and no shares or other rights to acquire shares were awarded. No warrants expired for members of the executive committee in 2018 and, in aggregate, 250,000 warrants were exercised by members of the executive committee in 2018 (60,000 warrants were exercised by Onno van de Stolpe, 90,000 warrants by Bart Filius and 50,000 warrants by each of Piet Wigerinck and Andre Hoekema). The board of directors does not consider the granted warrants as a variable remuneration, as they are not subject to any performance criteria. The following number of warrants were offered to and accepted by members of the executive committee in 2018 under Warrant Plan 2018, issued by the board of directors under the authorized capital on 19 April 2018: to Mr. Van de Stolpe: 100,000 warrants, to Mr. Filius: 80,000 warrants, to each of Dr. Wigerinck and Dr. Abi-Saab: 60,000 warrants and to Dr. Hoekema: 50,000 warrants.

The warrants issued under Warrant Plan 2018 have an exercise price of €79.88, 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 2018, Mr. Van de Stolpe owned 478,289 shares of Galapagos NV and 786,874 warrants. The other members of the executive committee held an aggregate of 67,502 shares and 1,352,500 warrants. The other members of the board held an aggregate of 17,974 shares and 216,780 warrants. Each warrant entitles its holder to subscribe to one share of Galapagos NV.

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

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

Severance payments for departing executive committee members during financial year 2018

Not applicable; in 2018 no members of the executive committee (including the CEO) left Galapagos.

Claw-back right of Galapagos relating to variable remuneration

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

Conflict of interests and related parties

In the event of a transaction where a director's interest conflicts with the interest of Galapagos NV, the director shall notify the board of directors in advance of the conflict and will act in accordance with the relevant rules of the Belgian Companies Code (i.e. article 523 of the Belgian Companies Code). In addition, Galapagos' Corporate Governance Charter and Galapagos' Related Person Transaction Policy contain procedures for transactions between Galapagos and its directors, members of its executive committee, major shareholders or any of their immediate family members and affiliates. Without prejudice to the procedure defined in article 523 of the Belgian Companies Code, these policies provide that all transactions between Galapagos and its directors, its members of the executive committee or its representatives need the approval of the audit committee and the board of directors, which approval can only be provided for transactions at normal market conditions. Moreover, conflicts of interest, even in the event they are not a conflict of interest within the meaning of article 523 of the Belgian Companies Code, are enacted in the meeting minutes, and the director or member of the executive committee cannot participate in the voting.

In 2018, one conflict of interests between Galapagos NV and a director within the meaning of article 523 of the Belgian Companies Code was noted: in a meeting of the board of directors held on 18 December 2018, the following was reported in accordance with article 523 of the Belgian Companies Code in connection with the bonus for the CEO: the chairman declared that Mr. Onno van de Stolpe had informed the board of directors of a conflict of interest, concerning the proposed award to him of a bonus. Given the actual level of achievement of the criteria from the Senior Management Bonus Scheme to be entitled to a bonus (i.e. the corporate objectives for 2018) a bonus equal to 100% of his 2018 salary was awarded to Mr. Van de Stolpe for 2018. The board considered that said bonus is a justified reward for the results achieved by Mr. Van de Stolpe in 2018. 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. However, during its meeting of 18 February 2019, the board of directors decided, upon recommendation of the nomination and remuneration committee, to update the structure of the remuneration of the CEO as set forth above under Information on the remuneration policy for the next two years.

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, 93% 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 2018.

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 2018.

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 2018, 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 2018, and to release the directors and the statutory auditor from liability for the performance of their mandate during the financial year ended 31 December 2018.

Mechelen, 26 March 2019

On behalf of the board of directors

Onno van de Stolpe
CEO

Raj Parekh
Chairman

Financial statements

Consolidated and non-consolidated financial statements for 2018

we **raise** the bar.

Consolidated financial statements

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

Consolidated income statement

	Year ended 31 December		
(thousands of €, except share and per share data)	2018	2017	Notes
Revenues	288,836	127,087	5
Other income	29,009	28,830	5
Total revenues and other income	**317,845**	**155,918**	
Research and development expenditure	(322,875)	(218,502)	6
General and administrative expenses	(35,631)	(24,415)	6
Sales and marketing expenses	(4,146)	(2,803)	6
Total operating expenses	**(362,652)**	**(245,720)**	
Operating loss	**(44,807)**	**(89,802)**	
Financial income	18,335	4,877	8
Financial expenses	(2,737)	(30,582)	8
Loss before tax	**(29,209)**	**(115,507)**	
Income taxes	(50)	(198)	9
Net loss	**(29,259)**	**(115,704)**	10
Net loss attributable to:			
Owners of the parent	(29,259)	(115,704)	
Basic & diluted loss per share	**(0.56)**	**(2.34)**	10

Consolidated statement of comprehensive income / loss (-)

	Year ended 31 December		
(thousands of €)	2018	2017	Notes
Net loss	**(29,259)**	**(115,704)**	
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of defined benefit obligation	(94)	(40)	27
Items that may be reclassified subsequently to profit or loss:			
Fair value adjustment of available-for-sale financial assets	–	(220)	13
Translation differences, arisen from translating foreign activities	197	(664)	19
Other comprehensive income / loss (-), net of income tax	**103**	**(924)**	
Total comprehensive loss attributable to:			
Owners of the parent	(29,155)	(116,629)	

Consolidated statements of financial position

(thousands of €)	31 December 2018	31 December 2017	Notes
Intangible assets	3,632	2,495	11
Property, plant and equipment	23,137	16,692	12
Deferred tax assets	2,514	1,978	20
Non-current R&D incentives receivables	73,443	64,001	14
Other non-current assets	7,919	3,461	13
Non-current assets	**110,645**	**88,627**	
Trade and other receivables	18,609	27,966	15
Current R&D incentives receivables	11,203	11,782	14
Cash and cash equivalents	1,290,796	1,151,211	16
Other current assets	8,244	6,688	15
Current assets	**1,328,851**	**1,197,647**	
Total assets	**1,439,496**	**1,286,274**	
Equity and liabilities			
Share capital	236,540	233,414	17
Share premium account	1,277,780	993,025	17
Other reserves	(735)	(1,260)	18
Translation differences	(1,557)	(1,754)	19
Accumulated losses	(297,779)	(211,441)	
Total equity	**1,214,249**	**1,011,983**	
Retirement benefit liabilities	3,764	3,582	27
Other non-current liabilities	1,578	1,662	21
Non-current deferred income	–	97,348	22
Non-current liabilities	**5,342**	**102,592**	
Finance lease liabilities	–	9	
Trade and other liabilities	68,928	48,281	21
Current tax payable	1,175	865	9
Current deferred income	149,801	122,544	22
Current liabilities	**219,905**	**171,699**	
Total liabilities	**225,247**	**274,291**	
Total equity and liabilities	**1,439,496**	**1,286,274**	

Consolidated cash flow statements

(thousands of €)	2018	2017	Notes
Net loss of the period	**(29,259)**	**(115,704)**	
Adjustment for non-cash transactions	21,753	48,301	23
Adjustment for items to disclose separately under operating cash flow	(4,389)	(1,912)	23
Adjustment for items to disclose under investing and financing cash flows	(668)	–	23
Change in working capital other than deferred income	19,922	(12,862)	23
Decrease in deferred income	(153,312)	(65,722)	22
Cash used in operations	(145,953)	(147,899)	
Interest paid	(1,063)	(273)	
Interest received	4,558	1,341	
Corporate taxes paid	(8)	(199)	
Net cash flows used in operating activities	**(142,466)**	**(147,030)**	
Purchase of property, plant and equipment	(10,392)	(5,312)	12
Purchase of and expenditure in intangible fixed assets	(3,325)	(2,125)	11
Proceeds from disposal of property, plant and equipment	1	7	12
Decrease in restricted cash	–	6,510	15
Acquisition of financial assets held at fair value through P&L	(4,559)	–	15
Proceeds from sale of financial assets held at fair value through P&L	2,361	372	15
Net cash flows used in investing activities	**(15,914)**	**(549)**	

(thousands of €)	2018	2017	Notes
Repayment of obligations under finance leases and other debts	(5)	(65)	
Proceeds from capital and share premium increases, gross amount	296,188	363,924	17
Issue costs paid related to capital and share premium increases	(15,964)	(15,790)	17
Proceeds from capital and share premium increases from exercise of warrants	7,657	5,288	17
Net cash flows generated in financing activities	**287,876**	**353,357**	
Increase in cash and cash equivalents	**129,497**	**205,778**	
Cash and cash equivalents at beginning of year	**1,151,211**	**973,241**	**16**
Increase in cash and cash equivalents	129,497	205,778	
Effect of exchange rate differences on cash and cash equivalents	10,089	(27,808)	
Cash and cash equivalents at end of the year	**1,290,796**	**1,151,211**	**16**

Consolidated statements of changes in equity

(thousands of €)	Share capital	Share premium account	Translation differences	Other reserves	Accumul. losses	Total
On 1 January 2017	**223,928**	**649,135**	**(1,090)**	**(1,000)**	**(112,272)**	**758,701**
Net loss					(115,704)	(115,704)
Other comprehensive loss			(664)	(260)		(924)
Total comprehensive loss			**(664)**	**(260)**	**(115,704)**	**(116,629)**
Share-based compensation					16,536	16,536
Issue of new shares	23,331	340,593				363,924
Share issue costs	(15,837)					(15,837)
Exercise of warrants	1,992	3,296				5,288
On 31 December 2017	**233,414**	**993,025**	**(1,754)**	**(1,260)**	**(211,441)**	**1,011,983**
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			197	(94)		103
Total comprehensive 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**

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 Real Estate 1 BVBA and Galapagos Real Estate 2 BVBA (Mechelen, Belgium); Galapagos SASU (Romainville, France); Galapagos B.V. (Leiden, the Netherlands); Fidelta d.o.o. (Zagreb, Croatia); Galapagos, Inc. and its subsidiary Xenometrix, Inc. (United States); BioFocus DPI AG and Galapagos GmbH (Basel, Switzerland); and Galapagos Biotech Ltd. (Cambridge, UK).

Our operations had 725 employees as at 31 December 2018 working in the operating facilities in Mechelen (the Belgian headquarters), the Netherlands, France, Croatia, the United States, United Kingdom and Switzerland.

2. Significant accounting policies

Our principal accounting policies are summarized below.

Basis of preparation and going concern assumption

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

New standards and interpretations applicable for the annual period beginning on 1 January 2018

- IFRS 9 Financial Instruments and subsequent amendments (applicable for annual periods beginning on or after 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers, and clarifications on this IFRS (applicable for annual periods beginning on or after 1 January 2018)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (applicable for annual periods beginning on or after 1 January 2018)
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (applicable for annual periods beginning on or after 1 January 2018)
- Amendments to IAS 40 Transfers of Investment Property (applicable for annual periods beginning on or after 1 January 2018)
- Annual improvements to IFRS Standards (2014-2016) Cycle (applicable for annual periods beginning on or after 1 January 2018)

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

IFRS 15 Revenue from Contracts with Customers

We adopted IFRS 15 on 1 January 2018, using the modified retrospective transition method. The adoption of the new standard resulted in a timing difference of revenue recognition between prior accounting standards and IFRS 15. The cumulative effect of initially applying the new revenue standard was recognized as an adjustment to the opening balance of accumulated deficit and deferred income.

To determine revenue recognition for arrangements that we determine are within the scope of IFRS 15, we perform the following five steps: (i) identify the contract; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; (v) recognize revenue when (or as) the entity satisfies a performance obligation.

As a consequence of the adoption of the new IFRS standard on 1 January 2018, our consolidated accumulated losses and deferred income were both increased by €83.2 million, reflecting the impact of the new standard on the revenue recognition of the considerations received related to our ongoing license and collaboration agreements. Differences in accounting treatment compared to the former standard were identified for (i) the milestones payments previously received in the scope of our license and collaboration agreement for filgotinib with Gilead, and (ii) the upfront and milestone payments received related to the license and collaboration agreement with AbbVie for cystic fibrosis, which were fully recognized in revenue in the previous years under the former applicable IFRS standard. The collaboration agreement with AbbVie for cystic fibrosis was modified in 2016. Under IAS 18 this modification was accounted for as a separate contract. However, based on the contract modification guidance under IFRS 15 we determined that the upfront payment should be recognized over the term of the modified contract. Finally, the deferred income balance related to the license fee received from Servier in the scope of our license and collaboration agreement in the field of osteoarthritis was fully reclassified to equity as a consequence of the adoption of the new standard. We refer to note 5 Total revenues and other income for further detail.

The impact of the adoption of IFRS 15 on the consolidated financial statements for the year ended 31 December 2018 is detailed in the table below and is due to changes in the accounting policy for revenue recognition compared to prior accounting standards.

	(thousands of €, except per share data)		
	Year ended 31 December 2018		
Income statement	As reported	Balances in accordance with IAS 18	Effect of change higher / lower (-)
Revenues	288,836	232,800	56,036
Loss before tax	**(29,209)**	**(85,245)**	**56,036**
Income taxes	(50)	(50)	–
Net loss	**(29,259)**	**(85,295)**	**56,036**
Basic & diluted loss per share	**(0.56)**	**(1.64)**	**1.08**

Balance sheet		31 December 2018	
Deferred income	149,801	122,617	27,184
Accumulated losses	(297,779)	(270,595)	(27,184)

IFRS 9 Financial Instruments and subsequent amendments

The only financial instrument held by the group subject to change in accounting treatment following the adoption of IFRS 9 – Financial Instruments, was the equity investment in a listed company classified as an available-for-sale financial asset. At 31 December 2017, our balance sheet held shares of this company which were acquired in 2016. The closing price of the share on Euronext as at the end of the year 2017 led to cumulative fair value loss amounting to €0.6 million recognized in other comprehensive income following the accounting treatment applied under IAS 39. Following the adoption of IFRS 9 on 1 January 2018, and considering that the financial asset should be classified and measured at fair value, with changes in fair value recognized in profit or loss, the cumulative fair value loss of €0.6 million previously recognized in other comprehensive income was reclassified to accumulated losses.

Other new standards and interpretations applicable for the annual period beginning on 1 January 2018 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 2018

- IFRS 16 Leases (applicable for annual periods beginning on or after 1 January 2019)
- IFRS 17 Insurance contracts (applicable for annual periods beginning on or after 1 January 2021, but not yet endorsed in the EU)
- IFRIC 23 Uncertainty over Income Tax Treatments (applicable for annual periods beginning on or after 1 January 2019)
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (applicable for annual periods beginning on or after 1 January 2019)
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)
- Annual improvements to IFRS Standards (2015-2017) Cycle (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)
- Amendments to References to the Conceptual Framework in IFRS Standards (applicable for annual periods beginning on or after 1 January 2020, but not yet endorsed in the EU)
- Definition of a Business (Amendments to IFRS 3) (applicable for Business Combinations for which the acquisition date is on or after the beginning of the first annual reporting period 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, but not yet endorsed in the EU)

Standards issued but not yet effective

A number of new standards are effective for annual periods beginning on or after 1 January 2019 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 IFRS 16 to have a material impact on our financial statements in the period of initial application.

IFRS 16 Leases (applicable for annual periods beginning on or after 1 January 2019)

We are required to adopt IFRS 16 as of 1 January 2019. We will apply IFRS 16 using the modified retrospective approach. Consequently, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings as at 1 January 2019, with no restatement of comparative figures.

We have assessed the estimated impact that the initial application of IFRS 16 will have on our consolidated financial statements, as further described below.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

We will use the following practical expedients permitted by the standard:

- Leases of low-value items
- Short-term leases

We will recognize new assets and liabilities for our leases of mainly buildings and cars. The nature of the expenses related to those leases will change as we will recognize a depreciation charge for the right-of-use assets and an interest expense on the lease liabilities. Previously we recognized operating lease expenses on a straight-line basis over the term of the lease.

We will apply the practical expedient to grandfather the definition of a lease on transition, applying IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4. These liabilities are measured at the present value of the remaining lease payments and discounted using our incremental borrowing rate.

In addition, we will no longer recognize provisions for onerous lease contracts, nor any provisions for termination payments or liabilities to spread the lease expenses on a straight-line basis over the term of the contract in case of variable or staggered lease payments.

Based on the information currently available, we estimate that we will recognize right-of-use assets and corresponding lease liabilities of €26.3 million as of 1 January 2019.

In the statement of profit and loss for accounting year 2019, we expect a shift from lease expenses to depreciation charges and interest cost of about €5.3 million. Operating result is expected to increase with approximately €0.2 million offset by a higher finance cost of €0.4 million. The impact on net result is expected to be immaterial.

In the statement of cash flows for accounting year 2019, we expect a shift from cash flow from operating activities to cash flow from financing activities of approximately €4.9 million with no impact on the net increase/(decrease) in cash and cash equivalents.

IFRIC 23 Uncertainty over Income Tax Treatments (applicable for annual periods beginning on or after 1 January 2019)

IFRIC 23 'Uncertainty over income tax treatments' was issued in June 2017 and will be implemented by the group as from 1 January 2019. The Interpretation clarifies that if it is considered probable that a tax Authority will accept an uncertain tax treatment, the tax charge should be calculated on that basis. If it is not considered probable, the effect of the uncertainty should be estimated and reflected in the tax charge. In assessing the uncertainty, it is assumed that the tax authority will have full knowledge of all information related to the matter. We performed an assessment of the potential impact of the new interpretation and concluded that it would not have a material impact on our financial statements.

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.

Internally generated intangible assets are amortized on a straight-line basis over their estimated useful lifes. If the recognition criteria for accounting as an intangible asset are not met, development costs are recognized as an expense in the period in which they are incurred.

Intellectual property, which comprises patents, licenses and rights, is measured internally at purchase cost and is amortized on a straight-line basis over the estimated useful life 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: 4 – 15 years
- Furniture, fixtures & vehicles: 4 – 10 years

Any gain or loss incurred at the disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset, and is recognized in profit or loss.

Leasehold improvements

Leasehold improvements are depreciated over the term of the lease, unless a shorter useful life is expected.

Assets held under finance lease

Assets held under finance leases are depreciated over their useful lives on the same bases as owned assets or, where shorter, over the term of the related lease agreement.

Financial instruments

Financial assets and financial liabilities are recognized on our balance sheet when we become a party to the contractual provisions of the instrument. Hedging and derivatives have never been used: we do not actively use currency derivatives to hedge planned future cash flows, nor do we make use of forward foreign exchange contracts. Additionally, we don't have financial debts at 31 December 2018.

(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 Galapagos' 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)
- 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.

Financial assets at amortized cost

Receivables

Receivables are designated as financial assets measured at amortized costs. They are initially measured either at fair value or at transaction price, if they do not contain a significant financing component, which is the case for substantially all trade receivables.

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 research and development (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 and cash equivalents

Cash and cash equivalents are financial assets measured at amortized costs 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 fair value and are used by us in the management of our short-term commitments.

Cash and cash equivalents exclude restricted cash which is presented separately 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.

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 income statement.

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

- Financial statements of foreign group companies

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

Recognition of expenses linked to clinical trial milestones

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

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

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

Revenue recognition

Revenues to date have consisted principally of milestones, license fees and upfront payments received in connection with collaboration and 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; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; (v) recognize revenue when (or as) the entity satisfies a performance obligation.

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

At contract inception, we assess whether the contract is in scope of IFRS 15. Then, we identify the goods and services promised in the contract, and assess whether they should be seen as distinct performance obligations or not. We then recognize as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

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.

Milestone Payments

A milestone payment is only included in the transaction price when the achievement of the related milestone event is highly probable (usually at the time of achievement of the milestone event). We estimate the amount to be included in the transaction price using the most likely amount method. The transaction price is then allocated to each performance obligation on a relative 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.

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.

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.

Revenue recognition policies applicable to period ended 31 December 2017

The revenue recognition policies applicable to period ended 31 December 2017 can be summarized as follows:

Upfront payments

Non-refundable, upfront payments received in connection with research and development collaboration agreements are deferred and recognized over the relevant, required periods of our involvement. The payments and our involvement relate to a contractually defined phase of the project. At inception, management estimates the period of our involvement as well as the cost involved in the project. Upfront payments are recognized over the estimated period of involvement, either on a straight line basis or based on the cost incurred under the project if such cost can be reliably estimated. Periodically we reassess the estimated time and our cost to complete the project phase and adjust the time period over which the revenue is deferred accordingly.

Milestone payments

Research milestone payments are recognized as revenues when achieved. In addition, the payments have to be acquired irrevocably and the milestone payment amount needs to be substantive and commensurate with the magnitude of the related achievement. Milestone payments that are not substantive, not commensurate or that are not irrevocable are recorded as deferred revenue. Revenue from these activities can vary significantly from period to period due to the timing of milestones.

Reimbursement income

Cost reimbursements resulting from license and collaboration agreements with our commercial partners are recognized as reimbursement income in revenue as the related costs are incurred and upon agreement by the parties involved. The corresponding expenses are included in research and development expenditure.
Cost reimbursements from collaboration in which we share equally in the risks and benefits associated with development of a specific drug with a collaboration partner are recognized as decrease of the related incurred research and development expenditure.

Licenses

Revenues from term licenses are spread over the period to which the licenses relate, reflecting the obligation over the term, to update content and provide ongoing maintenance. Revenues from perpetual licenses are recognized immediately upon sale to the extent that there are no further obligations.

Royalties

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

Other income

Grants and R&D incentives

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

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When we undertake our activities under joint operations, we as a joint operator recognize in relation to our interest in a joint operation:

- Our assets, including our share of any assets held jointly
- Our liabilities, including our share of any liabilities incurred jointly
- Our revenue from the sale of our share of the output arising from the joint operation
- Our share of the revenue from the sale of the output by the joint operation
- Our expenses, including our share of any expenses incurred jointly

We account for the assets, liabilities, revenues and expenses relating to our interest in a joint operation in accordance with IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When we transact with a joint operation in which we are a joint operator (such as sale or contribution of assets), we are considered to be concluding the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in our consolidated financial statements only to the extent of other parties' interests in the joint operation.

When we transact with a joint operation in which we are a joint operator (such as purchase of assets), we do not recognize our share of the gains and losses until we resell those assets to a third party.

Equity instruments

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

Employee benefits

a/ Defined contribution plans

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

b/ Defined benefit plans

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

or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

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

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

c/ Staff bonus plan

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

d/ Management bonus plan

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

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

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

Share-based payments

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

Provisions

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

Finance and operating leases

Leases are classified as finance leases whenever the terms of the lease substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as our assets at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. The payments are divided proportionally between the financial costs and a diminution of the outstanding balance of the obligation, so that the periodic interest rate on the outstanding balance of the obligation would be constant. Interest is recognized in the income statement, unless it is directly attributable to the corresponding asset, in which case it is capitalized.

Rents paid on operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Impairment

(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 that do not contain a significant financing component (i.e. substantially all trade receivables), 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) Tangible and intangible assets

At each balance sheet date, we review the carrying amount of our tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, we estimate the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset or cash generating unit is estimated to be less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss resulting from a sale of a subsidiary is recognized as income. In other cases impairment losses of goodwill are never reversed.

Net income/loss per share

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

Segment reporting

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of revenue and expenses that can be allocated on a reasonable basis to a segment. Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis; and do not include income tax items. We have only two segments (see note 4).

3. Critical accounting estimates and judgments

In the application of the accounting policies, we are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Our estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revisions and future periods if the revision affects both current and future periods.

Drafting financial statements in accordance with IFRS requires management to make judgments and estimates and to use assumptions that influence the reported amounts of assets and liabilities, the notes on contingent assets and liabilities on the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates.

The following are the critical judgments and estimates that we have made in the process of applying the accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements presented elsewhere in this annual report.

Critical judgments in applying accounting policies

Revenue recognition

Evaluating the criteria for revenue recognition under license and collaboration agreements requires management's judgment to assess and determine the following:

- The nature of the contractual performance obligations and whether they are distinct or should be combined with other performance obligations.
- The pattern of transfer of each promised license and/or R&D activities identified in the contract, sometimes using input or output methods which are based on key assumptions such as forecasted costs and development timelines of our license and collaboration agreements for the assessment of satisfaction of the performance obligation.

The above may significantly influence our financial statements.

We applied the five step model detailed in IFRS 15 to determine when, how and at what amount revenue is to be recognized depending on whether certain criteria are met. The positions taken in applying this standard are detailed below.

The substance of our current arrangements is that we are licensing certain of our intellectual property to collaboration partners and conduct research and development ("R&D") activities. Such activities result in a service that is the output of our ordinary activities. We generate revenue through a number of these arrangements which

include license fees, milestone payments, reimbursement income and future sales based milestones and sales based royalties. We assessed that the revenues from our current material licensing and collaboration agreements are in the scope of IFRS 15.

Collaboration with Gilead

We concluded as follows:

- 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 transaction price of our agreement with Gilead 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 only when achieved. Sales based milestones and sales based royalties are a part of our arrangement but are not yet included in our revenues as our program is still in Phase 3 of development.
- 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 percentage of costs incurred for this program that are completed each period (percentage of completion method).
- Costs reimbursements received from Gilead are recognized in revenues when costs are incurred and agreed by the parties as we are acting as a principal in the scope of our stake of the R&D activities of our ongoing license and collaboration agreements.

Collaboration with AbbVie

We concluded as follows:

- 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 capable of being distinct and is not distinct in the context of the contract.
- The transaction price of our agreement with AbbVie is currently 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 are included in the transaction price of the arrangement only when achieved. Sales based milestones and sales based royalties are a part of our arrangement but are not yet included in our revenues as the program is still in Phase 1 & 2 of development.
- 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 are recognized in revenues when costs are incurred and agreed by the parties as we are acting as a principal in the scope of our stake of the R&D activities of our ongoing license and collaboration agreements.

The 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 are 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 as adjustment to revenue the effect of the contract modification on the transaction price and on the measure of progress towards satisfaction of the performance obligation.

Collaboration with Servier

The deferred income balance as of 31 December 2017 related to the license fee received from Servier in the scope of our license and collaboration agreement in the field of osteoarthritis (€5.4 million) was fully reclassified to equity as a consequence of the adoption of IFRS 15. 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 Galapago, 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 as a decrease of the related expenses.

Collaboration with Novartis

We concluded as follows:

- There are two distinct performance obligations under IFRS 15: the transfer of a license and the performance of R&D activities. This is because we considered that the license is capable of being distinct and is distinct in the context of the contract.
- The transaction price of our agreement with Novartis 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 only when achieved. Sales based milestones and sales based royalties are a part of our arrangement but are not yet included in our revenues as our program is still in Phase 2 of development. In addition, the agreed consideration for the R&D activities that we will still perform up until the end of the Phase 2 of clinical development was also included in the transaction price.
- The transaction price has been allocated to each of the two distinct performance obligations based on our assessment of their relative stand-alone selling price, this for the R&D activities and using the residual approach to allocate the remainder of the transaction price to the license. Revenues are recognized at a point in time for the transaction price allocated to the transfer of the license as we assessed that the license confers a right to use the intellectual property to Novartis. For the transaction price allocated to the second performance obligation, the R&D activities, revenues are recognized over the estimated service period based on a pattern that reflects the transfer of our services to complete satisfaction of this performance obligation.
- We have chosen an input model to measure the satisfaction of the performance obligation of the R&D activities that considers a percentage of costs incurred for this program that are completed each period (percentage of completion method).
- Costs reimbursements received from Novartis will be recognized in revenues when costs are incurred and agreed by the parties as we are acting as a principal in the scope of the performance of the R&D activities.

Critical accounting estimates

Share-based payments plans

We determine the costs of the share-based payments plans (our warrant plans) on the basis of the fair value of the equity instrument at grant date. Determining the fair value assumes choosing the most suitable valuation model for these equity instruments, for which the characteristics of the grant have a decisive influence. This assumes also the input into the valuation model of some relevant judgments, like the estimated expected life of the warrant and the volatility. The judgments made and the model used are further specified in note 28.

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

Corporate income taxes

Significant judgment is required in determining the use of tax loss carry forwards. Deferred tax assets arising from unused tax losses or tax credits are only recognized to the extent that there are sufficient taxable temporary differences or there is convincing evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized. Management's judgment is that such convincing evidence is currently not sufficiently available except for one subsidiary operating intercompany on a cost plus basis and our fee-for-service business and as such a deferred tax asset is therefore recognized.

At 31 December 2018, we had a total of €374.2 million of statutory tax losses carried forward which can be compensated with future taxable statutory profits for an indefinite period except for an amount of €10.8 million in Switzerland, Croatia and the United States with expiry date between 2019 and 2030. At 31 December 2018, the available tax losses carried forward in Belgium amounted to €305.6 million.

As a company active in research and development in Belgium, we also expect to benefit from the "innovation income deduction (IID)" in Belgium. The innovation income deduction regime allows net profits attributable to revenue from among others patented products (or products for which the patent application is pending) to be taxed at a lower rate than other revenues, i.e., 4.4% (3.75% as of 1 January 2020). The available IID carried forward amounted to €195.4 million at 31 December 2018. It should be noted however that the Belgian corporate income tax reform introduced as of assessment year 2019 a *de facto* minimum taxable base, whereby the existing tax attributes have to be allocated into 2 so-called "*baskets*": a first basket which contains the tax deductions that can be applied without any restrictions and a second basket which contains the tax deductions that are subject to restrictions. The first basket contains (in order of deduction) the non-taxable items (such as deductible gifts), current year dividends received deduction (DRD), grandfathered patent income deduction (PID), current year innovation income deduction (IID) and investment deduction. The second basket contains (in order of deduction and subject to the restrictions as mentioned hereunder) the current year notional income deduction (NID), DRD carry-forward, IID carry-forward, tax loss carry-forward, unlimited NID carry-forward and NID carry-forward subject to the 7-year limitation. The taxable base can be reduced without any limitation with the deductions contained in the first basket. Any remaining taxable basis below € 1 million can be fully compensated with deductions contained in the second basket. If the remaining taxable basis exceeds € 1 million, the excess above € 1 million can only be compensated with deductions of the second basket up to 70%.

4. Segment information

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

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) The unallocated expenses of €26,824 thousand principally comprise of €26,757 thousand of warrant costs

Segment information for the year 2017

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

(1) The unallocated expenses of €16,278 thousand principally comprise of €16,536 thousand of warrant costs.

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 2018 our operations were mainly located in Belgium, Croatia, France and the Netherlands.

In 2018 our top 10 customers represented 98.6% of the revenues. Our client base in 2018 and 2017 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 €)	2018	2017
North America	117.609	82.050
Europe	171.113	45.037
Asia Pacific	114	–
Total revenues	**288.836**	**127.087**

Following table summarizes our revenues by major customers:

	Year ended 31 December			
	2018		2017	
	(thousands of €)	%	(thousands of €)	%
Gilead				
North America	116,640	40%	80,687	63%
Europe	7,793	3%		
AbbVie				
Europe	89,936	31%	34,049	27%
Novartis				
Europe	55,218	19%		
Servier				
Europe	9,000	3%		
Total revenues from major customers	**278,587**	**96%**	**114,736**	**90%**

Following table summarizes our revenues by destination of our entity:

	Year ended 31 December	
(thousands of €)	2018	2017
Galapagos NV (Belgium)	278.649	118.244
Galapagos SASU (France)	16	18
Fidelta d.o.o. (Croatia)	10.170	8.825
Total revenues	**288.836**	**127.087**

In 2018, we held €110 million of non-current assets (€89 million in 2017) distributed as follows:

- Belgium: €64 million (€47 million in 2017)
- France: €36 million (€34 million in 2017)
- Croatia: €5 million (€4 million in 2017)
- The Netherlands: €4 million (€4 million in 2017)

The increase in non-current assets was mainly explained by the increase in non-current R&D incentives receivables (see note 14).

5. Total revenues and other income

Revenues

The following table summarizes the revenues for the years ended 31 December 2018 and 2017.

	Year ended 31 December	
(thousands of €)	2018	2017
Recognition of non-refundable upfront payments and license fees	196,487	71,971
Milestone payments	73,394	42,950
Reimbursement income	8,722	3,273
Other revenues	10,233	8,893
Total revenues	**288,836**	**127,087**

Galapagos' revenues for 2018 amounted to €288.8 million, compared to €127.1 million in 2017. Increased revenues were mainly driven by (i) an upfront payment of €47.5 million from Novartis related to the MOR106 program, (ii) increased recognition in revenue of the upfront payment and milestones related to the filgotinib program with Gilead, (iii) revenue recognition related to the additional upfront payment of $45.0 million from AbbVie in the scope of the restructuring of the collaboration and previous upfront payment and milestones, and (iv) the change in accounting treatment from the adoption of IFRS 15 on 1 January 2018.

The following table summarizes the revenue recognition of upfront payments, license fees and milestone payments for the years ended 31 December 2018 and 2017, as well as the impact of the adoption of IFRS 15. The revenues recognized for the years ended 31 December 2018 are presented under the IFRS 15 standard as well as under the former applicable IAS 18 standard, with a comparison to the year ended 31 December 2017 under the former applicable IAS 18 standard.

Agreement	Consideration (thousand of $)	Consideration (thousand of €)	Collaboration start date	IAS 18 Outstanding balance in deferred income as at 31 December 2017	Deferred income reclassified from equity following adoption of IFRS 15	IFRS 15 Outstanding balance in deferred income as at 1 January 2018	IFRS 15 Revenue recognized, year ended 31 December 2018	IAS 18 Revenue recognized, year ended 31 December 2018	IAS 18 Revenue recognized, year ended 31 December 2017	IFRS 15 Outstanding balance in deferred income as at 31 December 2018
				(thousand of €)						
Revenue recognition of considerations received prior to 31 December 2017										
Gilead collaboration agreement for filgotinib – Upfront payment	300,000	275,558	January 2016	187,449	–	187,449	84,806	84,806	62,488	102,643
Gilead collaboration agreement for filgotinib – Subscription agreement[1]	N.A.	39,003	January 2016	26,532	–	26,532	12,004	12,004	8,845	14,528
Servier collaboration agreement for osteoarthritis – License fee	N.A.	6,000	June 2010	5,362	(5,362)	–	–	1,532	638	–
AbbVie collaboration agreement for CF – Upfront payment	45,000	34,001	September 2013	–	14,872	14,872	14,140	–	–	732
Total upfront payments and license fees:				**219,343**	**9,510**	**228,853**	**110,950**	**98,342**	**71,971**	**117,903**
Gilead collaboration agreement for filgotinib – Milestone payments	70,000	64,435	January 2016	–	43,832	43,832	19,831	–	9,354	24,001
AbbVie collaboration agreement for CF – Milestone payments	77,500	68,310	September 2013	–	29,878	29,878	28,406	–	33,596	1,471
Total milestones:				**–**	**73,710**	**73,710**	**48,237**	**–**	**42,950**	**25,472**
Total:				**219,343**	**83,220**	**302,563**	**159,187**	**98,342**	**114,921**	**143,375**

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

Agreement	Consideration (thousand of $)	Consideration (thousand of €)	Collaboration start date	IAS 18 Outstanding balance in deferred income as at 31 December 2017	Deferred income reclassified from equity following adoption of IFRS 15	IFRS 15 Outstanding balance in deferred income as at 1 January 2018	IFRS 15 Revenue recognized, year ended 31 December 2018	IAS 18 Revenue recognized, year ended 31 December 2018	IAS 18 Revenue recognized, year ended 31 December 2017	IFRS 15 Outstanding balance in deferred income as at 31 December 2018
							(thousand of €)			
Revenue recognition of considerations received in the year ended 31 December 2018										
Novartis collaboration agreement for MOR106 – Upfront payment	N.A.	47,500	September 2018				47,500	47,500		–
AbbVie collaboration agreement for CF – Upfront payment	45,000	38,874	September 2013				38,037	38,037		837
Total upfront payments and license fees:							**85,537**	**85,537**		**837**
Gilead collaboration agreement for filgotinib – Milestone payments	15,000	12,418	January 2016				7,793	12,418		4,625
AbbVie collaboration agreement for CF – Milestone payments	10,000	8,548	September 2013				8,364	8,548		184
Servier collaboration agreement for osteoarthritis – Milestone payment	N.A.	9,000	June 2010				9,000	9,000		–
Total milestones:							**25,157**	**29,966**		**4,809**
Total:							**110,694**	**115,503**	–	**5,646**
Grand total: upfront payments and license fees and milestones							**269,881**	**213,845**		**149,021**

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

The adoption of IFRS 15 resulted in a timing difference of revenue recognition between IAS 18 and IFRS 15 which negatively impacted the accumulated losses and increased the amount of deferred income (contract liabilities) by an amount of €83.2 million, as shown in the table above (column "Deferred income reclassified from equity following adoption of IFRS 15"). We elected the modified retrospective method for the transition which foresees that prior period figures remain as reported under the previous standard and the cumulative effect of applying IFRS 15 is recognized as an adjustment to the opening balance of equity as at the date of initial application (1 January 2018). The IFRS 15 adoption resulted in the recognition for the year ended 31 December 2018 of €60.8 million of deferred revenues related to previously recognized upfront payments (€12.6 million) and milestones (€48.2 million) under the former applicable standards of IAS 18.

The following table details revenue recognition approach and amounts for the years ended 31 December 2018 and 2017 by collaboration and license contract by type of revenue: upfront payments, milestone payment, reimbursement income, and other revenues.

Disaggregation of revenues

	IFRS 15			IAS 18		
(thousands of €)	Over time	Point in time	2018	2017	Over time	Point in time
Recognition of non-refundable upfront payments and license fees			**196,486**	**71,971**		
Gilead collaboration agreement for filgotinib	✓		96,809	71,333	✓	
AbbVie collaboration agreement for CF	✓		52,176	–	✓	
Novartis collaboration agreement for MOR106		✓	47,500	–		✓
Servier collaboration agreement for osteoarthritis		✓	–	638	✓	
Milestone payments			**73,394**	**42,950**		
Gilead collaboration agreement for filgotinib	✓		27,623	9,354		✓
AbbVie collaboration agreement for CF	✓		36,771	33,596		✓
Servier collaboration agreement for osteoarthritis		✓	9,000	–		✓
Reimbursement income			**8,722**	**3,273**		
Novartis collaboration agreement for MOR106	✓		7,718	–		
AbbVie collaboration agreement for CF	✓		989	453		✓
Servier collaboration agreement for osteoarthritis			–	2,816		✓
Other reimbursement income			16	4		
Other revenues			**10,233**	**8,893**		
Fee-for-services revenues	✓		10,170	8,825	✓	
Other revenues			63	68		
Total revenues			**288,836**	**127,087**		

For the year ended 31 December 2018, €124.4 million related to the Gilead collaboration agreement were recognized in revenue under IFRS 15 in function of costs incurred, applying the percentage of completion method. This revenue recognition consisted of (i) €84.8 million related to the upfront license fee, (ii) €12.0 million related to the deferred income triggered by the accounting treatment of the share subscription agreement under IAS 39 Financial Instruments: recognition and measurement, at the time of signing of the agreement in 2015, (iii) €19.8 million related to milestone payments received prior to 31 December 2017, and (iv) €7.8 million related to milestone payments received in the year 2018. The outstanding balance of deferred income from the Gilead collaboration agreement at 31 December 2018 amounted to €145.8 million which was all reported as current deferred income, as we expect to reach cost cap, as specified below, end of 2019.

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. We are responsible for funding 20% of the associated global development costs of the program. We have retained certain mechanisms to give us cost protection as filgotinib advances in clinical development. We can defer our portion of the global co-development study costs if they exceed a predetermined level, which we expect to reach at the end of 2019, and this deferment would be credited against future milestones, royalties or profit sharing at our option. If there are no future amounts to be paid by Gilead, we will not be obligated to make any payments to Gilead for such deferment.

For the year ended 31 December 2018, €88.9 million income related to the AbbVie collaboration agreement were recognized in revenue under IFRS 15 in function of costs incurred, applying the percentage of completion method. This revenue recognition consisted of (i) €14.1 million related to the initial upfront license fee received in 2013, (ii) €28.4 million related to milestone payments received in previous years, (iii) €8.4 million related to milestones achieved in the year 2018 and finally (iv) €38.0 million related to the $45.0 million (€38.9 million) related to the additional upfront payment received upon execution of the second amended and restated collaboration agreement in October 2018.. The outstanding balance of deferred income from the AbbVie collaboration agreement at 31 December 2018 amounted to €3.3 million, all reported as current deferred income.

On 19 July 2018, MorphoSys and Galapagos announced signing of a global exclusive license agreement with Novartis covering the development and commercialization of the joint program MOR106, a monoclonal antibody directed against IL-17C, which will be developed further in atopic dermatitis (AtD) and potentially other indications. MorphoSys and Galapagos received an equal share of an upfront payment of €95 million and are entitled to potential future milestone payments of up to approximately €850 million plus royalties up to low-teens to low-twenties. Novartis will bear all future research, development, manufacturing and commercialization costs related to MOR106. For the year ended 31 December 2018 the upfront payment received from Novartis of €47.5 million related to the MOR106 program was recognized as revenue.

Finally, for the year ended December 31, 2018, a milestone payment of €9.0 million related to the collaboration agreement for osteoarthritis with Servier, was additionally recognized in revenue.

Reimbursement income increased by €5.4 million, to €8.7 million for the year ended 31 December 2018 compared to €3.3 million for the year ended 31 December 2017, due to higher reimbursements in relation with the MOR106 program with MorphoSys. The reimbursement of certain research and development costs for the year ended 31 December 2017 were related to our collaboration agreements with AbbVie and Servier.

Other revenues increased by €1.3 million, or 15%, to €10.2 million for the year ended 31 December 2018 compared to €8.9 million for the year ended 31 December 2017, principally due to higher revenues from fee-for-service activities.

Other income

The following table summarizes other income for the years ended 31 December 2018 and 2017.

	Year ended 31 December	
(thousands of €)	**2018**	**2017**
Grant income	1,609	1,045
Other income	27,400	27,785
Total other income	**29,009**	**28,830**

Total other income was composed of grant income and other income and increased by €0.2 million, or 1%, from €28.8 million for the year ended 31 December 2017 to €29.0 million for the year ended 31 December 2018.

Grant income increased by €0.6 million, or 54%, from €1.0 million for the year ended 31 December 2017 to €1.6 million for the year ended 31 December 2018. The majority of this grant income was related to grants from a Flemish agency, representing approximately 95% of all reported grant income in 2018 (2017: 93%). In many cases these carry clauses which require us to maintain a presence in the same region for a number of years and invest according to pre-agreed budgets.

The increase in grant income was partly compensated by a decrease in other income of €0.4 million, or 1%, from €27.8 million for the year ended 31 December 2017 to €27.4 million for the year ended 31 December 2018. Other income was primarily composed of:

- Income from an innovation incentive system of the French government, which represented €9.3 million of other income for the year ended 31 December 2018 compared to €10.3 million for the year ended 31 December 2017
- Income from Belgian R&D incentives with regard to incurred R&D expenses, which represented €11.3 million of other income for the year ended 31 December 2018 compared to €11.2 million for the year ended 31 December 2017
- Tax rebates on payroll withholding taxes of R&D personnel in Belgium and the Netherlands, representing €6.3 million of other income for the year ended 31 December 2018 compared to €5.3 million for the year ended 31 December 2017

6. Operating costs

Operating result has been calculated after charging (–)/crediting:

Research and development expenditure

The following table summarizes research and development expenditure for the years ended 31 December 2018 and 2017.

	Year ended 31 December	
(thousands of €)	**2018**	**2017**
Personnel costs	(81,352)	(59,950)
Subcontracting	(197,644)	(123,054)
Disposables and lab fees and premises costs	(25,525)	(22,277)
Other operating expenses	(18,355)	(13,221)
Total research and development expenditure	**(322,875)**	**(218,502)**

R&D expenditure increased by €104.4 million, or 48%, to €322.9 million for the year ended 31 December 2018, from €218.5 million for the year ended 31 December 2017, reflecting the increase of our investments to advance our partnered and proprietary R&D programs. This increase was principally due to:

- Increased R&D personnel costs of €21.4 million, or 36%, from €59.9 million for the year ended 31 December 2017 to €81.4 million for the year ended 31 December 2018, which was explained by an enlarged workforce and higher warrant costs, mainly as a result of the increase of our share price
- Increase in subcontracting costs by €74.6 million, or 61%, from €123.1 million for the year ended 31 December 2017 to €197.6 million for the year ended 31 December 2018 mainly due to increased spending in our IPF program and in our RA, IBD and other indications program on filgotinib
- Intensified spending of lab consumables was the main driver of the increase in disposables, lab fees and premises costs of €3.2 million, or 15%, from €22.3 million for the year ended 31 December 2017 to €25.5 million for the year ended 31 December 2018
- Other operating expenses increased by €5.2 million, or 39%, from €13.2 million for the year ended 31 December 2017 to €18.4 million for the year ended 31 December 2018, due to an increased headcount.

The table below summarizes our research and development expenditure for the years ended 31 December 2018 and 2017, broken down by research and development expenses under alliance and own funded research and development expenses.

	Year ended 31 December	
(thousands of €)	**2018**	2017
R&D under alliance	(134,046)	(122,663)
Galapagos funded R&D	(188,829)	(95,839)
Total R&D expenditure	**(322,875)**	**(218,502)**

We track all research and development expenditures against detailed budgets and allocate them by individual project. The table below summarizes our research and development expenditure for the years ended 31 December 2018 and 2017, broken down by program:

	Year ended 31 December	
(thousands of €)	**2018**	2017
Filgotinib program (partnered)	(66,138)	(53,212)
CF program (partnered)	(30,137)	(46,192)
IPF program on GLPG1690 (proprietary)	(72,718)	(16,190)
OA program on GLPG1972 (partnered)	(15,751)	(7,317)
AtD program on MOR106 (partnered)	(14,999)	(8,404)
Other	(123,132)	(87,187)
Total R&D expenditure	**(322,875)**	**(218,502)**

R&D expenditure under alliance increased by €11.4 million, or 9%, to €134.0 million for the year ended 31 December 2018, from €122.7 million for the year ended 31 December 2017, mainly due to increased R&D spending in our RA, IBD and other indications program on filgotinib (partnered with Gilead). We increased our investments in our own funded portfolio by €93.0 million, or 97%, to €188.8 million for the year ended 31 December 2018, from €95.8 million for the year ended 31 December 2017, because of intensified research investments in our proprietary programs primarily on our proprietary IPF program GLPG1690, and also due to increased spending on our inflammation and fibrosis programs.

General and administrative expenses

The following table summarizes the general and administrative expenses for the years ended 31 December 2018 and 2017.

	Year ended 31 December	
(thousands of €)	**2018**	2017
Personnel costs and directors fees	(25,495)	(17,756)
Other operating expenses	(10,136)	(6,659)
Total general and administrative expenses	**(35,631)**	**(24,415)**

General and administrative expenses amounted to €24.4 million for the year ended 31 December 2017 and increased by €11.2 million, or 46%, to €35.6 million for the year ended 31 December 2018. This increase was principally due to higher personnel expenses, which increased by €7.7 million, or 44%, from €17.8 million for the year ended 31 December 2017 to €25.5 million for the year ended 31 December 2018, resulting from various effects, such as increased headcount and increased costs of share-based payments plans (our warrant plans), mainly as a result of the increase of our share price.

Sales and marketing expenses

The following table summarizes the sales and marketing expenses for the years ended 31 December 2018 and 2017.

	Year ended 31 December	
(thousands of €)	**2018**	2017
Personnel costs	(2,282)	(2,156)
Other operating expenses	(1,864)	(646)
Total sales and marketing expenses	**(4,146)**	**(2,803)**

Sales and marketing expenses increased by €1.3 million, or 48%, from €2.8 million for the year ended 31 December 2017 to €4.1 million for the year ended 31 December 2018. This increase was mainly due to the fact that we started to build our commercial organization in preparation for the co-promotion activities with Gilead for filgotinib in the co-promotion territories.

7. Staff costs

The table below summarizes the number of our employees on 31 December 2018 and 2017:

	2018	2017
Number of employees on 31 December	725	600
Total	**725**	**600**

The average number of employees during the years 2018 and 2017 was:

	Year ended 31 December	
	2018	2017
Executive officers	5	5
Research and development	553	461
Corporate and support	119	90
Total	**677**	**556**

Their aggregate remuneration comprised:

	Year ended 31 December	
(thousands of €)	**2018**	2017
Wages and salaries	(61,619)	(46,677)
Social security costs	(11,003)	(9,081)
Retirement benefit costs	(2,994)	(2,175)
Other personnel costs	(27,375)	(16,465)
Total personnel costs	**(102,991)**	**(74,398)**

The other personnel costs mainly related to costs for warrants granted of €21.3 million (2017: €11.8 million). For the costs of warrants granted, see note 28.

8. Financial income/expenses

The following table summarizes financial income and expense for the years ended 31 December 2018 and 2017.

	Year ended 31 December	
(thousands of €)	2018	2017
Financial income:		
Interest on bank deposit	5,219	3,045
Effect of discounting long term R&D incentives receivables	199	–
Currency exchange gain	11,027	1,797
Fair value gain on financial assets held at fair value through profit or loss	1,203	–
Gain upon sale of financial assets held at fair value through profit or loss	668	–
Other finance income	19	34
Total financial income	**18,335**	**4,877**
Financial expenses:		
Interest expenses	(780)	(936)
Currency exchange loss	(1,174)	(29,176)
Other finance charges	(782)	(469)
Total financial expense	**(2,737)**	**(30,582)**
Total net financial expense (-)/income	**15,598**	**(25,705)**

Financial expenses decreased significantly by €27.8 million, from €30.6 million for the year ended 31 December 2017 to €2.7 million for the year ended 31 December 2018. The currency exchange loss in 2017 primarily related to a currency exchange loss of €27.8 million on deposits held in U.S. dollars. Our cash and cash equivalents include cash held in U.S. dollars, which could generate foreign currency exchange gain or loss in our financial results in accordance with the fluctuation of the EUR/U.S. dollar exchange rate as our functional currency is EUR.

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

Financial income increased by €13.4 million, from €4.9 million for the year ended 31 December 2017 to €18.3 million for the year ended 31 December 2018. This increase was due to a currency exchange gain of €10.1 million on our cash and cash equivalents held in U.S. dollar. Interest income was related to interests on term deposits. Net exchange gain amounted to €9.9 million for the year ended 31 December 2018, compared to a net exchange loss of €27.4 million for the year ended 31 December 2017.

For the year ended 31 December 2018, 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 gain realized upon sale of some of those equity investments was reported in financial income.

9. Taxes

The following table summarizes the income tax recognized in profit or loss for the years ended 31 December 2018 and 2017.

	Year ended 31 December	
(thousands of €)	2018	2017
Current tax	(584)	(218)
Deferred tax	535	20
Income taxes	**(50)**	**(198)**

Current tax amounted to €0.6 million for the year ended 31 December 2018 and €0.2 million for the year ended 31 December 2017, and was related to corporate income taxes for subsidiaries operating on a cost plus basis.

Deferred tax income of €0.5 million for the year ended 31 December 2018 and of €0.02 million for the year ended 31 December 2017 related to subsidiaries working on a cost plus basis and to our fee-for-service business.

Tax liabilities

The below table illustrates the tax liabilities related captions in the balance sheet as at 31 December 2018 and 2017.

	31 December	
(thousands of €)	2018	2017
Current tax payable	1,175	865
Total tax liabilities	**1,175**	**865**

On 31 December 2018, €1.2 million of 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% (2017: 34%) – which is the tax rate applied in Belgium – on the estimated assessable profit for the year. The applied tax rate for other territorial jurisdictions was the tax rate that is applicable in these respective territorial jurisdictions on the estimated taxable result of the accounting year.

	Year ended 31 December	
(thousands of €)	2018	2017
Loss before tax	**(29,209)**	**(115,507)**
Income tax debit / credit (-), calculated using the Belgian statutory tax rate (29.58% in 2018, 34% in 2017) on the accounting income / loss (-) before tax (theoretical)	(8,640)	(39,261)
Tax expenses in income statement (effective)	**50**	**198**
Difference in tax expenses / income to explain	**8,690**	**39,458**
Effect of tax rates in other jurisdictions	411	14
Effect of non-taxable revenues	(11,558)	(11,277)
Effect of share-based payment expenses without tax impact	7,530	5,317
Effect of consolidation elimination without tax impact	382	102
Effect of non-tax-deductible expenses	945	404
Effect of recognition of previously non recognized deferred tax assets	(1,977)	(414)
Effect of tax losses (utilized) reversed	(150)	(763)
Effect of non-recognition of deferred tax assets	13,108	45,895
Effect of change in tax rates	–	181
Total explanations	**8,690**	**39,458**

Non-taxable revenues for the years ended 31 December 2018 and 2017 were related to non-taxable subsidies and tax credits.

10. Income/loss (–) per share

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

Loss per share

	Year ended 31 December	
	2018	2017
Net loss attributable to owners of the parent (thousands of €)	**(29,259)**	**(115,704)**
Number of shares (thousands)		
Weighted average number of shares for the purpose of basic income / loss (-) per share	52,113	49,479
Basic loss per share (€)	**(0.56)**	**(2.34)**
Net loss attributable to owners of the parent (thousands of €)	**(29,259)**	**(115,704)**
Number of shares (thousands)		
Weighted average number of shares for the purpose of diluted income / loss (-) per share	52,113	49,479
Number of dilutive potential ordinary shares	–	–
Diluted loss per share (€)	**(0.56)**	**(2.34)**

As we reported a net loss in 2018 and 2017, 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 and 2017.

11. Intangible assets

(thousands of €)	In process technology	Software & databases	Brands, licenses, patents & know-how	Total
Acquisition value				
On 1 January 2017	**5,561**	**7,185**	**1,523**	**14,269**
Additions	1,500	623	2	2,125
Sales and disposals		(100)		(100)
Translation differences		(212)		(212)
On 31 December 2017	**7,061**	**7,496**	**1,525**	**16,082**
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**
Amortization and impairment				
On 1 January 2017	**5,561**	**6,182**	**1,501**	**13,246**
Amortization		644	8	652
Sales and disposals		(99)		(99)
Translation differences		(212)		(212)
On 31 December 2017	**5,561**	**6,514**	**1,509**	**13,587**
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**
Carrying amount				
On 31 December 2017	1,500	982	16	2,495
On 31 December 2018	**–**	**1,862**	**1,771**	**3,632**

The intangible assets increased by €1.1 million from €2.5 million at 31 December 2017, to €3.6 million at 31 December 2018. The amortization of €1.1 million and the impairment of €1.1 million were fully compensated by new additions for €3.3 million.

On 31 December 2018, our balance sheet did not hold any internally generated assets capitalized as intangible asset.

12. Property, plant and equipment

(thousands of €)	Land & building improvements	Installation & machinery	Furniture, fixtures & vehicles	Other tangible assets	Total
Acquisition value					
On 1 January 2017	**4,412**	**29,733**	**2,973**	**505**	**37,624**
Additions	324	3,178	246	1,564	5,312
Sales and disposals		(844)	(17)		(861)
Reclassifications		881		(881)	–
Translation differences		112	7	1	120
On 31 December 2017	**4,736**	**33,060**	**3,209**	**1,189**	**42,195**
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	0	46
On 31 December 2018	**5,011**	**38,031**	**3,452**	**4,827**	**51,321**
Depreciations and impairment					
On 1 January 2017	**2,025**	**18,252**	**2,184**	**203**	**22,663**
Amortization	316	3,027	234	55	3,633
Sales and disposals		(838)	(17)		(855)
Translation differences	1	53	7		61
On 31 December 2017	**2,342**	**20,495**	**2,407**	**258**	**25,502**
Amortization	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**
Carrying amount					
On 31 December 2017	2,394	12,565	802	930	16,692
On 31 December 2018	**2,325**	**14,628**	**1,632**	**4,552**	**23,137**

The property, plant and equipment increased from €16.7 million as at 31 December 2017 to €23.1 million as at 31 December 2018. This increase was mainly the result of new additions of €10.4 million, partly compensated by a depreciation charge of €4.0 million.

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

13. 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 €)	2018	2017
Non-current restricted cash	1,276	1,158
Financial assets held at fair value through profit or loss	6,000	1,754
Other non-current assets	643	549
Total other non-current assets	**7,919**	**3,461**

Restricted cash amounted to €1.2 million on 31 December 2017, and increased to €1.3 million on 31 December 2018, due to additional bank guarantees with regard to the rental of supplementary office space for the Belgian premises. Restricted cash on 31 December 2018 was composed of bank guarantees on real estate lease obligations in Belgium and in the Netherlands for €0.7 million and €0.6 million respectively.

Financial assets held at fair value through profit or loss consisted of equity instruments of listed companies. Galapagos has no restrictions on the sale of these equity instruments and the assets are not pledged under any Galapagos' 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 directly in profit or loss.

The table below illustrates these financial assets held at fair value through profit or loss as at 31 December 2018 and 2017.

	31 December	
(thousands of €)	2018	2017
Cost at 1 January	**2,373**	**2,750**
Acquisitions of the year	4,736	–
Disposals of the year	(2,291)	(377)
Cost at 31 December	**4,818**	**2,373**
Fair value adjustment at 1 January	**(619)**	**(399)**
Cancellation of fair value adjustment following disposal	598	55
Fair value adjustment of the year	1,203	(275)
Fair value adjustment at 31 December	**1,182**	**(619)**
Net book value at 31 December	**6,000**	**1,754**

14. Research and development incentives receivables

The table below illustrates the R&D incentives receivables related captions in the balance sheet as at 31 December 2018 and 2017.

	31 December	
(thousands of €)	2018	2017
Non-current R&D incentives receivables	73,443	64,001
Current R&D incentives receivables	11,203	11,782
Total R&D incentives receivables	**84,646**	**75,783**

Total R&D incentives receivables increased by €8.9 million compared to 31 December 2017. This increase is explained by new R&D incentives reported in 2018 for €20.5 million (€9.2 million related to French R&D incentives and €11.3 million related to Belgian R&D incentives), by the release of discounting profit of €0.2 million, and less the payments received related to French R&D incentives amounting to €8.4 million and to Belgian R&D incentives amounting to €3.4 million. The R&D incentives receivables are future expected refunds resulting from R&D incentives on research and development expenses in France and Belgium. Non-current R&D incentives receivables are reported at their net present value and are therefore discounted over the period until maturity date.

The table below provides detailed information on the maturity of the non-current R&D incentives receivables reported in our balance sheet at 31 December 2018.

Non-current R&D incentives receivables

	31 December 2018					
	Maturity date					
(thousands of €)	2020	2021	2022	2023	2024 – 2028	Total
French non-current R&D incentives receivables – nominal value	8,959	9,674	10,226			28,859
French non-current R&D incentives receivables – discounted value	8,959	9,674	10,226			28,859
Belgian non-current R&D incentives receivables – nominal value	3,398	4,009	4,863	6,663	26,355	45,288
Belgian non-current R&D incentives receivables – discounted value	3,398	4,009	4,863	6,663	25,650	44,583
Total non-current R&D incentives receivables – nominal value	**12,358**	**13,683**	**15,089**	**6,663**	**26,355**	**74,148**
Total non-current R&D incentives receivables – discounted value	**12,358**	**13,683**	**15,089**	**6,663**	**25,650**	**73,443**

15. Trade and other receivables and other current assets

	31 December	
(thousands of €)	**2018**	**2017**
Trade receivables	9,206	22,133
Prepayments	142	543
Other receivables	9,261	5,289
Trade and other receivables	**18,609**	**27,966**
Inventories	276	279
Accrued income	3,863	2,584
Deferred charges	4,104	3,825
Other current assets	**8,244**	**6,688**
Total trade and other receivables & other current assets	**26,852**	**34,653**

Trade and other receivables decreased by €9.4 million to €18.6 million as at 31 December 2018 compared to €28.0 million as at 31 December 2017. This was mainly due to two milestones achieved before year end 2017 in our CF collaboration with AbbVie which were accounted for $20 million (€ 17.0 million): respectively $10 million (€8.6 million) for the Phase 1 trial initiation with GLPG3221 and $10 million (€8.4 million) for the Phase 1 trial initiation with GLPG2851.

We consider that the carrying amount of trade and other receivables approximates their fair value.

The other current assets mainly included accrued income from subsidy projects and deferred charges.

On 31 December 2018, we did not have any provision for expected credit losses.

16. Cash and cash equivalents

	31 December	
(thousands of €)	2018	2017
Cash at banks	358,016	288,052
Term deposits	733,537	713,446
Money market funds	199,243	149,711
Cash on hand	–	3
Total cash and cash equivalents	**1,290,796**	**1,151,211**

We reported a cash position of €1,290.8 million at the end of December 2018 compared to €1,151.2 million at year-end 2017. Net cash used in operating activities amounted to €142.5 million for the year ended 31 December 2018. The net cash used in investing activities amounted to €15.9 million for the year ended 31 December 2018. The net cash generated from financing activities amounted to €287.9 million for the year ended 31 December 2018, which can mainly be attributed to the public offering in the U.S. of Galapagos shares for which the cash proceeds from capital and share premium increases amounted to €280.2 million, net of issue costs. In addition, proceeds received on exercise of warrants contributed to cash generated in financing activities in 2018 for an amount of €7.7 million. Finally, €10.1 million of foreign currency exchange rate differences on our cash held in foreign currency positively impacted the ending balance of our cash and cash equivalents.

Cash and cash equivalents comprise cash at banks, short term bank deposits and money market funds that are readily convertible to cash and are subject to an insignificant risk of changes in value. Our cash management strategy monitors and optimizes our liquidity position. Our cash management strategy may allow short term deposits with an original maturity exceeding 3 months while monitoring all liquidity aspects. Cash and cash equivalents comprised €733.5 million of term deposits which all had an original maturity longer than 3 months. All cash and cash equivalents are available upon maximum one month notice period 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. Cash invested in highly liquid money market funds represented €199.2 million and was aimed at meeting short-term cash commitments, while reducing the counterparty risk of investment.

On 31 December 2018, our cash and cash equivalents included $320.5 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.

17. Share capital

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

	31 December	
(thousands of €)	2018	2017
On 1 January	**233,414**	**223,928**
Share capital increase	19,090	25,323
Costs of capital increase	(15,964)	(15,837)
Share capital on 31 December	**236,540**	**233,414**
Aggregate share capital	294,600	275,510
Costs of capital increase (accumulated)	(58,060)	(42,096)
Share capital on 31 December	**236,540**	**233,414**

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 2017 and 31 December 2018 is as follows:

Date	Share capital increase new shares (thousands of €)	Share capital increase warrants (thousands of €)	Number of shares issued (thousands of shares)	Aggregate number of shares after transaction (thousands of shares)	Aggregate share capital after transaction (thousands of €)
1 January 2017				**46,256**	**250,187**
6 April 2017		1,337	247		
21 April 2017	23,331		4,313		
20 June 2017		281	52		
21 September 2017		152	28		
23 November 2017		222	41		
31 December 2017				**50,937**	**275,510**
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**

On 31 December 2018, Galapagos NV's share capital amounted to €294,600 thousand, represented by 54,465,421 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 2018 and 2017.

(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**		

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

The board of directors is authorized for a period of five years starting from the date of publication in the Annexes to the Belgian State Gazette of the shareholders' resolution that granted the renewed authorization, being 31 May 2017, to increase the share capital of Galapagos NV within the framework of the authorized capital through contributions in kind or in cash, with limitation or cancellation of the shareholders' preferential subscription rights. Said authorization can be renewed. The board of directors is currently not authorized to increase the share capital after notification by the FSMA (Financial Services and Markets Authority) of a public takeover bid on Galapagos NV's shares.

The authorized capital as approved by the extraordinary shareholders' meeting of 25 April 2017 amounted to €82,561.8 thousand. As of 31 December 2018, €22,703.7 thousand of the authorized capital was used, so that an amount of €59,858.1 thousand still remained available.

18. Other reserves

Actuarial and other gains or losses recognized through other comprehensive income

	31 December	
(thousands of €)	2018	2017
On 1 January	**(1,260)**	**(1,000)**
Change in accounting policy (modified retrospective application IFRS 9)	619	
Restated other reserves at 1 January 2018	**(641)**	
Loss on defined benefit obligation recognized through OCI	(94)	(40)
Reclassification of loss on financial asset available for sale to income statement (after disposal)		55
Loss on financial asset available for sale recognized through OCI		(275)
Other reserves on 31 December	**(735)**	**(1,260)**

Other reserves consisted of a negative of €0.7 million, compared to a negative of €0.6 million in 2017, which was related to the re-measurement of defined benefit obligations recognized through OCI in line with IAS19R Employee Benefits. The negative of €0.6 million at 31 December 2017, related to the fair value adjustment on the available-for-sale equity investment, was transferred to retained earnings following the first adoption of IFRS 9 (see note 13).

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

Derivative financial instruments: currency derivatives

We do not actively use currency derivatives to hedge planned future cash flows. On the balance sheet date, total notional amount of outstanding forward foreign exchange contracts that we have committed are nil (2017: nil).

On 31 December 2018 the fair value of our currency derivatives was nil (2017: nil).

See note 31 for further information on how we manage financial risks.

19. Translation differences

	31 December	
(thousands of €)	2018	2017
On 1 January	**(1,754)**	**(1,090)**
Translation differences, arisen from translating foreign activities	197	(664)
Translation differences on 31 December	**(1,557)**	**(1,754)**

Translation differences decreased from a negative €1.8 million at the end of December 2017 to a negative of €1.6 million at the end of December 2018 mainly due to fluctuations of the GB pounds and the U.S. dollar exchange rates.

20. Deferred tax

	31 December	
(thousands of €)	2018	2017
Recognized deferred tax assets and liabilities		
Assets	2,514	1,978
Liabilities		
Deferred tax assets unrecognized	223,377	164,079
Deferred taxes in the consolidated income statement	535	20
Tax benefit arising from previously unrecognized tax assets used to reduce deferred tax expense (+)	1,973	414
Deferred tax expenses relating to change in tax rates		(181)
Deferred tax expenses relating to use of previously recognized deferred tax assets	(1,438)	(213)

The investment deduction of €1 million (2017: €1 million) could give rise to deferred tax assets. There is no limit in time for the investment deduction. The amount of notional interest deduction that has been accumulated in the past (2017: €2.6 million) could not be carried forward to 2018, the notional interest deduction of the year itself can also not be carried forward.

The consolidated unused tax losses carried forward at 31 December 2018 amounted to €688.7 million (2017: €567 million), €5.7 million were related to unrecognized tax losses with expiry date between 2019 and 2030.

The available statutory tax losses carried forward that can be offset against future statutory taxable profits amounted to €374.2 million on 31 December 2018. These statutory tax losses can be compensated with future statutory profits for an indefinite period except for an amount of €10.8 million in Switzerland, Croatia and the United States with expiry date between 2019 and 2030. On 31 December 2018, the available tax losses carried forward in Galapagos NV (Belgium) amounted to €305.6 million. In addition to the latter, Galapagos NV (Belgium) also benefits from the new Belgian innovation income deduction regime which led to report, on 31 December 2018, a supplementary carried forward tax deduction amounting to €195.4 million that can also be offset against future statutory taxable results. It should be noted however that the Belgian corporate income tax reform introduced as of assessment year 2019 a *de facto* minimum taxable base, whereby the existing tax attributes have to be allocated into 2 so-called "*baskets*": a first basket which contains the tax deductions that can be applied without any restrictions and a second basket which contains the tax deductions that are subject to restrictions. We refer to note 3 for more information.

We have a history of losses. Excluding the impact of possible upfront or milestone payments to be received from collaborations, we forecast to continue incurring taxable losses in the foreseeable future as we continue to invest in clinical and preclinical development programs and discovery platforms. Consequently, no deferred tax asset was set up as at 31 December 2018, except for one subsidiary operating on a cost plus basis and for our fee-for-service business, for which deferred tax assets were recognized for €2.5 million (2017: €2.0 million).

21. Trade and other liabilities

	31 December	
(thousands of €)	2018	2017
Trade and other liabilities	68,038	47,122
Other current liabilities	–	–
Other non-current liabilities	1,578	1,662
Accrued charges	890	1,159
Total trade and other liabilities	**70,506**	**49,942**

Our total trade and other liabilities, amounting to €70.5 million as of 31 December 2018, increased by €20.6 million compared to the €49.9 million reported as of 31 December 2017.

The trade and other liabilities, amounting to €68.0 million as of 31 December 2018, increased by €20.9 million compared to the €47.1 million reported as of 31 December 2017. This increase is mainly due to higher accrued trade liabilities on 31 December 2018, reflecting the intensification of our investments in our R&D programs.

22. Deferred income

	31 December	
(thousands of €)	2018	2017
Deferred income related to contracts		
Gilead collaboration agreement for filgotinib	131,270	187,449
Gilead collaboration agreement for filgotinib[(1)]	14,528	26,532
AbbVie collaboration for CF	3,223	–
Servier collaboration agreement for osteoarthritis	–	5,362
Deferred income related to contracts in our fee-for-service segment	471	248
Other deferred income (grants)	**309**	**301**
Total deferred income (long term & current)	**149,801**	**219,892**

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

Deferred income (long term and short term) amounted to €149.8 million at 31 December 2018 and decreased by €70.1 million compared to €219.9 million as at 31 December 2017. The adoption of IFRS 15 resulted in a timing difference of revenue recognition between IAS 18 and IFRS 15 which negatively impacted the accumulated losses and increased the amount of deferred income (contract liabilities) by an amount of €83.2 million, as shown in the table in note 5 'Total revenues and other income' (column "Deferred income reclassified from equity following adoption of IFRS 15").

The outstanding deferred income balance at 31 December 2018 is all short term and included €145.8 million deferred income related to the collaboration agreement with Gilead for filgotinib, €3.2 million deferred income related to the collaboration agreement with AbbVie for CF, €0.5 million related to our fee-for-service segment and €0.3 million of deferred grant income.

23. Note to the cash flow statement

	31 December	
(thousands of €)	2018	2017
Adjustment for non-cash transactions		
Depreciation and amortization	5,081	4,285
Impairment loss	1,083	–
Share-based compensation expenses	26,757	16,536
Increase in retirement benefit obligations and provisions	99	23
Unrealised exchange gains /losses and non-cash other financial expenses	(10,063)	27,457
Fair value adjustment financial assets held at fair value through profit or loss	(1,203)	–
Total adjustment for non-cash transactions	**21,753**	**48,301**
Adjustment for items to disclose separately under operating cash flow		
Interest expense	780	936
Interest income	(5,219)	(3,045)
Tax expense	50	198
Total adjustment for items to disclose separately under operating cash flow	**(4,389)**	**(1,912)**
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	(668)	–
Total adjustment for items to disclose separately under investing and financing cash flow	**(668)**	**–**
Change in working capital other than deferred income		
Decrease in inventories	3	22
Increase in receivables	(76)	(27,656)
Increase in liabilities	19,996	14,772
Total change in working capital other than deferred income	**19,922**	**(12,862)**

24. Operating lease obligations

We entered into lease agreements primarily for offices and laboratories which qualify as operating leases.

Minimum lease payments under operating leases recognized in the income statement for the year

	Year ended 31 December	
(thousands of €)	2018	2017
Total minimum lease payments under operating leases	**5,340**	**4,799**

Our outstanding commitments for future minimum lease payments under operating leases are disclosed in the note 25. Off-balance sheet arrangements.

25. Off-balance sheet arrangements

Contractual obligations and commitments

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

On 31 December 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	199,492	106,516	52,632	40,344	–
Total contractual obligations & commitments	**227,197**	**111,238**	**62,656**	**46,578**	**6,724**

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

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

In addition to the tables above, we have a contractual cost sharing obligation related to our collaboration agreement with Gilead for filgotinib. This is disclosed in the Corporate Governance chapter of this report, under "Agreements with major Galapagos NV shareholders". The contractual cost sharing commitment amounted to €74.0 million at 31 December 2018 (€129.0 million at 31 December 2017), for which we have direct purchase commitments of €20.3 million at 31 December 2018 (€10.1 million at 31 December 2017) reflected in the tables above.

26. 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 the course of 2008, a former director of one of our subsidiaries sued for wrongful termination and seeks damages of €1.5 million. We believe that the amount of damages claimed is unrealistically high. On 29 January 2016, the court made a 1st degree judgment, dismissing all claims in full. In appeal, the 2nd degree court instructed the 1st degree court to conduct a new trial. On 14 December 2018, the 1st degree court again dismissed all claims

of the plaintiff. On 14 January 2019, the plaintiff lodged an appeal, which is currently pending. The timing of this appeal procedure can however not be predicted with any degree of certainty. Considering the defense elements provided to date, as well as the judgment of the 1st degree court of 14 December 2018, our board and management evaluated the risk to be possible, but not likely. Accordingly, it was decided not to record any provision as the exposure was not considered to be probable.

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. We are responsible for funding 20% of the associated global development costs of the program. We have retained certain mechanisms to give us cost protection as filgotinib advances in clinical development. We can defer our portion of the global co-development study costs if they exceed a predetermined level, which we expect to reach at the end of 2019, and this deferment would be credited against future milestones, royalties or profit sharing at our option. If there are no future amounts to be paid by Gilead, we will not be obligated to make any payments to Gilead for such deferment.

27. Retirement benefit plans

Defined contribution plans

We operate defined contribution systems for our qualifying employees (except for Belgium and France). The assets of the schemes are held separately from ours in designated pension plans. For defined contribution systems, we pay contributions to publicly or privately administered pension or insurance funds. Once the contribution is paid, we do not have any remaining obligation.

Defined benefit plans in Belgium

In view of the minimum returns guarantees, the Belgian plans are classified as defined benefit plans. As at 31 December 2017 a net defined benefit obligation of €169.4 thousand was recorded, which increased to a net defined benefit obligation of €332.4 thousand on 31 December 2018.

Actuarial gains and losses are recognized immediately in equity, with a charge or credit to other comprehensive income (OCI), in accordance with IAS 19R Employee Benefits. They are not recycled subsequently. Actuarial losses of €151.9 thousand were recognized through other comprehensive income (OCI) at the end of 2018 (2017: €53.9 thousand of actuarial gains). The contributions to those plans that were due by the employer for the year ended 31 December 2018 and the year ended 31 December 2017, amounted respectively to €993.0 thousand and €964.0 thousand, of which €49.5 thousand was paid after 31 December 2018 (2017: €64.0 thousand). No contributions were made by the employees.

The plan assets as on 31 December 2018 consisted of €3,357.5 thousand (2017: €2,554.7 thousand) individual insurance reserves, which benefit from a weighted average guaranteed interest rate of 2.65% (2017: 2.41%).

Defined benefit plans in France

We use two defined benefit plans for the employees of our French entity. The defined benefit plans are not supported by funds.

The chemical and pharmaceutical industry's collective bargaining agreements require that our French entity pays a retirement allowance depending on the seniority of the employees at the moment they retire. The benefit obligations for these retirement allowances amounted to €2,110.1 thousand for 2018 (2017: €2,046.8 thousand). This increase was mainly due to an increased number of participants.

Additionally, there are also seniority premiums obligations in France. The provisions for these premiums amounted to €1,321.7 thousand on 31 December 2018 (on 31 December 2017: €1,365.7 thousand).

Total obligation included in the balance sheet related to the defined benefit plans amounted to €3,431.8 thousand on 31 December 2018 (2017: €3,412.5 thousand).

Actuarial gains and losses are recognized in equity, with a charge or credit to other comprehensive income (OCI), in accordance with IAS 19R Employee Benefits. They are not recycled subsequently. Actuarial gains of €58.5 thousand were recognized through other comprehensive income (OCI) at the end of 2018 (2017: €93.9 thousand of actuarial losses).

Total amounts due by the group to the pension plans in 2018 were €3.0 million (2017: €2.2 million).

Obligations included in the balance sheet

	31 December	
(thousands of €)	**2018**	2017
Present value of funded defined benefit obligation	3,690	2,724
Plan assets	(3,358)	(2,555)
Deficit/ surplus	332	169
Present value of unfunded defined benefit obligation	3,432	3,412
Liability included in the balance sheet	**3,764**	**3,582**

The present value of the gross obligation developed as follows

(thousands of €)	**2018**	2017
Opening balance	6,136	5,308
Current service cost	1,156	863
Actual taxes on contributions paid	(99)	(87)
Interest cost	89	87
Benefits paid	(193)	(157)
Actuarial gains (-) or losses due to experience adjustments	483	(100)
Actuarial gains (-) or losses due to experience adjustments related to new financial assumptions	(420)	222
Actuarial gains (-) or losses due to experience adjustments related to new demographic assumptions	(30)	–
Closing balance	**7,122**	**6,136**

The fair value of the plan assets developed as follows

(thousands of €)	**2018**	2017
Opening balance	(2,555)	(1,788)
Interest income on plan assets	(50)	(41)
Actual administration costs	4	3
Contributions from employer	(849)	(748)
Actual taxes on contributions paid	99	87
Plan assets gain during the period	(7)	(68)
Closing balance	**(3,358)**	**(2,555)**

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

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

	Year ended 31 December	
(thousands of €)	**2018**	2017
Current service cost	1,156	863
Interest cost	89	87
Interest income	(50)	(41)
Administration expenses	4	3
Revaluations of net liability / net asset	(69)	14
Total expense	**1,130**	**926**

Obligation included in the balance sheet reconciles as follows

(thousands of €)	**2018**	2017
Opening balance	3,582	3,520
Real employer contributions	(849)	(748)
Total expense recognized in the income statement	1,130	926
Re-measurement on the net defined benefit liability	94	40
Benefits paid	(193)	(157)
Closing balance	**3,764**	**3,582**

The most important actuarial assumptions are

	31 December	
(%)	**2018**	2017
Weighted average discount rate	1.76%	1.48%
Expected salary increase	2.50%	2.50%
Inflation rate	1.90%	1.86%

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

Breakdown of defined benefit obligation by type of plan participants:

	31 December	
(number of participants)	**2018**	2017
Active plan participants	402	324

Breakdown of defined benefit obligation by type of benefits:

	31 December	
(thousands of €)	**2018**	2017
Retirement and death benefits	5,800	4,770
Other post-employment benefits	1,322	1,366

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

	31 December	
(thousands of €)	2018	2017
Equity	134	153
Debt	3,123	2,402
Cash	101	

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

		31 December
Obligation (thousands of €)		2018
Discount rate	1.26%	7,635
Discount rate	1.51%	7,371
Discount rate	1.76%	7,122
Discount rate	2.01%	6,886
Discount rate	2.26%	6,661

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

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

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 2018, per warrant plan:

Warrant plan	Allocation date	Expiry date	Exercise price (€)	Outstanding per 1 January 2018	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding per 31 December 2018	Exercisable per 31 December 2018
2005	04.07.2005	03.07.2018	6.91	30,000		(30,000)			–	–
2005	15.12.2005	14.12.2018	8.60	7,500		(7,500)			–	–
2006 BNL	28.06.2007	27.06.2020	8.65	735		(735)			–	–
2006 BNL	21.12.2007	20.12.2020	7.12	1,050					1,050	1,050
2007	28.06.2007	27.06.2020	8.65	48,909		(19,535)			29,374	29,374
2007 RMV	25.10.2007	24.10.2020	8.65	32,600		(8,050)			24,550	24,550
2008	26.06.2008	25.06.2021	5.60	77,100					77,100	77,100
2010	27.04.2010	26.04.2018	11.55	42,500		(42,500)			–	–
2011	23.05.2011	22.05.2019	9.95	52,500		(15,000)			37,500	37,500
2012	03.09.2012	02.09.2020	14.19	209,890		(99,850)			110,040	110,040
2013	16.05.2013	15.05.2021	19.38	260,560		(65,000)			195,560	195,560
2014	25.07.2014	24.07.2022	14.54	536,660		(189,100)			347,560	347,560
2014 (B)	14.10.2014	13.10.2022	11.93	150,000		(90,000)			60,000	60,000
2015	30.04.2015	29.04.2023	28.75	517,053			(2,000)		515,053	
2015 (B)	22.12.2015	21.12.2023	49.00	399,000					399,000	
2015 RMV	22.12.2015	21.12.2023	49.00	97,500					97,500	
2016	01.06.2016	31.05.2024	46.10	514,250			(10,000)		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				1,097,745	
2018 RMV	19.04.2018	18.04.2026	79.88		137,500				137,500	
Total				**3,970,807**	**1,235,245**	**(567,270)**	**(12,000)**	**–**	**4,626,782**	**882,734**

	Warrants	Weighted average exercise price (€)
Outstanding on 31 December, 2016	**3,466,407**	**27.06**
Exercisable on 31 December, 2016	669,704	
Granted during the period	873,000	
Forfeited during the year	–	
Exercised during the period	(368,200)	
Expired during the year	(400)	
Outstanding on 31 December, 2017	**3,970,807**	**39.32**
Exercisable on 31 December, 2017	763,344	
Granted during the period	1,235,245	
Forfeited during the year	(12,000)	
Exercised during the period	(567,270)	
Expired during the year	–	
Outstanding on 31 December, 2018	**4,626,782**	**53.30**
Exercisable on 31 December, 2018	882,734	

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

Warrant plans

	2018	2018 RMV	2017	2017 RMV
	19 April 2018	19 April 2018	17 May 2017	17 May 2017
Exercise Price (€)	79.88	79.88	80.57	80.57
Share price at acceptance date (€)	84.88	84.88	68.67	68.67
Fair value on the acceptance date (€)	38.39	38.39	26.85	26.80
Estimated volatility (%)	39.44	39.44	40.06	40.08
Time to expiration (years)	8	8	8	8
Risk free rate (%)	0.51	0.51	0.33	0.29
Expected dividends	None	None	None	None

The exercise price of the warrants is determined pursuant to the applicable provisions of the Belgian Companies Code.

The estimated volatility is calculated on the basis of the historical volatility of the share price over the expected life of the warrants, validated by reference to the volatility of a representative biotech index.

The time to expiration of the warrant is calculated as the estimated duration until exercise, taking into account the specific features of the plans.

The warrants were accounted for in accordance with IFRS 2 Share Based Payments.

Our warrants expense in 2018 amounted to €26,757 thousand (2017: €16,536 thousand).

The following table provides an overview of the outstanding warrants per category of warrant holders at 31 December 2018 and 31 December 2017.

	31 December	
Category (in number of warrants)	**2018**	**2017**
Non-executive directors	216,780	216,060
Executive team	2,139,374	2,039,374
Other	2,270,628	1,715,373
Total warrants outstanding	**4,626,782**	**3,970,807**

The outstanding warrants at the end of the accounting period have an average exercise price of €53.30 (2017: €39.32) and a weighted average remaining expected life of 1,500 days (2017: 1,441 days).

29. Related parties

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

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

Relationship and transactions with subsidiaries

Please see Note 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 2018, our executive committee had five members: Mr. Onno van de Stolpe, Mr. Bart Filius, Dr. Piet Wigerinck, Dr. Andre Hoekema and Dr. Walid Abi-Saab. On 31 December 2018, our board of directors consisted of seven members: Mr. Onno van de Stolpe, Dr. Raj Parekh, Dr. Werner Cautreels, Mr. Howard Rowe, Ms. Katrine Bosley, Dr. Christine Mummery and Dr. Mary Kerr. Dr. Harrold van Barlingen's mandate as director expired immediately after the annual shareholders' meeting of 24 April 2018.

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	
	2018	2017
Remuneration of key management personnel:		
Thousands of € (except for the number of warrants)		
Short-term benefits[1]		
Executive committee members as a group	4,702	3,694
Raj Parekh	92	91
Harrold van Barlingen[2]	15	45
Howard Rowe	53	45
Werner Cautreels	48	55
Katrine Bosley	45	45
Christine Mummery	40	41
Mary Kerr	46	41
Post-employment benefits[3]	305	248
Total benefits excluding warrants	**5,346**	**4,305**
Number of warrants granted in the year		
Executive committee members as a group	350,000	475,000
Raj Parekh	15,000	15,000
Harrold van Barlingen[2]		7,500
Howard Rowe	7,500	7,500
Werner Cautreels	7,500	7,500
Katrine Bosley	7,500	7,500
Christine Mummery	7,500	7,500
Mary Kerr	7,500	7,500
Total number of warrants granted in the year	**402,500**	**535,000**
Total cost of warrants granted in the year	**15,507**	**15,699**

(1) Includes for executive committee members: salaries, employer social security contributions, other short-term benefits; includes for board members: board fees, other short-term benefits.
(2) Dr. Van Barlingen's director's mandate expired on 24 April 2018.
(3) Only executive committee members are granted post-employment benefits.

Short-term employee benefits and board fees

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

The five members of the executive committee (including the CEO) who were in function in the course of 2018 were paid an aggregate amount of €1,920.45 thousand in remuneration and received an aggregate amount of €2,569.20 thousand in bonuses (2017: €1,638.71 thousand in remuneration and €1,908.81 thousand in bonuses). The higher amounts in 2018 can be explained by the fact that (a) Dr. Abi-Saab was in function during the entire year in 2018, whereas in 2017 he was in function for only 9 months, (b) the aggregate bonus amount for 2018 also includes the deferred part of an exceptional bonus granted upon the successful Nasdaq listing in 2015, and (c) Dr. Abi-Saab's remuneration of 2018 includes a corrective payment relating to Swiss social security contributions. The aggregate bonus amount for 2018 was composed of three parts: (i) an aggregate bonus of €756.80 thousand, being 50% of the bonus for performance over 2018 (paid in January 2019), with the other 50% being deferred for 3 years, (ii) an aggregate amount of €817.83 thousand as deferred part of the bonus for the performance over 2015 (paid in January 2019), and (iii) an aggregate amount of €994.57 thousand as deferred part of the exceptional special bonus

awarded in 2015 for the successful Nasdaq listing in 2015 (paid in January 2019). The aggregate bonus amount for 2017 was composed of 2 parts: (i) an aggregate bonus of €692.06 thousand, being 50% of the bonus for performance over 2017 (paid in January 2018), with the other 50% being deferred for 3 years, and (ii) an aggregate amount of €1,216.75 thousand as deferred part of the bonus for performance over 2014 (paid in January 2018).

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

Pursuant to the decision of the annual shareholders' meeting of 24 April 2018, Dr. Parekh received €90 thousand (€80 thousand as chair of the board, and €10 thousand as chair of the nomination and remuneration committee), Dr. Cautreels received €47.5 thousand (€40 thousand as non-executive director, €2.5 thousand as chair of the audit committee until 23 April 2018, €3.75 thousand as member of the audit committee as from 23 April 2018, and €1.25 thousand as member of the nomination and remuneration committee until 20 March 2018), Mr. Rowe received €52.5 thousand (€40 thousand as non-executive director, €1.25 thousand as member of the audit committee until 23 April 2018, €7.5 thousand as chair of the audit committee as from 23 April 2018, and €3.75 thousand as member of the nomination and remuneration committee as from 20 March 2018), Ms. Bosley received €45 thousand (€40 thousand as non-executive director, and €5 thousand as member of the nomination and remuneration committee), Dr. Kerr received €43.75 thousand (€40 thousand as non-executive director, and €3.75 thousand as member of the audit committee as from 20 March 2018), Dr. Mummery received €40 thousand as non-executive director, and Dr. Van Barlingen received €15 thousand (€13.3 thousand as non-executive director until 24 April 2018 and €1.7 thousand as member of the audit committee until 20 March 2018). Pursuant to the decision of the annual shareholders' meeting of 25 April 2017, Dr. Parekh received €90 thousand (€80 thousand as chair of the board, and €10 thousand as chair of the nomination and remuneration committee), Dr. Cautreels received €55 thousand (€40 thousand as non-executive director, €10 thousand as chair of the audit committee and €5 thousand as member of the nomination and remuneration committee), Ms. Bosley, Mr. Rowe and Dr. Van Barlingen each received €45 thousand (€40 thousand as non-executive director and €5 thousand as member of the nomination and remuneration committee or audit committee) and Dr. Mummery and Dr. Kerr each received €40 thousand as non-executive director.

Finally, in 2018, a total amount of €3.7 thousand was paid as other short-term benefit for non-executive directors (2017: €2.7 thousand). These benefits related to the payment of tax advisory services.

Post-Employment Benefits

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

Severance payments

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

Warrants granted in 2018

In 2018, 30,000 warrants were granted to independent directors (2017: 37,500) and 22,500 warrants were granted to the other non-executive directors (2017: 22,500). The higher number of warrants granted in 2017 can be explained by the fact that there was one additional independent director in 2017.

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 2018

Name of the subsidiary	Country	% voting right Galapagos NV (directly or indirectly through subsidiaries)	Change in % voting right previous period (2018 vs 2017)
Biofocus DPI AG in liquidation	Switzerland	100%	
Fidelta d.o.o.	Croatia	100%	
Galapagos Biotech Ltd.	United Kingdom	100%	
Galapagos BV	The Netherlands	100%	
Galapagos GmbH	Switzerland	100%	
Galapagos NV	Belgium	Parent company	
Galapagos Real Estate 1 BVBA	Belgium	100%	100%
Galapagos Real Estate 2 BVBA	Belgium	100%	100%
Galapagos SASU	France	100%	
Galapagos, Inc.	United States	100%	
Xenometrix, Inc.	United States	100%	

In the fourth quarter of 2018 we incorporated two new legal entities in Mechelen, Belgium: Galapagos Real Estate 1 BVBA and Galapagos Real Estate 2 BVBA.

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

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

Financial risk factors

Our financial risks are managed centrally. Our finance department coordinates the access to national and international financial markets and considers and manages continuously the financial risks concerning our activities. These relate to the financial markets risk, credit risk, liquidity risk and currency risk. There are no other important risks, such as interest rate risk on borrowings, because we have no financial debt and have a strong cash position. We do not buy or trade financial instruments for speculative purposes.

Categories of financial assets and liabilities:

	31 December	
(thousands of €)	2018	2017
Financial assets held at fair value through profit or loss		
Equity instruments	6,000	1,754
Financial assets at amortized cost		
Cash and cash equivalents	1,290,796	1,151,211
Restricted cash (current and non-current)	1,276	1,158
Trade & other receivables (excl prepayments)	18,467	27,423
R&D incentives receivables (current and non-current)	84,646	75,783
Total financial assets	**1,401,184**	**1,257,329**
Financial liabilities at amortized cost		
Trade and other liabilities	68,038	47,122
Other non-current liabilities	1,502	1,597
Financial lease liabilities	–	9
Tax payable	1,175	865
Total financial liabilities	**70,715**	**49,592**

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. Galapagos has no restrictions on the sale of these equity instruments and the assets are not pledged under any Galapagos' 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.

Liquidity risk

Our cash and cash equivalents amounted to €1,290.8 million on 31 December 2018. Cash used in operating activities amounted to €142.5 million for the year ended 31 December 2018. Management forecasts our liquidity requirements to ensure that we have sufficient cash to meet operational needs. Based upon our current expected level of operating expenditures and our existing cash and cash equivalents, we believe that we will be able to fund our operating expenses and capital expenditure requirements at least for the next three years. We have no credit

lines. Such forecasting is based on realistic assumptions with regards to milestone and upfront payments to be received, taking into account our past track record, including the assumption that not all new projects that are being planned will be realized.

Credit risk

The term "credit risk" refers to the risk that counterparty will default on its contractual obligations resulting in financial loss for us.

The trade receivables consist of a limited amount of creditworthy customers, many of which are large pharmaceutical companies, spread over different geographical areas. To limit the risk of financial losses, we have developed a policy of only dealing with creditworthy counterparties.

We grant credit to our clients in the framework of our normal business activities. Usually, we require no pledge or other collateral to cover the amounts due. Management continuously evaluates the client portfolio for creditworthiness. All 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 €)	2018	2017
60 - 90 days	236	-
90 - 120 days	12	1
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.

Interest rate risk

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

Effect of interest rate fluctuation

A 100 basis points increase in interest rates at balance sheet date would have increased profit and loss, and equity, by approximately €12.9 million (2017: €11.5 million); a 100 basis points decrease in interest rates would have decreased profit and loss, and equity, by approximately €12.9 million (2017: €11.5 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:

	Year ended 31 December	
(thousands of €)	2018	2017
Net book value		
Increase in Euros – U.S. Dollars	(27,200)	(21,083)
Increase in Euros – GB Pounds	100	122
Increase in Euros – CH Francs	208	203
Increase in Euros – HR Kunas	611	(185)
Increase in U.S. Dollars – GB Pounds	(923)	(831)

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

Capital risk factors

We manage our capital to safeguard that we will be able to continue as a going concern. At the same time, we want to ensure the return to our shareholders through the results from our research and development activities.

Our capital structure consists of cash at bank and in hand and cash equivalents, financial debt (which we currently don't have: as of 31 December 2018, we have no financial debt), 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 €414.6 thousand in 2018 (2017: €310.0 thousand). The fees for audit-related services executed by the statutory auditor, in particular other assurance engagements primarily related to the performance of the audit or review of the company's financial statements, amounted to €92.1 thousand in 2018 (2017: €90.8 thousand), of which €12.8 thousand related to legal assignments (2017: €13.0 thousand). Fees for persons related to the statutory auditor for carrying out an auditor's mandate at group level amounted to €27.5 thousand in 2018 (2017: €40.0 thousand). Other fees related to non-audit fees, in particular IT consulting fees, amounted to €134.8 thousand for the year 2018 (2017: €40.5 thousand). The audit committee and the board of directors are of the opinion that these non-audit services do not affect the independence of the 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 20 March 2019, 149,370 warrants were exercised (with an average exercise price of €23.30 per warrant), of which 15,000 warrants were exercised by our CEO, 50,000 warrants by other members of our executive committee, and 11,280 warrants by other members of our board of directors. This resulted in a share capital increase (including issuance premium) of €3,480,747.50 and the issuance of 149,370 new ordinary shares. The closing price of our share on 20 March 2019 was €90.32.

Our consolidated financial statements were approved by the board of directors and authorized for publication, on 26 March 2019. They were signed on behalf of the board of directors by:

(signed)

Onno van de Stolpe
Managing Director and CEO

26 March 2019

Non-consolidated financial statements

Statement of profit and loss

	Year ended 31 December	
(thousands of €)	2018	2017
Turnover	218,961	131,496
Internally generated intangible assets	284,964	198,401
Other operating income	9,224	20,753
Operating income	**513,149**	**350,649**
Raw materials, consumables and goods for resale	(6,215)	(4,763)
Services and other goods	(299,814)	(201,196)
Remuneration, social security costs and pensions	(33,400)	(24,770)
Depreciation, impairment and other amounts written off on constitution costs, intangible and tangible assets	(305,723)	(251,434)
Other operating charges	(8,281)	(7,718)
Non-recurring operating costs	(1,160)	(543)
Operating loss	**(141,443)**	**(139,775)**
Finance income	35,743	8,357
Finance cost	(21,275)	(34,421)
Loss before taxes	**(126,976)**	**(165,839)**
Taxes	11,286	(34)
Loss for the year	**(115,690)**	**(165,874)**
Loss brought forward	(343,858)	(177,984)
Accumulated losses to be carried forward	**(459,547)**	**(343,858)**

Balance sheet

	31 December	
(thousands of €)	2018	2017
Assets		
Non-current assets	**67,704**	**66,148**
Intangible fixed assets	5,576	20,904
Tangible fixed assets	8,958	5,551
Financial fixed assets	53,170	39,693
Current assets	**1,358,360**	**1,220,685**
Inventories	266	267
Trade and other receivables	79,260	32,098
Deferred costs	2,406	1,168
Accrued income	2,457	41,376
Cash and cash equivalents	1,273,970	1,145,775
Total assets	**1,426,064**	**1,286,833**
Equity and liabilities		
Equity	**1,172,722**	**985,031**
Share capital and reserves	294,600	275,510
Share premium account	1,337,670	1,052,915
Accumulated losses	(459,547)	(343,858)
Investment grants	–	464
Liabilities	**253,341**	**301,802**
Non-current liabilities	**857**	**897**
Other liabilities	857	897
Current liabilities	**252,484**	**300,905**
Trade and other payables	137,120	94,665
Obligations under finance lease (current)	–	9
Tax, payroll and social security liabilities	6,406	6,168
Accrued costs	766	1,084
Deferred income	108,192	198,977
Total equity and liabilities	**1,426,064**	**1,286,833**

The non-consolidated annual accounts of Galapagos NV were prepared in accordance with Belgian accounting rules as well as with the legal and regulatory requirements. They show a negative result. The financial year 2018 closed with a loss of €115.7 million compared to a loss of €165.9 million in 2017. Overall, the result of Galapagos NV is affected by the fact that, as from financial year 2010, Galapagos NV capitalizes some of its R&D expenses and revenues that are eligible for such capitalization under Belgian GAAP. This capitalization negatively impacted the net result of Galapagos NV by €1.1 million in 2018, compared to a negative impact of €17.4 million in 2017. The

non-consolidated annual accounts of Galapagos NV show accumulated losses of €459.5 million as at 31 December 2018; 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 2018 – 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 13 consecutive years. We are the statutory auditor of Galapagos NV for 19 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 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated statement of financial position shows total assets of 1 439 496 (000) EUR and the consolidated statement of comprehensive income shows a loss for the year then ended of 29 155 (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 2018 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.

Key audit matters

Revenue recognition for R&D license and collaboration agreements

Revenue for the year ended December 31, 2018 amounts to 289 million EUR, of which 279 million EUR relates to revenue from R&D license and collaboration agreements. These R&D license and collaboration agreements include multiple promises with consideration in the form of upfront payments, developmental milestone payments, reimbursement income, sales-based milestones and royalties. Management has performed a detailed assessment of all R&D license and collaboration agreements to determine the proper revenue accounting treatment under IFRS 15. The determination of revenue recognition for these contracts is complex and required significant management judgment in the following areas:

- Determination of whether the R&D license and collaboration agreement and any subsequent amendment was within the scope of IFRS 15 and whether the agreement should be considered by itself or together with other agreements entered into at or near the same time with the same customer.
- Identification of the distinct performance obligations.
- Determination of the transaction price, taking into account the variable consideration components.
- Allocation of the transaction price to the distinct performance obligations.
- Determination of whether the performance obligations were met at a point in time or over time.
- Appropriateness of the measurement method used to determine the amount of revenue recognized for performance obligations recognized over time.

How our audit addressed the key audit matters

Our audit procedures to address all relevant assumptions for revenue recognition included the following:

- We tested the effectiveness of controls over the determination of the revenue accounting treatment for new and existing R&D license and collaboration agreements that were evaluated by management under IFRS 15.
- We read all R&D license and collaboration agreements and management's accounting position papers to understand the terms of each contract and evaluate management's conclusions.
- We tested the accuracy of the adjustment recorded on January 1, 2018 to reflect the cumulative effect of the adoption of IFRS 15 under the modified retrospective approach by recalculating the adjustment and comparing the inputs to the accounting conclusions taken by management in their position papers.

In relation to management's critical judgments in the determination of revenue recognition for each R&D license and collaboration agreement, our audit procedures included the following, among others:

Determination of whether contracts were in the scope of IFRS 15

- We read the key terms of each contract to understand the nature of the R&D license and collaborations agreements and the responsibilities of each party in the contract. We consulted with our IFRS specialists to evaluate whether the collaboration agreements were within the scope of IFRS 15.

Identification of distinct performance obligations

- We tested management's identification of distinct performance obligations by evaluating whether the underlying license, services, or both were highly interdependent and interrelated. We read minutes of steering committees meetings and management's position papers to understand the customer's intended use of the licenses and R&D services in each collaboration.

Determination of the transaction price, including variable consideration

- We compared the transaction prices to the consideration expected to be received based on current rights and obligations specified in the R&D license and collaboration agreements and any modifications that were agreed upon with the customers. We considered industry practice in the determination of the most likely amount of any variable consideration.

Allocation of the transaction price to distinct performance obligations

- To the extent an R&D license and collaboration agreement did not represent a single distinct performance obligation, we tested the allocation of the transaction price to each distinct performance obligation by comparing the relative standalone selling prices to the selling prices of similar R&D services. This involved a comparison against internal R&D rates as well as observable market prices.

Determination of point in time vs. over time revenue recognition

- We read the terms and conditions of each R&D license and collaboration agreement and consulted with our IFRS specialists to assess whether continuous transfer of control to the customer occurred as progress was made toward fulfilling each identified performance obligation.

Appropriateness of the measurement method used to determine revenue recognized over time

- We evaluated management's use of an input model based on percentage of costs incurred to determine revenue recognition by comparing actual costs incurred to development plans and budgets in order to assess whether the percentage of completion method represents the progress made towards fulfilling the performance obligation.
- We tested the progress of each R&D license and collaboration agreement and the corresponding revenue recognized as of December 31, 2018 by interviewing project and finance management, reading minutes of steering committees, and analyzing project management reporting.

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.

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

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

From the matters communicated to 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 (revised in 2018) 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 matters disclosed in this report

In our opinion, after performing the specific procedures on the directors' report on the consolidated financial statements, this report is consistent with the consolidated financial statements for the period ended 31 December 2018 and it has been established in accordance with the requirements of article 119 of the Companies Code.

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

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

Statements regarding independence

- 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 134 of the Companies Code, have been properly disclosed and disaggregated in the notes to the consolidated financial statements.

Other statements

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

Zaventem, 29 March 2019
The statutory auditor

Deloitte Bedrijfsrevisoren/Réviseurs d'Entreprises CVBA/SCRL
Represented by Gert Vanhees

Glossary of terms

Glossary of terms, to be read only in conjunction with this Annual Report 2018.

100 points clinical response

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

ACR

American College of Rheumatology

ACR20 (ACR 20/50/70)

American College of Rheumatology 20% response rate signifies a 20% or greater improvement in the number of swollen and tender joints as well as a 20% or greater improvement in three out of five other disease-activity measures. ACR50 and ACR70 reflect the same, for 50% and 70% response rates, respectively

ADAMTS-5

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

ADS

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

AFM

Dutch Authority for the Financial Markets

Anemia

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

Ankylosing spondylitis (AS)

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

(Anti-)TNF

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

ASDAS

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

Atherogenic index

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

Atopic dermatitis (AtD)

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

Attrition rate

The historical success rate for drug discovery and development, based on publicly known development paths. Statistically seen, investment in at least 12 target-based programs is required to ensure that at least one of these will reach a Phase 3 study. Most new drug R&D programs are discontinued before reaching Phase 3 because they are not successful enough to be approved

Autotaxin (ATX)

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

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

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

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

DAS28 (CRP)

DAS28 is an RA Disease Activity Score based on a calculation that uses tender and swollen joint counts of 28 defined joints, the physician's global health assessment and a serum marker for inflammation, such as C-reactive protein. DAS28 (CRP) includes the C-reactive protein score calculation: scores range from 2.0 to 10.0, with scores below 2.6 being considered remission

Development

All activities required to bring a new drug to the market. This includes 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 which showed activity and favorable tolerability in RA and CD patients in Phase 2 trials. Filgotinib is partnered with Gilead. Galapagos and Gilead are running Phase 3 trials with filgotinib in RA, CD, and UC and Phase 2 trials with filgotinib in additional indications. Filgotinib is an investigational drug and its efficacy and safety have not been established

FINCH

Phase 3 program evaluating filgotinib in RA

Fistulizing CD

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

FITZROY

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

FLORA

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

FRI

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

FSMA

The Belgian market authority: Financial Services and Markets Authority, or Autoriteit voor Financiële Diensten en Markten

FTE

Full-time equivalent; a way to measure an employee's involvement in a project. For example, an FTE of 1.0 means that the equivalent work of one full-time worker was used on the project

FVC

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

GECKO

A Phase 2 trial evaluating a subcutaneaous formulation of MOR106 in combination with topical corticosteroids. This Phase 2 trial was initiated early 2019

GLPG0555

A preclinical 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. Fully proprietary to Galapagos. 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

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 are recruiting the ROCCELLA global Phase 2b trial with GLPG1972/S201086

GLPG2534

A preclinical candidate with undisclosed mode of action. GLPG2534 is expected to enter Phase 1 trials in 2019

GLPG2737

A preclinical candidate with undisclosed novel mode of action. This compound is part of the CF collaboration with AbbVie but Galapagos regained rights outside of CF

GLPG3121

A preclinical candidate with undisclosed novel mode of action directed toward inflammation. GLPG3121 is expected to enter Phase 1 trials in 2019

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 preclinical candidate with undisclosed mode of action directed toward inflammation. GLPG3667 is expected to enter Phase 1 trials in 2019

GLPG3970

A preclinical candidate with a undisclosed mode of action directed toward inflammation. GLPG3970, which is part of the Toledo target family, is expected to enter Phase 1 trials in 2019

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

IGUANA

Phase 2 trial together with our partners MophoSys and Novartis, investigating MOR106 in AtD patients

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

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

MANTA

A Phase 2 trial with filgotinib to evaluate male testicular safety in patients with UC

Milestone

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

Molecule collections

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

MOR106

A novel mode-of-action antibody product candidate currently in a Phase 2 trial in AtD patients. MOR106 acts on IL-17C, a novel antibody target discovered by Galapagos. MOR106 is part of the alliance with MorphoSys and Novartis

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

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

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

PINTA

Phase 2 trial with GPR84 inhibitor GLPG1205 in IPF patients

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 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

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

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

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

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

Financial calendar

24 April 2019

First quarter 2019 results

30 April 2019

Annual Shareholders' Meeting in Mechelen

25 July 2019

Half year 2019 results

25 October 2019

Third quarter 2019 results

20 February 2020

Full year 2019 results

Colophon

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

Photography
Aldo Allessi

Video 'Think Big'
Deep Thought Productions

Copy deadline: 29 March 2019

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

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