Galápagos

Discover. Develop. Deliver.

Annual Report 2016

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Chantal Tasset

Head of Development

Letter from the management

Dear shareholder,

The year 2016 was excellent for Galapagos: we strengthened our pipeline of new medicines and created a solid basis for continued growth in the coming years. With filgotinib in major Phase 3 trials for rheumatoid arthritis, Crohn's disease and ulcerative colitis, we have entered the final phase before our first drug may enter the market. This program has a long history since the identification of the JAK1 target in 2004. It is thanks to the belief, the stamina, and the excellence of the Galapagos team that filgotinib is now seen as one of the most promising potential new treatment options for inflammatory diseases. We are reliving that journey with other molecules in our pipeline. Most notably, in our cystic fibrosis program we are planning to test a triple combination therapy in patients in mid-2017, which could be a major breakthrough for the vast majority of patients with this disease.

The Galapagos strategy has remained unchanged over the years: with our patented technology platform we continue to identify novel drug targets in human cells. Based on these targets, we develop small molecule drugs that we take through clinical development. We have come a long way, evolving from a technology company into a fully integrated R&D organization. Now is the time to prepare for the next step: to deliver our innovative medicines to the patients. To that end, we plan to build our commercial infrastructure to be ready when filgotinib is expected to be launched, and this infrastructure can be expanded once other Galapagos medicines reach that stage. Galapagos delivers in R&D and in our collaborations; we aim to deliver to patients as well.

Our growth continues to accelerate: we are expanding our development organization in 2017. This will be a challenge, but we like challenges. We are looking for exceptional people who want to play an important part in our adventure. We seek experts in drug development who feel comfortable in a work place that has the explorative and dynamic culture of a biotech, as well as the success and certainty of a pharma. Smart people, who think big, push their limits, and share our ambition to have impact. We want to deliver.

Proudly we present our annual report 2016, reflecting the important progress made last year.

2016: Extending our success in R&D

In the field of inflammation:

- Closed our global collaboration with Gilead on filgotinib, received $300 million upfront fee and $425 million equity investment from Gilead
- Reported promising safety and activity profile with filgotinib at 20 weeks in the FITZROY Phase 2 study in Crohn's disease
- Disclosed achievement of high endoscopy and statistically significant histopathology scores versus placebo at 10 weeks in FITZROY; these and other FITZROY data were published in *The Lancet*
- Initiated the FINCH Phase 3 program with filgotinib in rheumatoid arthritis, the DIVERSITY Phase 3 program in Crohn's disease, and the SELECTION Phase 2b/3 program in ulcerative colitis
- Initiated a Phase 1b study with antibody MOR106, dosed first atopic dermatitis patients, and disclosed novel Galapagos target IL-17C of MOR106, all in our collaboration with MorphoSys
- Nominated pre-clinical candidate GLPG2534 in atopic dermatitis

- Reported that GLPG1205 was well tolerated and safe but did not show competitive activity versus placebo in the ORIGIN Phase 2 study

In cystic fibrosis:

- Expanded the collaboration with AbbVie to include an additional $250 million in Phase 1 and 2 milestones
- Disclosed favorable safety and tolerability in the Phase 1 study with C1 corrector GLPG2222
- Initiated a Phase 1 study with potentiator GLPG2451
- Initiated a Phase 1 study with C2 corrector GLPG2737
- Nominated 3 pre-clinical candidates: C2 corrector GLPG3221, potentiator GLPG3067, and C1 corrector GLPG2851
- Reported activity and favorable safety with novel potentiator GLPG1837 in our SAPHIRA Phase 2 studies in Class III mutation patients

In osteoarthritis:

- Reported good safety and tolerability as well as up to 60% reduction in a biomarker for cartilage breakdown within two weeks in healthy human volunteers in a Phase 1 study with candidate GLPG1972 in the alliance with Servier

In pulmonary disease:

- Initiated the FLORA Phase 2a study with GLPG1690 in idiopathic pulmonary fibrosis (IPF) patients
- Received orphan drug status in Europe for GLPG1690
- Nominated new pre-clinical candidate GLPG2938 for IPF

Grants:

- Received a €1.2 million Flemish government grant for our type 2 diabetes program

Corporate

- Appointed Dr. Mary Kerr as director of Galapagos
- Raised €4.3 million from warrant exercises
- Were included in the AEX and Bel20 main indices in Amsterdam and Brussels
- Were included in the Stoxx Europe 600 index

2016: Details of the financial results

Revenues

Galapagos' revenues and other income for 2016 amounted to €151.6 million, compared to €60.6 million in 2015. Increased revenues were mainly driven by a substantial increase in milestone payments from our collaboration partners.

Operating result

The group realized a net operating loss in 2016 of €11.5 million, compared to a net operating loss of €89.4 million in 2015.

R&D expenses for the group in 2016 were €139.6 million compared to €129.7 million in 2015. This planned increase was due mainly to increased efforts on our clinical and pre-clinical programs, primarily the cystic fibrosis program and the proprietary pre-clinical programs in inflammation, HBV and fibrosis.

G&A and S&M expenses of the group were €23.5 million in 2016, compared to €20.3 million in 2015. This increase was due primarily to non-cash items such as a higher payable for short term and long term management bonus and higher costs for warrant plans, mainly as a result of the increase of the Galapagos share price.

Non-cash adjustment on short term financial asset

In 2015, Galapagos recognized a short term financial asset worth €39 million and an offsetting deferred income of €39 million upon signing of the share subscription agreement with Gilead, as required under IAS 39. This financial asset initially reflected the share premium that Gilead committed to pay above the closing share price of Galapagos on the day of signing of the share subscription agreement. Under IAS 39, the fair value of the financial asset was re-measured at year end and again upon entering into force of the share subscription agreement on 19 January 2016, when the financial asset expired. Variations in fair value of the financial asset were recorded in the income statement.

The decrease in the fair value of the financial asset resulting from the increase in the Galapagos share price between signing of the share subscription agreement and 31 December 2015, resulted in a negative, non-cash fair value charge of €30.6 million in the 2015 financial results. The subsequent increase in the fair value of the financial asset resulting from the decrease in the Galapagos share price between 1 January 2016 and 19 January 2016 resulted in a positive non-cash gain of €57.5 million in the financial result of 2016.

The €65.9 million current financial asset from the share subscription agreement reflected the premium that Gilead paid compared to the closing price of the Galapagos share on the day of the capital increase. This financial asset expired on 19 January 2016, the effective date of the share subscription agreement and was derecognized through the share premium account.

Cash position

Cash, cash equivalents, and restricted cash totaled €980.9 million on 31 December 2016.

A net increase of €632.7 million in cash, cash equivalents and restricted cash was recorded in 2016. Net cash flows from financing activities generated €391.8 million through a subscription of Galapagos shares by Gilead, as well as €4.3 million from warrant exercises. Furthermore, a net cash inflow from operating activities was realized for €239.4 million in 2016 resulting from the license fee of $300 million (€275.6 million) received from Gilead and, by difference, from an operating cash burn of €36.2 million. Finally, €7.3 million was used in investing activities and €4.8 million positive exchange rate differences were generated on cash and cash equivalents. When excluding the license fee and milestone payments from Gilead (€56.4 million), the net cash outflows used in operating and investing activities amount to €100.3 million.

Furthermore, Galapagos' balance sheet holds an unconditional and unrestricted receivable from the French government (*Crédit d'Impôt Recherche*[1]) now amounting to €34.2 million, payable in 4 yearly tranches. Galapagos' balance sheet also holds a receivable from the Belgian Government for R&D incentives now amounting to €30.2 million.

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

Outlook 2017

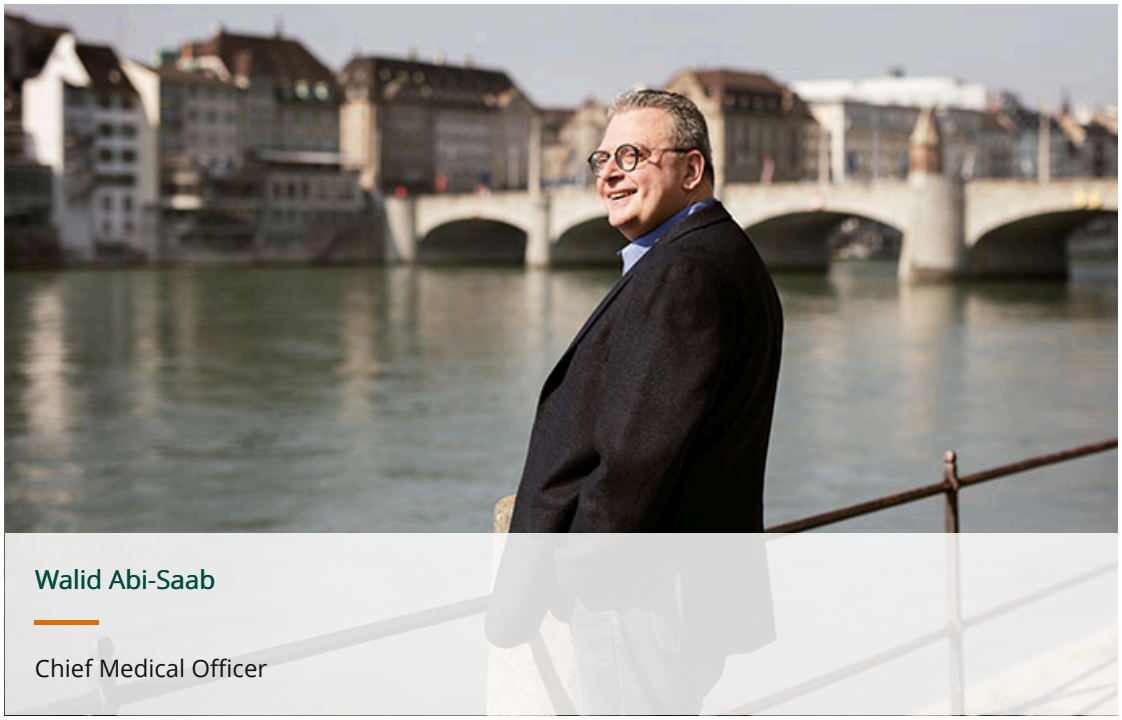
Galapagos aims to initiate a CF patient evaluation of its triple combination therapy by mid-2017, as well as multiple new clinical studies with CF candidates and combinations throughout the year. Together with our collaboration partner Gilead we plan to start multiple proof-of-concept studies with filgotinib. Topline results from the FLORA Phase 2a study with GLPG1690 in IPF and from the Phase 1b study with MOR106 in atopic dermatitis patients are expected in the second half of 2017. Galapagos expects to initiate a Phase 1b study with GLPG1972 in osteoarthritis patients in the US, as well as Phase 1 studies with GLPG2938 (IPF) and with GLPG2534 (atopic dermatitis).

Galapagos expects an operational cash burn of €135-155 million during 2017.

I wish to thank our shareholders again for their support last year. We ended 2016 in the best shape yet, both financially and operationally. We plan to advance our triple combination therapy in CF to patient studies, to progress the rest of our pipeline, and to work with our collaboration partner Gilead to explore filgotinib broadly in inflammation.

Regards,
Onno van de Stolpe
CEO

‘Let’s keep the desire to excel’



Walid Abi-Saab

Chief Medical Officer

Walid Abi-Saab has just begun at Galapagos as the Chief Medical Officer. He brings decades of experience in medicine, psychiatry and the pharmaceutical industry.

‘Having worked across several different departments, I’ve been able to explore the gaps between them and facilitate very open, interdepartmental exchanges of ideas, which is vital. Functioning with open communication, a shared understanding, and cross functional fertilization is a winning recipe for overcoming major challenges and advancing rapidly in development.’

Role at Galapagos

‘For the next few years, my primary responsibility will be the improvement of our late-stage development capabilities: help the company grow, in other words. But this has to be done while keeping in mind the history of the company. If we keep the freedom, the desire to excel and the low hierarchy that have made Galapagos the company it is, we could grow and maintain our identity.’

“

We have to keep moving forward. What’s the point otherwise?

Motivation

‘We have to keep moving forward. What’s the point otherwise? Drug development is undeniably difficult, but it’s also inspiring: what we produce helps people, leaves them feeling better and living longer. We never lose sight of that, no matter how big the difficulties or how hard the work becomes. Any product we develop will benefit someone who is suffering. And there are not a lot of people who can say that about their jobs. Knowing this gets me up in the morning. It encourages me to do better.’

Pushing the limits

‘You have to ask yourself: do things that don’t require any thinking or challenge actually bring anything to the table? We have a commitment to push harder and advance, especially in medicine and drug development. The line of work is not easy, but that’s not a reason for giving up. If I reach a limit, I’ll take a step back and ask why. I’ll try again from a different angle, I’ll persevere. I won’t give up.’

‘Challenges are there to be solved’

Ellen van der Aar

Head of Development

As Head of Development and Project Leader, Ellen van der Aar is responsible for clinical stage treatments for idiopathic pulmonary fibrosis (IPF) and osteoarthritis. She often finds her work pushes her limits – but sees the benefit in this.

‘If you had asked me five years ago, I would never have expected I would be doing this. I’ve moved far away from my own background to do things I’ve never done before. It’s challenging in a good way. I’m constantly learning new things.’

Broad horizons

‘When I started at Galapagos, it was in Research and one of the projects I was working on was in IPF. The therapy moved to Development and I moved with it; it’s very different work. IPF is an orphan disease and I had developed a rapport with the few people specializing in it. Now, I’m leading the project. Different skills again, but they meet my interests.’

Pushing the limits

‘I want to learn. And challenges are there to be solved. It means working longer hours than I might like, but even so, my investigations still barely scratch the surface. There’s so much more I want to learn, more depth I would like to go to in my work to further my understanding. Galapagos appreciates this situation; they’re hiring extra staff.’

If you had asked me five years ago, I would never have expected I would be doing this.

Deadlines

'They push me more than anything. We have setbacks – they're inevitable – and still strive to meet deadlines. It's a commitment to the patients and our shareholders. If we consider changing our approach, the management team responds very quickly. Thankfully! In big pharma companies, you might have to wait weeks for an answer.'

Is the grass greener?

'There's significant stress. There are always deadlines. There are unexpected events that require us to step up and go the extra mile. But despite this, the positives make it all worthwhile. I wouldn't want to give it up.'

‘You’re contributing to the company’s success’

Veronique Deiteren

Head of Human Resources

Veronique Deiteren is responsible for HR at three sites in three different countries. She was promoted into the role just a year and a half ago.

“With every new responsibility I’ve been given I’ve been pushed to go out of my comfort zone. It is quite challenging and scary sometimes, but it’s what makes me grow as a person, and it is even more rewarding when you then succeed and feel appreciated. When I stepped into this position, parts of the HR teams for Mechelen and Romainville were entirely new. They needed training; we all needed to catch up. We installed new recruitment programs and new systems which have enabled us to operate more efficiently, and we need to. We have 374 people doing work at the Belgian, Dutch, and French sites now, with more than 50 to join next year and another 50 the following year. It introduces major challenges.’

Expertise and experience

‘Finding qualified people with experience in clinical projects and the industrial environment is a challenge for recruiters. The Belgian biotech and pharma industry is not that large, so we look further afield for people with the right qualifications, specific knowledge and expertise that allows them to go straight to work.’

People with the ability to bring their own ideas and innovate, are our best asset.

Being competitive

'Working at Galapagos is very demanding and challenging. You have to be prepared to push your limits. But in return, you really feel like you're contributing to the company's success; people want to be part of that and our pipeline and exciting projects. We still need to stay competitive, meet expectations and industry standards, and manage change.'

Maintaining values

'As we grow, Galapagos will have more processes and procedures, but we want to make sure that the way we work today is still in place: with people participating in a workplace where they are treated equally and with respect, and where their opinions are valued. We don't want to become one of those companies that take forever to make a decision. People with the ability to bring their own ideas and innovate, are our best asset. We are determined to keep what we have.'

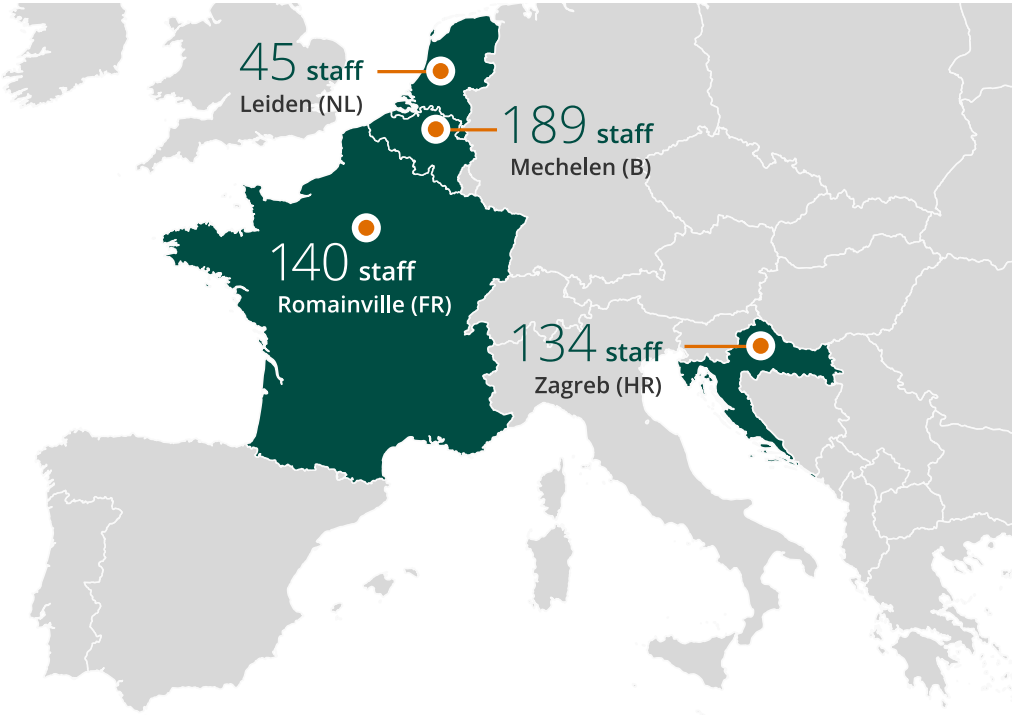
At a glance

Key figures (IFRS)

Galapagos group (in € thousands, if not stated otherwise)	31/12/2016	31/12/2015	31/12/2014
Results[1]			
Revenues and other income	151,612	60,579	90,021
R&D expenditure	(139,573)	(129,714)	(111,110)
S, G&A expenses	(23,530)	(20,308)	(14,867)
Restructuring and integration costs	–	–	(669)
Personnel expenses (including share-based compensation)	(53,530)	(47,034)	(38,447)
Capital expenditure	4,790	6,665	2,804
Depreciation and amortization of (in)tangible assets	(4,182)	(3,402)	(3,765)
Operating loss	(11,491)	(89,444)	(36,624)
Net financial results	65,737	(30,184)	1,424
Taxes	(235)	1,218	(2,103)
Net income / loss (–) from continuing operations	54,012	(118,410)	(37,303)
Net income from discontinued operations	–	–	70,514
Net income / loss (–)	54,012	(118,410)	33,211
Balance sheet			
Total assets	1,083,338	442,514	270,467
Cash, cash equivalents and restricted cash	980,909	348,216	198,440
Total liabilities	324,637	77,515	64,332
Stockholders' equity	758,701	364,999	206,135
Galapagos share			
Number of shares issued on 31 December	46,256,078	39,076,342	30,299,129
Basic income / loss (–) per share (in €)	1.18	(3.32)	1.10
Diluted income / loss (–) per share (in €)	1.14	(3.32)	1.10
Share price on 31 December (in €)	60.94	56.76	15.49
Personnel data			
Total group employees on 31 December (number)	508	435	417

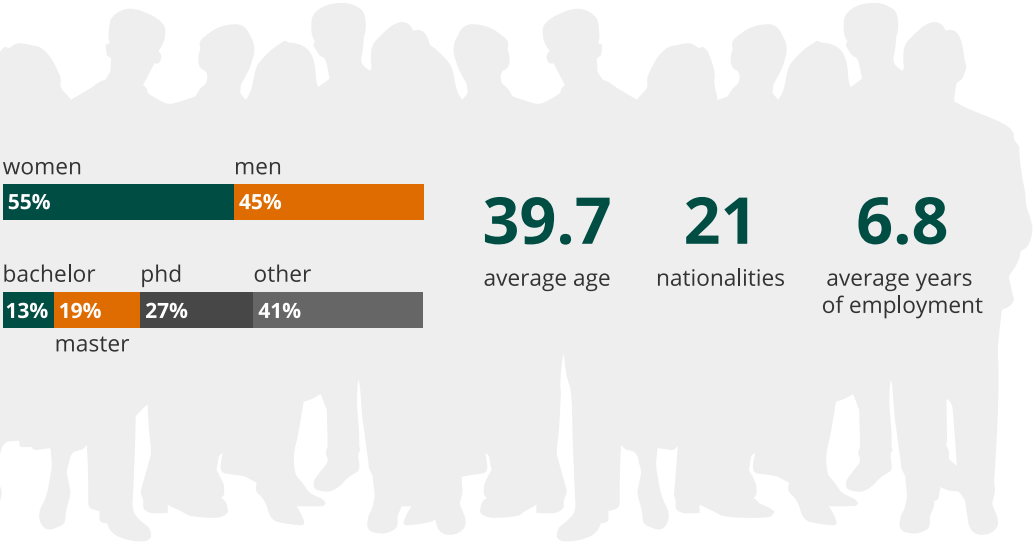
[1] Service activities (sold to Charles River on 1 April 2014) for the year 2014 are shown on the line item "Net income from discontinued operations". All other line items consist of amounts from continuing operations, except for line item "Net income / loss (–)", which includes both continuing and discontinued operations.

Employees per site



Number of R&D employees[1]

374



39.7
average age

21
nationalities

6.8
average years of employment

[1] Total Galapagos R&D (Mechelen, Leiden, Romainville), including external consultants. Total head count Galapagos group (Galapagos R&D and Fidelta) including external consultants amounts to 508.

Strategy

We seek to develop a robust portfolio of breakthrough therapies. Our ambition is to become a fully integrated biopharmaceutical company focused on the development and commercialization of novel medicines. Our strategy is to leverage our unique and proprietary target discovery platform, which facilitates discovery and development of therapies with novel modes of action which address the root causes of the disease.

Key elements of our strategy include:

- **Rapidly advance the development and commercialization of filgotinib with our collaboration partner Gilead in RA, CD, UC and potentially other inflammatory diseases**
  Based on the results from our Phase 2 clinical trials, we believe that filgotinib is a promising candidate for the treatment of RA, CD, UC and potentially other inflammatory diseases. Our collaboration partner Gilead initiated Phase 3 clinical programs in RA, CD and UC in 2016. We retained an option to co-promote filgotinib with Gilead in the UK, Germany, France, Italy, Spain, the Netherlands, Belgium, and Luxembourg; exercising this option would enable us to build a commercial organization and further progress our ambition to become a fully integrated biopharmaceutical company.

- **Collaborate with our collaboration partner AbbVie to develop a CF franchise of triple combination oral therapies**
  In order to address the unmet need in CF patients with Class II and other mutations in the CFTR gene, we aim to develop a triple combination therapy comprising a potentiator and two corrector molecules. Our most advanced candidate drug potentiator GLPG1837, showed promising activity and favorable safety, with observed treatment emergent adverse events being predominantly mild or moderate, in CF patients with the Class III mutation of the CFTR gene in a Phase 2 trial late in 2016. This trial also provided data necessary to validate our *in vitro* assays and dosing modelling for developing a triple combination therapy. We initiated a Phase 1 trial for a second potentiator candidate GLPG2451 in May 2016. We reported positive topline results from a Phase 1 trial for our C1 corrector candidate, GLPG2222, in June 2016 and initiated a Phase 2 trial on top of Kalydeco®[2] in Class III mutation patients in January 2017. We initiated a Phase 1 trial for our C2 corrector GLPG2737 in November 2016. We dosed the first healthy volunteer with a combination of GLPG2451 and GLPG2222 in February 2017. We aim to evaluate a once-daily, oral, triple combination therapy in CF patients starting in mid-2017, with additional trials with novel CF compounds initiating throughout 2017. In March 2017 we initiated a Phase 1 trial with GLPG3067. We have an exclusive collaboration agreement with AbbVie to jointly discover, develop, and commercialize these novel CF modulators.

- **Advance GLPG1690 in patient clinical trials in IPF**
  We have completed the enrollment of IPF patients in a Phase 2a trial evaluating target and disease biomarker changes during three months' treatment with autotaxin inhibitor GLPG1690 or placebo, and we intend to disclose topline results of this trial in the second half of 2017. We have worldwide development and commercialization rights for GLPG1690.

[2] Kalydeco® is a potentiator drug marketed by Vertex Pharmaceuticals.

- **Advance GLPG1972 in OA patient clinical trials in the United States**
  In June 2016, we announced that a Phase 1 first-in-human trial of GLPG1972, a novel mechanism of action medicine for the treatment of osteoarthritis (OA), showed the drug reduced a cartilage breakdown biomarker in healthy volunteers by up to 60% within two weeks. We retain all development and commercialization rights to this compound in the United States (U.S.), and we intend to initiate clinical trials of GLPG1972 in the U.S. in 2017. Additional data resulting from an ongoing non-clinical program expected in the second quarter of 2017 will enable our collaboration partner Servier to make a decision regarding exercising its option to license the compound for further development in OA patient trials outside the U.S.

- **Advance MOR106 in AtD patient clinical Phase 1 trials with our collaboration partner MorphoSys**
  In April 2016, we initiated a Phase 1 first-in-human trial and in October 2016, we announced first dosing of an atopic dermatitis (AtD) patient with MOR106, a novel human monoclonal antibody medicine in development with MorphoSys in a Phase 1b trial. MOR106 targets IL17-C, a novel antibody target discovered by us. MorphoSys and we share costs and potential benefits equally in this collaboration. Topline data from the Phase 1b trial with MOR106 are expected in the second half of 2017.

- **Maximize and capture the value of our target discovery platform by becoming a fully integrated biopharmaceutical company**
  Our platform has yielded many new mode-of-action investigational therapies across multiple therapeutic areas. Our most mature pre-clinical programs are GLPG2534 for AtD and GLPG2938 for IPF, both of which we plan to take into Phase 1 trials in 2017. Additionally, we are exploring the potential of development programs and pre-clinical drug candidates in ankylosing spondylitis, psoriatic arthritis, lupus, 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 eight new validated targets and three pre-clinical candidate drugs every year. We aim to select promising programs for internal development and commercialization to capture greater value for shareholders and establish ourselves as a fully integrated biopharmaceutical company.

Going concern statement

To date, we have incurred significant operating losses, which is reflected in the balance sheet showing €112.3 million accumulated losses as at 31 December 2016. We realized a consolidated net profit of €54.0 million for the year ended 31 December 2016. The board of directors has examined the financial statements and accounting policies. Based on conservative assumptions, we believe that our existing cash, cash equivalents and restricted cash of €980.9 million at 31 December 2016 will enable us to fund our operating expenses and capital expenditure requirements at least through the next two to 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 case 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 33 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 U.S. Securities and Exchange Commission, or SEC, and became a large accelerated filer within the meaning of Rule 12b-2 of the U.S. Securities Exchange Act of 1934, as of year-end 2016, 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 2016 management has reviewed and formalized 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.

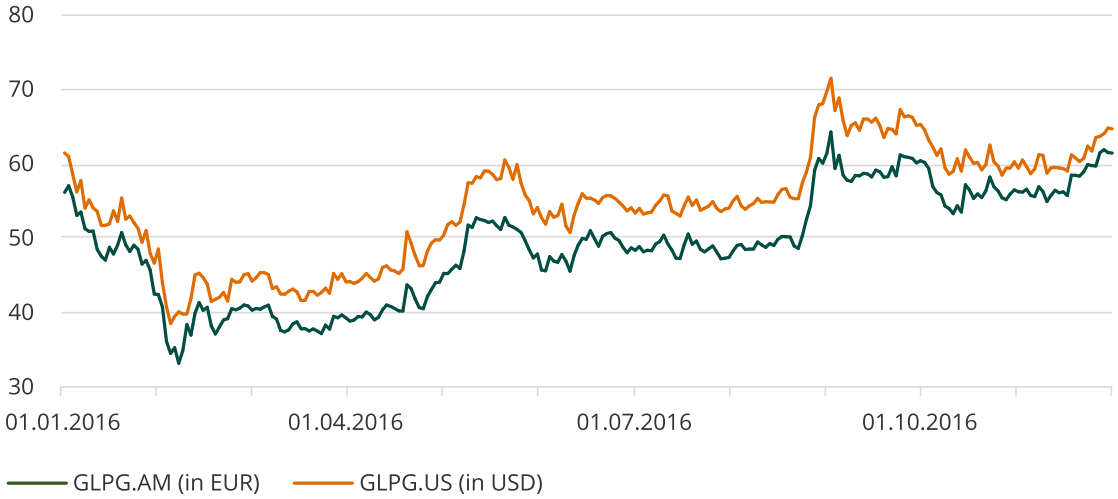
As described in Section 404 of the U.S. Sarbanes-Oxley Act of 2002 and the rules implementing such act, we will include the management and the statutory auditor's assessment of the effectiveness of internal control over financial reporting in our annual report on Form 20-F, which is expected to be filed 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 2016.

The Galapagos share

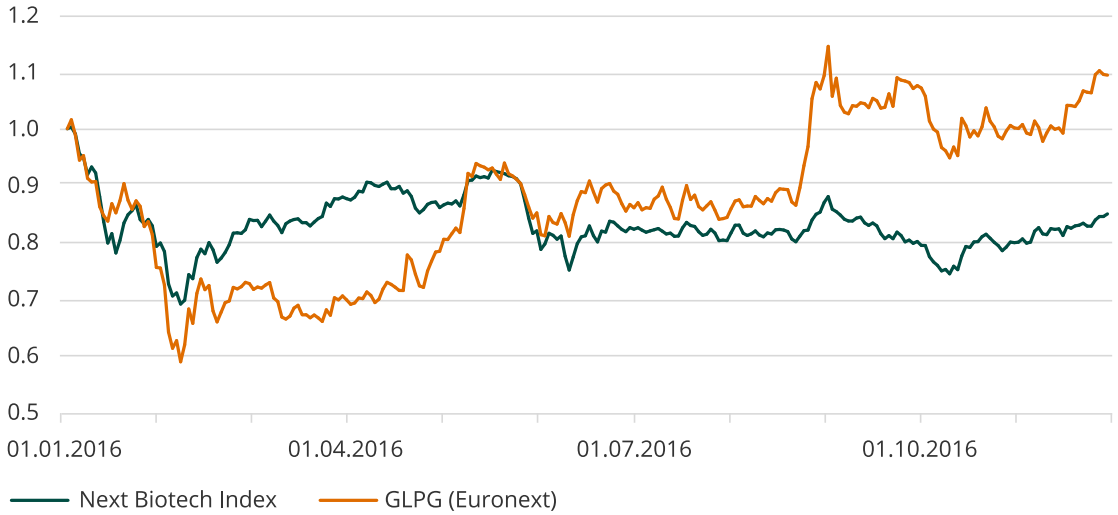
Galapagos NV (ticker: GLPG) has been listed on Euronext Amsterdam and Brussels since 6 May 2005 and on the NASDAQ Global Select Market since 14 May 2015. Galapagos NV forms part of the Bel20 index (top 20 listed companies) on Euronext Brussels and the AEX Index (top 25 listed companies) on Euronext Amsterdam.

The Galapagos share in 2016

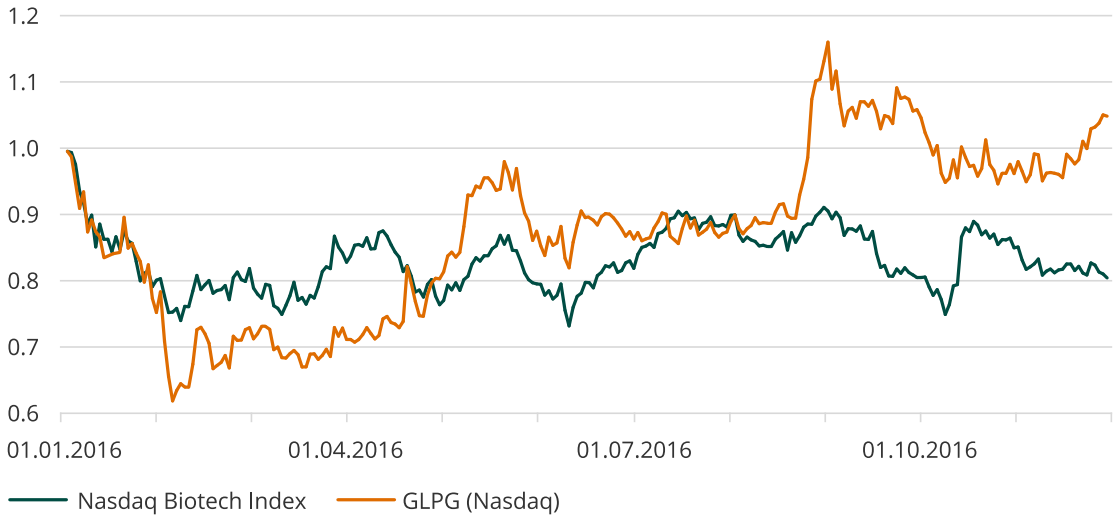


In 2016, the average daily trading volume on Euronext was 259,885 shares and €13 million turnover. The daily trading volume on NASDAQ in 2016 was 91,397 ADSs and $5.0 million turnover.

Galapagos vs Next Biotech Index in 2016



Galapagos vs Nasdaq Biotechnology Index



Investor relations activities

We attracted additional sell-side analyst coverage by U.S. banks. Our IR team presented at a number of conferences in 2016 and did several of broker-organized and self-organized roadshows throughout the U.S. and Europe. We presented Full Year, Half Year and Q1 and Q3 2016 results and our R&D Update via webcasts.

The main topics of discussion with investors included the filgotinib DARWIN and FITZROY program results and progress on our plans to develop a triple combination therapy for cystic fibrosis patients.

Subsequent events

On 17 January 2017 we announced the appointment of Dr. Walid Abi-Saab as Chief Medical Officer and member of the executive committee, beginning on 1 March 2017.

On 20 January 2017 the board of directors conditionally issued 150,000 warrants within the framework of the authorized capital, for the benefit of Dr. Abi-Saab ("Warrant Plan 2016 (B)"). The issuance of the warrants is subject to acceptance by Dr. Abi-Saab. These warrants have a term of eight years and an exercise price of €62.50.

On 1 February 2017 we announced the dosing of the first patient with CF Class III (F508del and a gating mutation like G551D) with our novel CF corrector GLPG2222 as an add-on to Kalydeco in a Phase 2a study. We also announced the opening of an Investigational New Drug file with the U.S. Food & Drug Administration for GLPG2222, which triggered a $10 million milestone payment from AbbVie to Galapagos.

On 10 March 2017 we announced the initiation of two additional Phase 2 studies with filgotinib: one in small bowel Crohn's disease, and one in fistulizing Crohn's disease.

On 22 March 2017 we announced the initiation of a Phase 1 trial with GLPG3067, triggering a $7.5 million milestone payment from our collaboration partner AbbVie.

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 2016 amounted to €303.3 million compared to €193.1 million in 2015. This increase was mainly due to higher turnover (i.e. R&D revenues), which increased by €102.1 million, primarily driven by increased milestone revenues. In addition, internally generated intangible assets – being capitalized R&D expenses – contributed €7.1 million more to operating income than previous year. The other operating income amounted to €16.3 million, including €4.7 million of grants recognized for R&D projects, €2.7 million of recharges to subsidiaries and €5.8 million recognized for tax incentives for investments in intangible fixed assets.

The operating costs of 2016 amounted to €350.0 million compared to €242.9 million in 2015. Material purchases decreased slightly from €4.4 million in 2015 to €4.3 million in 2016. Services and other goods decreased to €119.3 million compared to €131.7 million in 2015, primarily due to €19.4 million of one-off costs in 2015 related to the global offering of ordinary shares on 19 May 2015 (NASDAQ IPO), slightly offset by increased internal subcontracting for our pre-clinical studies and clinical trials as well as increased fees for insourced personnel.

Personnel costs in 2016 amounted to €16.6 million compared to €15.7 million in 2015. The number of employees at Galapagos NV at the end of 2016 amounted to 154, excluding insourced personnel.

Depreciation increased to €203.5 million in 2016, compared to €82.6 million in 2015. This was due to amortization booked on the internally generated intangible assets capitalized in 2013, 2014, 2015 and 2016, for which the internally generated intangible assets capitalized in 2016 were fully amortized in 2016, which explained the substantial increase.

Galapagos NV's 2016 financial income increased significantly to €8.9 million compared to €1.6 million in 2015 and can mainly be explained by increased currency exchange gains on U.S. dollar. Financial costs amouned to €1.5 million compared to €1.2 million in 2015.

Extraordinary costs amounted to €5.9 million in 2016, compared to €13.5 million in 2015, which primarily consisted of extraordinary write-offs of capitalized R&D costs with regard to alliances which ended or programs which were placed on hold (€5.4 million in 2016, compared to €13.2 million in 2015).

Tax expenses recorded in 2016 (€19 thousand) related mainly to an income tax adjustment on the result of prior periods. No tax expenses were recorded in 2015.

Galapagos NV capitalizes its incurred R&D expenses to the extent that the costs capitalized do not exceed a prudent estimate of their value in use or their future economic benefits for the entity. The ability to recover the capitalized amounts takes into account assumptions (i.e. future peak sales, market share, sales price, attrition rates regarding the successful completion of the different R&D phases) which have a highly judgmental nature and depend on the outcome of uncertain factors which are beyond the control of the entity (i.e. test results). The achievement of these assumptions is critical and may impact the recoverability of the amounts capitalized. The net book value of capitalized R&D expenditure amounted to €70.8 million in 2016 compared to €153.0 million in 2015. The driver for this significant decrease was a change in accounting practices in 2016 with regard to internally generated intangible assets: R&D expenses capitalized as from 2016 onwards are fully amortized in the year itself. R&D expenses capitalized in previous years are still amortized over a 3-year period.

Investments in fixed assets in 2016 totaled €1.9 million, excluding the internally generated assets. They consisted mainly of new laboratory and IT equipment, as well as investments in intangible assets, being software development.

Galapagos NV's cash position at the end of 2016 amounted to €972.6 million.

The non-consolidated annual accounts of Galapagos NV which we submit for your approval were prepared in accordance with Belgian accounting rules as well as with the legal and regulatory requirements. They show a negative result. The financial year 2016 closed with a loss of €45.2 million compared to a loss of €63.0 million in 2015. Overall, the result of Galapagos NV is largely affected by the fact that, as from financial year 2010, Galapagos NV capitalizes some of its R&D expenses and revenues that are eligible for such capitalization under Belgian GAAP. This capitalization negatively impacted the net result of Galapagos NV by €29.9 million in 2016, compared to a positive impact of €55.0 million in 2015. The non-consolidated annual accounts of Galapagos NV show accumulated losses of €178.0 million as at 31 December 2016; we refer to the Going Concern Statement for justification for the application of the valuation rules under the going concern assumption.

In 2016, neither Galapagos NV nor its affiliates made direct or active use of financial instruments such as hedging. However, at year-end 2015 an embedded derivative existed under the terms of the Gilead contract (see note 8 of the notes to the consolidated financial statements). This embedded derivative expired on 19 January 2016 at the time of the completion of the transaction (i.e. date of the notary deed enacting the related capital increase).

Disclaimer and other information

This report contains all information required by Belgian law.

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

This report is published in Dutch and in English. 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 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 2017", guidance from management regarding the expected operational use of cash during financial year 2017, statements regarding the development of a potential triple combination therapy for Class II cystic fibrosis patients and the possible activity and clinical utility of such a potential triple combination therapy, and statements regarding the expected timing, design and readouts of ongoing and planned clinical trials (i) with filgotinib in rheumatoid arthritis, Crohn's disease, and ulcerative colitis (ii) with GLPG1837, GLPG2451, GLPG3067, GLPG2222, GLPG2851, GLPG2737, and GLPG3221 in cystic fibrosis, (iii) with GLPG1690 and GLPG2938 in IPF, (iv) with MOR106 and GLPG2534 in atopic dermatitis and (v) with GLPG1972 in osteoarthritis. 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 2017 revenues and financial results and our 2017 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, cystic fibrosis, idiopathic pulmonary fibrosis, osteoarthritis, and other inflammatory indications may not support registration or further development of our product candidates due to safety, efficacy or other reasons), our reliance on collaborations with third parties (including our collaboration partner for filgotinib, Gilead, and our collaboration partner for cystic fibrosis, AbbVie), and estimating the commercial potential of our product candidates. A further list and description of these risks, uncertainties and other risks can be found in our Securities and Exchange Commission filing and reports, including in our most recent annual report on Form 20-F filed with the SEC and our 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

Evi Narinx

Project Manager Development Operations

The Galapagos pipeline

We are a clinical-stage biotechnology company specialized in the discovery and development 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, cystic fibrosis, fibrosis, osteoarthritis 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 clinical trials in rheumatoid arthritis (RA), Crohn's disease (CD), and ulcerative colitis (UC); our cystic fibrosis (CF) portfolio of drugs aimed at a triple combination therapy for 90% of CF patients, for which we plan to initiate patient clinical trials by mid-2017; GLPG1690, our fully proprietary autotaxin inhibitor, which is concluding a Phase 2a trial for idiopathic pulmonary fibrosis (IPF); GLPG1972 for osteoarthritis (OA), which is expected to be dosed in a Phase 1b trial in U.S. patients in 2017; and MOR106, which is currently being dosed in atopic dermatitis (AtD) patients in a Phase 1b trial. Except for our CF program, these programs are derived from our proprietary target discovery platform.

We have collaborations with Gilead for filgotinib, with AbbVie for CF, with Servier for GLPG1972, and with MorphoSys for MOR106. The following table summarizes key information on our lead development programs as of the date of this annual report:

Area	Pre-clinical	Ph 1	Ph 2	Ph 3
RA	JAK1 filgotinib			
CD	JAK1 filgotinib			
UC	JAK1 filgotinib			
Sb & Fist. CD	JAK1 filgotinib			
CF	Potentiators '3067	'2451	'1837	
CF	C1 '2222			
CF	C2 '2737			
IPF	Autotaxin '1690			
OA	'1972			
AtD	MOR106			
IPF	'2938			
AtD	'2534			

partnered

Proprietary target discovery platform

Our target discovery platform provides a significant and substantial competitive advantage in our portfolio of novel mode of action medicines as it:

- closely mimics the *in vivo* situation through the use of primary human cell with relevant trigger and readout for a specific disease phenotype;
- identifies the optimal point to intervene in a disease pathway by knocking down of a given protein in these assays;
- enables us to rapidly analyze all of the drugable genome and select pharmaceutically tractable protein targets directly by their ability to regulate key disease biology.

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. Filgotinib acts on JAK1, and we believe has potential for a best-in-class profile in Phase 3 clinical trials in RA, CD, and UC.

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

We believe that this discovery approach may increase the chances of success in bringing new mode of action drugs to the market. Since 2009, Galapagos has generated 32 pre-clinical candidates of which 24 have novel modes of action. Of these, 15 have entered the clinic, 11 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 CF, we are exploring new modes of action in OA, metabolic diseases, fibrosis, Hepatitis B virus, and immune inflammation.

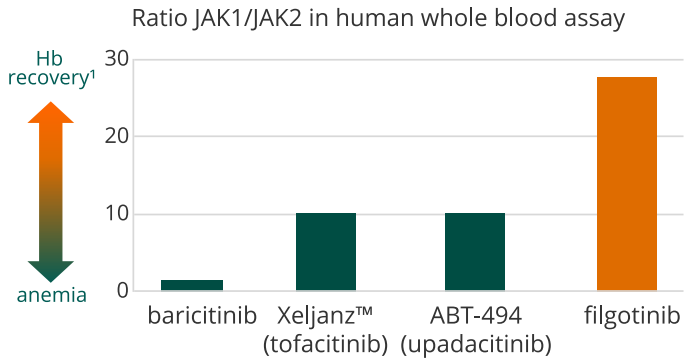
Filgotinib is a selective JAK1 inhibitor, potentially best-in-class

Based on results from our Phase 2 trials, we believe that filgotinib is a promising candidate for the treatment of RA, CD and potentially other inflammatory diseases. We are party to an exclusive Collaboration Agreement with Gilead to develop and commercialize filgotinib in multiple diseases. Under the terms of the collaboration, Gilead is primarily responsible for development and seeking regulatory approval of the licensed product. 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 and CD, and a Phase 2b/3 program in UC in 2016.

Our filgotinib program in RA

RA is a chronic autoimmune disease that affects 2.9 million patients (of which approximately 1.5 million are being treated with biologics) in the U.S. 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 USD 19.5 billion in 2015, with the current market being dominated by injectable, biological therapies. Biologics, mostly TNF therapies, need to be injected and 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, or JAK, signalling pathway are emerging to treat inflammatory diseases; JAK inhibitors, however, are associated with a range of side effects, including aberrations in low-density lipoprotein, or LDL, cholesterol and red blood and NK cell counts. Filgotinib, however, as so far not shown any of these side effects in Phase 2 clinical trials. In a human whole blood assay we demonstrated that filgotinib, with a 30-fold selectivity for JAK1 over JAK2, was more selective for JAK1 than any other compound known to us to be either approved for sale or in clinical development. We believe the high selectivity of filgotinib for JAK1 over JAK2 and JAK3, may allow for a positive efficacy profile, with an improved safety profile.

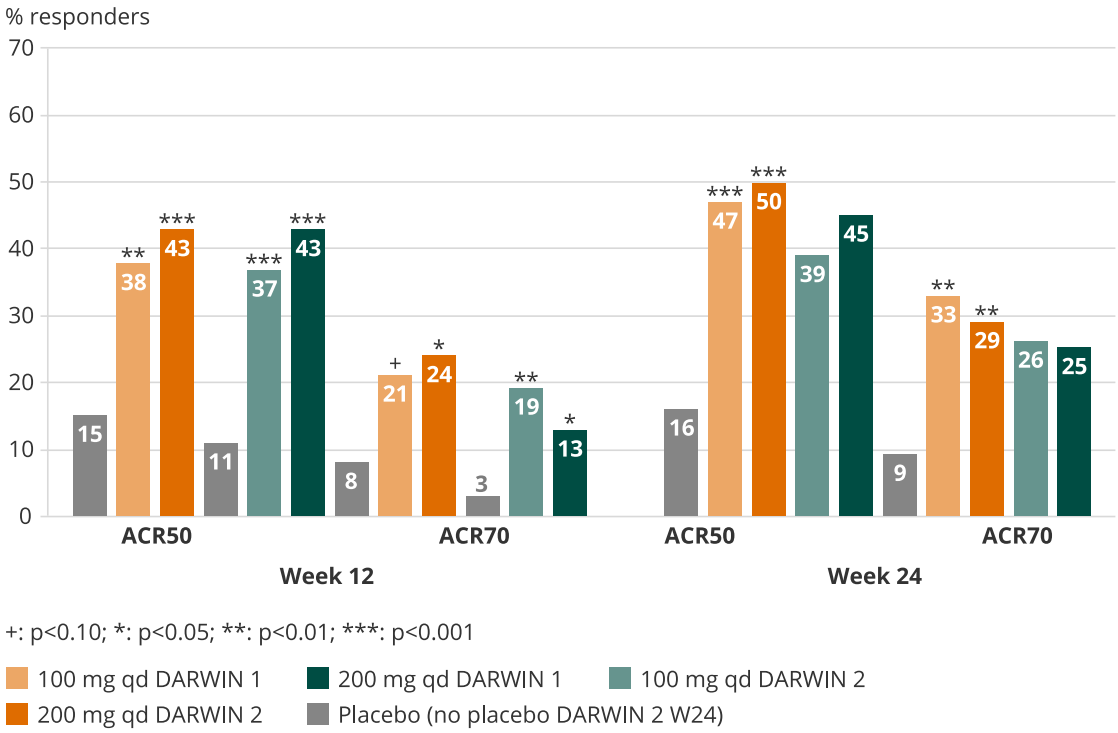


[1] A Pardanani, et al, Leukemia (2013) 27, 1322-1327

Our clinical program for filgotinib for RA

Clinical trials to date have shown that filgotinib is well-tolerated, with atherogenic index improvement and absence of anemia, and shows strong activity in treating RA. On top of this, we believe its once-a-day oral dosage and its low risk for drug-drug interactions make it convenient for patient use.

We reported final 24 weeks' data from DARWIN 1 and DARWIN 2 Phase 2b dose-range finding clinical trials in 2015. Both trials were double-blind, placebo-controlled for 24 weeks of treatment in patients with moderate to severe rheumatoid arthritis who showed an inadequate response to methotrexate. DARWIN 1 (594 patients) evaluated filgotinib as an addition to methotrexate, as once- and twice-daily administration (qd and bid dosing, respectively) at three daily dose levels. DARWIN 2 (283 patients) evaluated filgotinib as once-daily monotherapy administration (qd dosing) at three dose levels. Both trials achieved the primary endpoints (ACR20). Below are the ACR50 and ACR70 scores at 12 and 24 weeks for 100 and 200 mg qd in both DARWIN 1 and DARWIN 2:



+: p<0.10; *: p<0.05; **: p<0.01; ***: p<0.001

100 mg qd DARWIN 1 | 200 mg qd DARWIN 1 | 100 mg qd DARWIN 2
200 mg qd DARWIN 2 | Placebo (no placebo DARWIN 2 W24)

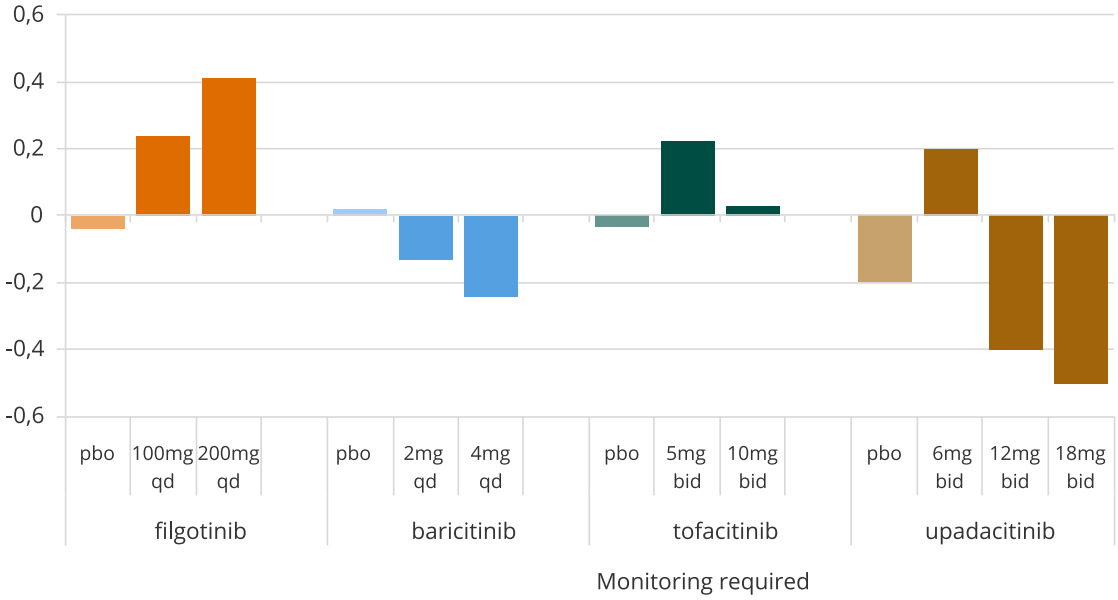
Overall, there was no statistically relevant difference between the once-daily and twice-daily dosing regimens in DARWIN 1. Both trials showed a rapid onset of activity, as of week one for ACR and DAS28(CRP) responses. In DARWIN 1 (200 mg bid) and in DARWIN 2 (100 mg qd) up to 50% of the patients reached low disease activity or remission. The 100 mg and 200 mg qd doses achieved similar levels of activity overall.

Safety data in both trials was similarly promising. In dose groups including placebo in both studies, 3.9% of patients stopped treatment during the trial for safety reasons. In DARWIN 1 patients reporting serious (2.5% overall) and non-serious treatment-emergent adverse events were evenly spread over the dose groups including placebo. Serious infections were reported in six patients, including one death on active treatment in the second half of the trial and for which the Data Safety Monitoring Board did not see a reason to pause or change the trial. No opportunistic infections were reported. Herpes zoster infection occurred in five patients, equally spread over placebo and filgotinib groups. In DARWIN 2 a higher discontinuation rate for safety was observed for placebo (5.6%) during the first 12 weeks of the trial compared to filgotinib treated patients (2.5%) up to week 24. Similar incidence of serious and non-serious treatment-emergent adverse events was reported, evenly spread over the dose groups including placebo. A higher rate of infections was observed in filgotinib (19% over 24 weeks) compared to placebo (10% up to week 12), with serious infections remaining limited (1.4% of filgotinib patients). No malignancies, tuberculosis, major adverse cardiac events, opportunistic infections, or deaths were reported in DARWIN 2.

On the basis of pre-clinical findings, males in the U.S. were restricted by the FDA to the 100 mg dose for DARWIN 1 and 2. Male reproductive hormones consequently were monitored in male patients taking 200 mg in DARWIN 1 and 2 outside the U.S. No clinically significant changes or discontinuations were observed for male reproductive hormones in either trial.

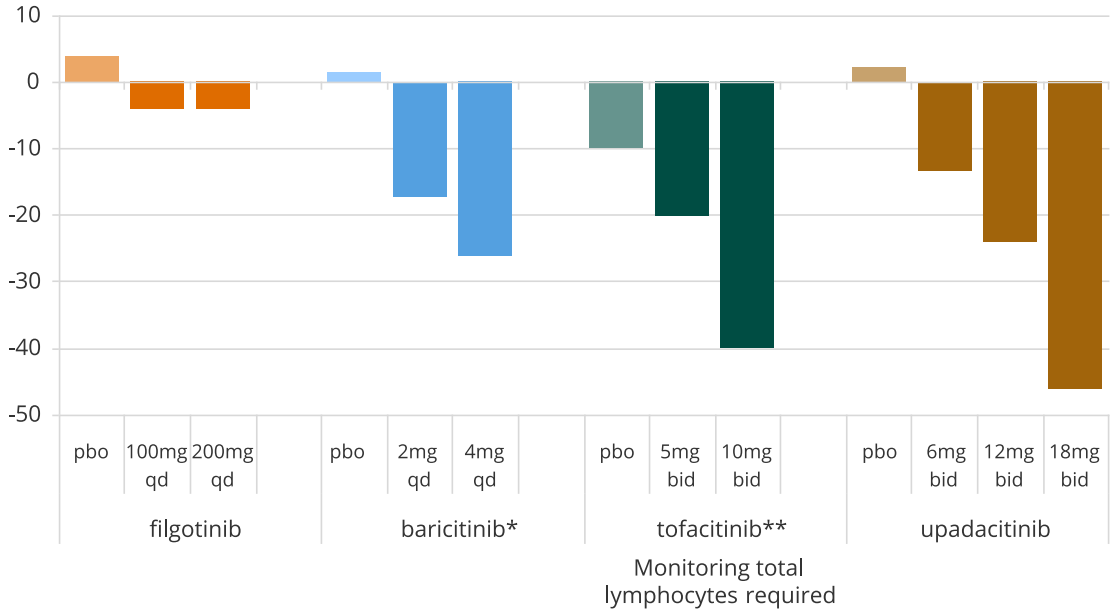
Consistent with its selective JAK1 inhibition, filgotinib treatment led to an improvement in hemoglobin (DARWIN 1 up to 0.5 g/dL, or a 4% increase from baseline, DARWIN 2 up to 0.4 g/dL, or 3.6% increase from baseline). In DARWIN 1, all lipid fractions including HDL and LDL increased, with the largest percentage increase in HDL, while in DARWIN 2 similar increases in LDL and HDL were maintained. Neutrophil levels remained stable after initial decline to mid-normal range at week four. Neither lymphocytes nor liver enzymes were impacted by treatment with filgotinib in either study.

Filgotinib's improvement in hemoglobin shown in DARWIN 1 and 2 potentially differentiates it when compared to impact on hemoglobin shown by other JAK inhibitors in RA trials:



Note: data from separate RA studies not conducted by the Company. **filgotinib** – Westhovens et al, and Kavanaugh et al, ARD 2016; **baricitinib** – Dougados et al, Annrheumdis 2016, RA-BUILD; **tofacitinib** – FDA AdComm briefing document May 2012; **upadacitinib** – Genovese et al A&R 2016 BALANCE 2.

Filgotinib's lack of impact on natural killer (NK) cells shown in DARWIN 1 and 2 potentially differentiates it when compared to the impact on NK cells shown by other JAK inhibitors in RA trials:



Note: data from separate RA studies not conducted by the Company. **filgotinib** – Westhovens et al, and Kavanaugh et al, ARD 2016; **baricitinib** – *Dougados et al, Annrheumdis 2016, RA-BUILD and Tanaka EULAR 2016 abstract RA-BEAM; **tofacitinib** – Van Vollenhoven abstract 2013, ** median CFB at W6; **upadacitinib** – Genovese et al A&R 2016 BALANCE 2.

Of the patients who have completed DARWIN 1 and DARWIN 2 and were eligible to continue, approximately 98% elected to participate in the DARWIN 3 follow-up trial. 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 have started the trial at the same dose level, either at 200 mg once per day or at 100 mg 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.

FINCH Phase 3 program with filgotinib in RA

In August 2016, our collaboration partner 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 a 52-week, randomized, placebo- and adalimumab-controlled trial in combination with methotrexate (MTX) in an expected 1,650 patients who have had inadequate response to MTX. The primary endpoint is ACR20 at week 12. The study will also include radiographic assessment at weeks 24 and 52.

FINCH 2 is a 24-week, randomized, placebo-controlled trial in an expected 423 patients who are on conventional disease-modifying anti-rheumatic drugs (cDMARD), and have had an inadequate response to biological treatment. The primary endpoint is ACR20 at week 12.

FINCH 3 is a 52-week, randomized trial in an expected 1,200 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.

Gilead will perform a single dedicated male patient safety study concurrent to all Phase 3 programs. This study is expected to include RA, CD, and UC patients.

Inflammatory bowel disease

Our filgotinib program in inflammatory bowel disease (IBD)

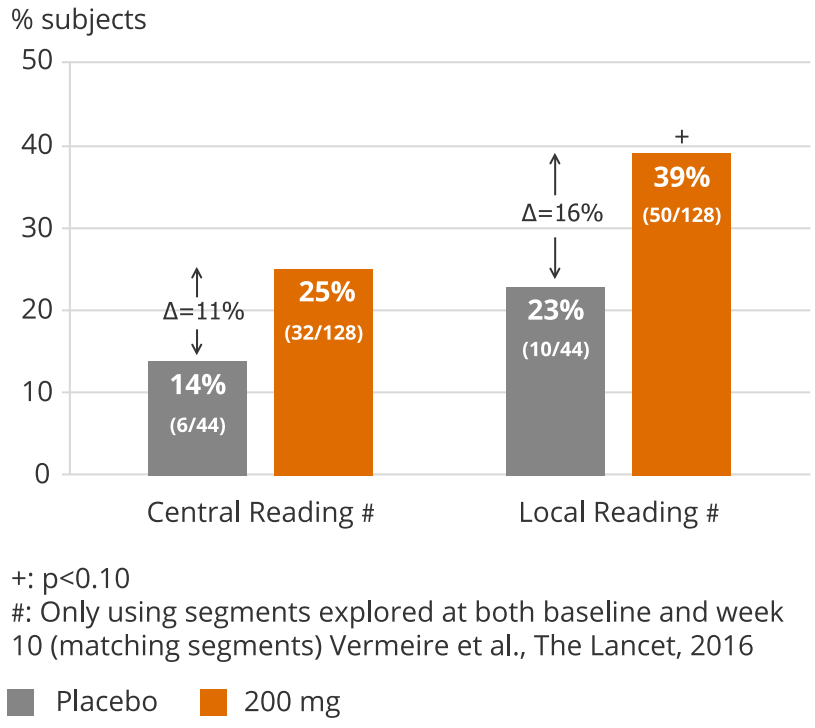
IBD includes CD and UC. We observed high activity and a favorable safety profile in a Phase 2 trial with filgotinib in CD. The profile we saw with filgotinib in this CD patient trial leads us to believe the candidate drug may show activity and tolerability in UC patient studies as well. IBD affects approximately 2 million patients (of which approximately 0.5 million are being treated with biologics) in the U.S. 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 agents 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.

Increased activity and focus from pharmaceutical companies has led to more clinical trials of oral therapies in CD. AbbVie is conducting a Phase 2 trial with upadacitinib (pan-JAK inhibitor) which should read out in 2017. Celgene announced Phase 1b results with GED-0301 (SMAD-7), which showed early activity but limited endoscopic improvement. Celgene is also investigating ozanimod (S1P 1 and 5 receptor modulator) in Phase 2 in CD, with topline results expected in 2017. After two Phase 2 trials, Pfizer announced Xeljanz (pan-JAK inhibitor) will not be developed further in CD.

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 study investigated continued treatment through 20 weeks in an observational exploratory design. The FITZROY trial achieved the primary endpoint of clinical remission at 10 weeks: the percentage of patients 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%). Improvement in quality of life, histopathology, endoscopy assessment and biomarkers of inflammatory activity were also observed at week 10. Overall mean change in histopathology scores at week 10 for patients treated with filgotinib (-3.5) versus placebo (-0.6) was significantly different, confirming the clinical responses in the tissues of patients. More patients on filgotinib showed >50% improvement in SES-CD (endoscopy) scores versus placebo patients at week 10:



Vermeire et al., The Lancet, 2016

Clinical responses were maintained from week 10 to week 20. Non-responders in the placebo arm from the first ten weeks received filgotinib 100mg in the second ten weeks and showed improvement in clinical remission during the second part of the trial.

Overall, in the FITZROY study at 20 weeks of treatment, filgotinib demonstrated a favorable safety profile consistent with the DARWIN studies 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 U.S., 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 U.S., males may receive 200 mg if they failed at least one anti-TNF and vedolizumab, a monoclonal anti-integrin antibody marketed by Takeda.

In March 2017, Gilead initiated two additional Phase 2 studies with filgotinib in Crohn's disease: small bowel and fistulizing Crohn's disease.

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. 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.

Increased activity and focus from potential competitors has led to more clinical trials of oral therapies in UC. Pfizer showed activity with Xeljanz (pan-JAK inhibitor) in Phase 3 UC trials and has filed for approval. AbbVie is conducting a Phase 2 trial with upadacitinib (pan-JAK inhibitor) which should read out in 2017. Celgene is investigating ozanimod (S1P 1 and 5 receptor modulator) in Phase 3 and GED-0301 (SMAD-7) in Phase 2 in UC.

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 U.S., Europe, Latin America, Canada, and Asia/Pacific regions. The SELECTION Phase 2b/3 trial in ulcerative colitis will include a futility analysis, serving as the Phase 2b part of this integrated Phase 2b/3 study. Men and women in SELECTION will be randomized to receive placebo, 100 mg or 200 mg filgotinib. In the U.S., males may receive 200 mg if they failed at least one anti-TNF and vedolizumab.

Our CF program

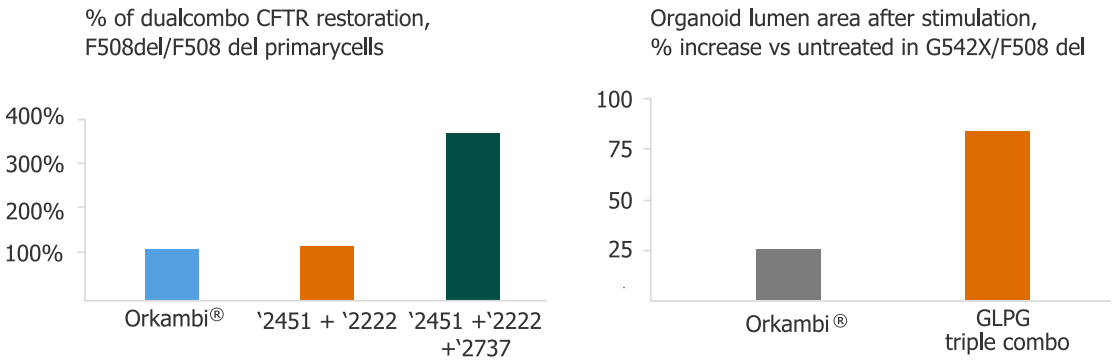
CF is a rare, life-threatening, genetic disease affecting the lungs and the digestive system, impacting approximately 80,000 patients worldwide with approximately 30,000 patients in the United States. CF patients carry a defective cystic fibrosis transmembrane conductance regulator, or CFTR, gene and are classified based on their specific mutation of the CFTR gene. The Class II mutation is present in approximately 90% of CF patients, with Orkambi®[3] being the only approved therapy for the underlying cause of CF in this mutation. Kalydeco is a disease-modifying treatment for Class III mutations, representing 4% of total CF patients. The market for CF therapies is robust and growing. According to Vertex Pharmaceuticals, approximately 9,000 patients were treated with Vertex therapies in 2016, and this they expect to grow to approximately 75,000 patients by 2024. Combined sales of Kalydeco and Orkambi were approximately $1.7 billion in 2016.

Despite the approval of Kalydeco and Orkambi, there is need for better therapies to improve pulmonary function for the 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.

[3] Orkambi is marketed by Vertex Pharmaceuticals

Two types of disease-modifying CFTR modulators have the current focus of CF drug developers. Potentiator molecules aim to restore the flow of ions through an activated CFTR by influencing the channel's opening. Corrector molecules aim to overcome defective protein processing by restoring proper folding of CFTR and allowing for increased cell surface expression. In order to improve CFTR function meaningfully for the largest patient group with Class II, and Class III/IV, and other mutations, we believe a combination of medicines will be required, comprising a potentiator and two novel corrector (which we refer to as C1 and C2) molecules.

In pre-clinical cellular assay studies, we consistently observed that combinations of potentiator, C1, and C2 correctors restore close to healthy CFTR function in lung epithelial cells and organoids cultured from Class II patients, both homozygous and heterozygous for F508del, respectively:



These results are suggestive of a compelling therapeutic option for these patients. We believe that our CF combination therapy may address the unmet need in both homozygous and heterozygous Class II patients, based on these *in vitro* results.

We aim to evaluate a once-daily, oral, triple combination CF therapy in patients starting in mid-2017, with additional trials with novel CF compounds initiating throughout 2017. We have developed a portfolio of lead and follow-on compounds from which to select the best potentiator and corrector molecules for our triple combination therapy:

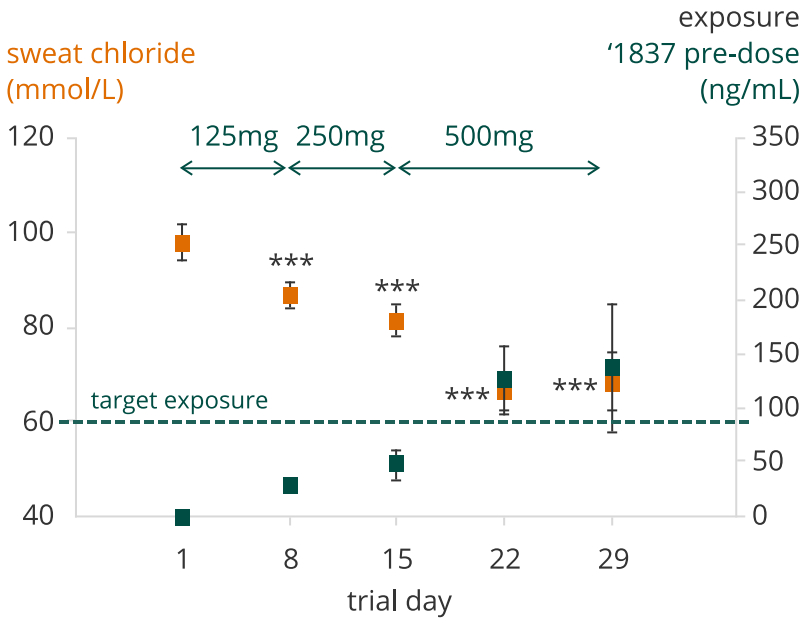
Pre-clinical	Ph1	Ph2	Status	
potentiator '1837			Ph2 results:	✓
potentiator '2451			Ph1 with '2222:	✓
potentiator '3067			Ph1 start:	✓
C1 corrector '2222			Ph2 start:	✓
C1 corrector '2851			Ph1 start:	H2 '17
C2 corrector '2737			Ph1 with '2222/'2451:	H1 '17
C2 corrector '3221			Ph1 start:	H2 '17

Our clinical program for CF

Our most advanced candidate drug for CF, potentiator GLPG1837, was the first potentiator since Kalydeco to show comparable results in G551D patients in the SAPHIRA 1 Phase 2a trial in late 2016.

SAPHIRA 1 was an open-label study of three doses of GLPG1837 in 26 patients with the G551D mutation. Of these patients, 25 patients were on stable Kalydeco treatment at screening and agreed to a one week washout prior to the start of dosing GLPG1837. One patient was naïve to Kalydeco. All subjects received GLPG1837 125 mg bid (twice-daily) for 7 days, immediately followed by 250 mg bid for 7 days and subsequently by 500 mg bid for 14 days.

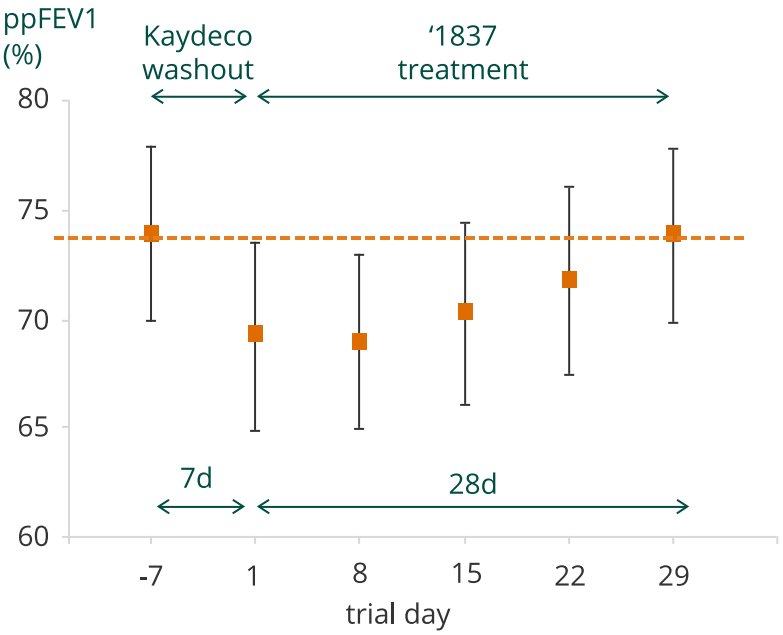
A statistically significant dose dependent decrease in sweat chloride concentration was observed. At the 500 mg bid dose, sweat chloride decreased from a mean value of 98 mmol/L at baseline to 66 mmol/L ($p < 0.0001$). For those patients exceeding the predicted target concentration, sweat chloride changed from a mean value of 94 mmol/L at baseline to 52 mmol/L. Below is an illustration of the changes in sweat chloride at increasing pre-dose exposures of GLPG1837 in blood plasma from SAPHIRA 1 in G551D patients who had washed out of Kalydeco prior to being treated with GLPG1837:



*** p<0.001

All '1837 exposure measurements are taken pre-dose escalation, except for days 22 and 29 in which there is no escalation. Here '1837 concentration measurements are taken prior to intake of first daily dosis.

25 patients were on stable treatment with Kalydeco prior to this study. For these patients, mean percent predicted FEV1 (ppFEV1) levels were 74% at screening (prior to Kalydeco washout). The one week wash-out resulted in a 5.4% mean decrease in absolute ppFEV1. At the end of treatment with GLPG1837, the ppFEV1 levels returned to the Kalydeco pre-washout levels. The figure below illustrates this restoration of ppFEV1 to screening levels, after washout and treatment with GLPG1837 in SAPHIRA 1:



Overall GLPG1837 was well tolerated in SAPHIRA 1, with observed treatment emergent adverse events being predominantly mild or moderate, and typical for a CF patient population. One patient dropped out of the study due to an increase in non-cardiac creatine phosphokinase.

We believe that SAPHIRA 1 represents a clinical validation of our *in vitro* systems, reinforcing our confidence in our approach to get to a triple combination therapy.

We initiated a Phase 1 trial for a second potentiator candidate GLPG2451 in May 2016. Follow-on potentiator GLPG3067 is currently in Phase 1. GLPG1837 has a twice-daily dosing profile, while GLPG2451 has potential for once-daily dosing.

We reported that GLPG2222, the first early binding (C1) corrector, showed favorable safety and tolerability in Phase 1 trials in healthy volunteers in June 2016. GLPG2222 was tested in single ascending doses up to 800 mg, and in multiple ascending doses up to 600 mg qd for 14 days in a double-blind, randomized, placebo-controlled study. The candidate drug was shown to be well-tolerated and no emerging safety signals observed in the dose range studied. Absorption of GLPG2222 was rapid and favorable. Pharmacokinetics of GLPG2222 support once-daily dosing regimens to be explored in further development. We believe GLPG2222 is well positioned for selection for the first triple combination therapy in 2017 and will be further explored in the clinic throughout the year to improve our understanding of dosing for the triple combination, including a Phase 2 trial on top of Kalydeco in Class III mutation patients initiated in January 2017. We dosed the first healthy volunteer with a combination of GLPG2451 and GLPG2222 in February 2017. Follow-on C1 corrector GLPG2851 will enter Phase 1 trials in 2017.

We initiated a Phase 1 trial for our first late binding (C2) corrector GLPG2737, the final component needed for a triple combination therapy, in November 2016. Topline results from this trial are expected in Q2 2017. We are developing follow-on C2 correctors which are expected to enter Phase 1 in 2017.

Our IPF programs

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 109,000 patients in the U.S. and Europe and, as such, we have received orphan designation for our product candidate GLPG1690 in this indication from European authorities and we intend to seek orphan designation in the U.S. for our product candidates in IPF. The clinical prognosis of patients with IPF is poor, as the median survival at diagnosis is 2–4 years. Currently, no medical therapies have been found to cure IPF. The medical treatment strategy aims to slow 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 $1.1 billion in 2016, with 74% of global revenues being in the U.S. These regulatory approvals represent a major breakthrough for IPF patients; yet neither drug improves lung function, and the disease in most patients on these therapies continues to progress. Moreover, the adverse effects associated with these therapies are considerable (e.g., diarrhea, liver function test abnormalities with 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. GlobalData estimates global sales of approved IPF drugs will grow to nearly $2.4 billion in 2022.

GLPG1690 is a potent and selective inhibitor of autotaxin (ATX) and 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. We evaluated GLPG1690 in a pre-clinical lung fibrosis model (bleomycin-treated mice) and observed effects on reducing the fibrotic score, numerically favoring GLPG1690 over Esbriet.

GLPG1690 completed a Phase 1 first-in-human trial in February 2015. In this trial, GLPG1690 was shown to be well-tolerated in up to 1000 mg daily dose and demonstrated a favorable pharmacokinetic profile. Moreover, in this trial GLPG1690 demonstrated the ability to reduce plasma lysophosphatidic acid (LPA) levels on a sustained basis, implying ATX engagement.

We are currently finalizing a Phase 2a trial (called FLORA) in IPF patients. FLORA is fully recruited and we expect topline results in the second half of 2017. This randomized, placebo-controlled double-blind trial includes up to 24 patients with IPF from 17 centers in Europe and evaluates treatment with 600 mg of GLPG1690 for 12 weeks. Primary objectives are to assess safety, tolerability, and pharmacokinetics and pharmacodynamics of GLPG1690 in IPF patients. Target engagement will be measured by LPA in plasma and bronchoalveolar lavage fluid, both at baseline and through 12 weeks of treatment. Secondary objectives include the evaluation of lung function, changes in disease biomarkers and quality of life.

In June 2016, we nominated a second candidate drug, GLPG2938, with an undisclosed novel mechanism of action aimed at IPF. This candidate is expected to enter Phase 1 trials in 2017.

[4] Esbriet (pirfenidone) is marketed by Roche.
[5] Ofev (nintedanib) is marketed by Boehringer Ingelheim.

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 small joints of the fingers, knees, hips, lower back and neck, and the bases of the thumb and big toe.[6] According to GlobalData, OA will be the fourth leading cause of disability by the year 2020. There are limited data on the total prevalence of OA. GlobalData estimates that diagnosed cases will grow from approximately 117 million cases in 2016 to approximately 131 million cases by 2024, with cases affecting hand, knee, and hip in that order of prevalence.

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.[6]

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, overuse of the joint, and weak thigh muscles. One in two adults will develop symptoms of knee OA during their lives. One in four adults will develop symptoms of hip OA by age 85. 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, with drug sales for OA patients amounting to approximately $4 billion in generic painkillers in 2016.

GLPG1972 has a novel mode of action with potential application in OA, and was discovered by us under our collaboration agreement with Servier, a French pharmaceutical company.

In June 2016, we announced that GLPG1972, a first-in-class candidate drug aimed at treating OA, was shown to be safe and well tolerated in healthy human volunteers in a Phase 1 first-in-human trial. In this trial, dosing with GLPG1972 reduced a cartilage breakdown biomarker by up to 60% in these volunteers within two weeks. In 2017, we intend to conduct a Phase 1b patient clinical trial of GLPG1972 in the U.S., where we retained full commercial rights. Additional data resulting from the ongoing non-clinical program expected in the second quarter of 2017 will enable our collaboration partner Servier to decide on the exercise of the option to license the compound for further development into OA patient trials outside the U.S.

[6] From website of the Arthritis Foundation (arthritis.org)

Our AtD programs

Atopic dermatitis (AtD), is a chronic pruritic (itching) inflammatory skin disease that most frequently starts in early childhood, often persists into adulthood, but may also have an adult onset. According to GlobalData, sales of AtD therapies in the 7 major healthcare markets may reach $4 billion in 2016, with 35 million patients diagnosed with the disease and 10 million patients being treated in those markets. The main features of AtD are the impairment of the skin barrier and dysfunction of the immune system accompanied with dry skin and severe pruritus that is associated with cutaneous hyperactivity to various environmental stimuli. The pruritus (itching) may lead to sleep loss, anxiety, depression and impaired social life and is therefore considered as highest therapeutic need in AtD. Generic drugs are the approved standard of care, including immunomodulators cyclosporine and mycophenolate mofetil and topical treatments. There are disease-modifying biologics in development.

MOR106 is a human monoclonal antibody designed to selectively target IL-17C. IL-17C is a target 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 a discovery and co-development alliance between Galapagos and MorphoSys, in which both companies contribute their core technologies and expertise.

We are currently evaluating MOR106 in a randomized, double-blind, placebo-controlled Phase 1 trial, with the aim to evaluate safety and tolerability. As secondary endpoints, the trial will assess pharmacokinetics and potential immunogenicity of MOR106.

The first part of the trial was conducted in a single center in 56 healthy volunteers, evaluating single ascending doses (SAD) as intravenous infusion compared to placebo. MOR106 showed favorable safety and PK results when administered to healthy volunteers in the ongoing trial. Subsequently an investigation was started of multiple ascending doses (MAD) compared to placebo in approximately 24 patients with moderate to severe AtD in several European centers. Topline results of the complete trial, including the MAD part in patients and further results from the SAD part in healthy volunteers, are expected in the second half of 2017.

In June 2016, we nominated a second candidate drug for AtD, GLPG2534, with an undisclosed novel mechanism of action aimed at atopic dermatitis and which is different from the target of MOR106. This small molecule candidate is fully proprietary to us and is expected to enter Phase 1 trials in 2017.

Risk factors

Description of the risks of which investors should be aware

Edo Elstak

Senior Scientist Target Discovery & Validation

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 pre-clinical 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 33 of the notes to the consolidated financial statements.

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 our CF candidates (including GLPG1837, GLPG2451, GLPG2222, and GLPG2737), GLPG1690, GLPG1972 and MOR106. 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 completed a Phase 3 trial or 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 pre-clinical 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.

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 will also contain a dedicated male patient testicular safety study.

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.

Combination therapies involve unique adverse events that could be exacerbated compared to adverse events from monotherapies or could lead to unfavorable drug-drug interactions.

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 and on AbbVie for its further development of our triple combination product candidate for the treatment of CF. Gilead and AbbVie may not devote sufficient resources or give sufficient priority to the filgotinib program or CF collaboration, respectively. 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. AbbVie may not be successful in the further development and commercialization of our potential triple combination product for the treatment of CF.

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. The suppliers should perform as contractually required or expected.

We rely on third parties to conduct our pre-clinical studies and clinical trials.

We have relied on and plan to continue to rely on contract research organizations ("CROs") to monitor and manage data for our pre-clinical 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 expected, 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 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 business 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.

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. Adequate remuneration and incentive schemes and the sharing of our knowledge amongst key employees 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.

Risks from the improper conduct of employees, agents, contractors, or collaborators could adversely affect our reputation and our business, prospects, operating results, and financial condition. Our information technology systems could face serious disruptions that could adversely affect our business. Continuing an uninterrupted performance of our IT system is critical to the success of our business strategy and operations. A recovery plan for data has been implemented, as well as a system for interception of power failures. Fire walls and virus scanners provide an additional and adequate protection. 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 could be subject to liabilities under environmental, health and safety laws or regulations, or fines, penalties or other sanctions, if we fail to comply with such laws or regulations or otherwise incur costs that could have a material adverse effect on the success of our business. The very limited use of hazardous materials, the existence of stringent health and safety operation procedures, and regular inspections and safety days significantly

decrease the potential impact as well as the estimated likelihood of the risk. Furthermore, we employ quality & environmental health and safety managers who closely monitor laboratory safety and continuously seek to improve quality and safety conditions.

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

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.

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. We also expect to benefit in the future from the "patent income deduction" or the replacing "innovation deduction" in Belgium. The innovation deduction applies as of 1 July 2016, although subject to various conditions, the patent income deduction can continue to apply until 30 June 2021 at the latest. If, however, there are unexpected adverse changes to the Belgian patent income deduction or replacing innovation deduction, or if we are unable to qualify for such advantageous tax legislation, our business, results of operations and financial condition may be adversely affected.

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 its 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.

As a result of the 2016 election in the United States, there is great political uncertainty concerning the fate of the ACA 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.

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

- **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.

Corporate governance

Corporate governance at Galapagos in 2016

Herman de Kock

Head of Development

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.

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 2005. During an academic career at Oxford University, he co-founded Oxford GlycoSciences PLC, where he served as Chief Scientific Officer and Chief Executive Officer from 1988 until its sale to Celltech Group PLC (now UCB SA) in 2003. He has founded or served on the boards of several life sciences companies in the United States and Europe including Celldex Therapeutics, Inc.; Avila Therapeutics, Inc.; EUSA Pharma (Europe) Limited; Thiakis Limited; Biocartis NV; and Amsterdam Molecular Therapeutics (AMT) Holding N.V. (now uniQure). Dr. Parekh currently serves as a member of the board of directors of Advent Venture Partners; Advent Life Sciences LLP; Aleta Inc.; Arrakis, Inc.; Aura Inc.; Artax Inc.; Capella BioSciences Ltd.; Cellnovo Limited; Itara Ltd.; Levicept Limited; PE Limited; and Project Paradise Limited. He is also a member of the supervisory board of the Novartis Venture Fund. He received his MA in Biochemistry and DPhil in Molecular Medicine from the University of Oxford, where he has also been a Senior Research Fellow and Professor.

Harrold van Barlingen, Ph.D. has served as a member of our board of directors since 2005. Dr. Van Barlingen is the managing director and founder of Thuja Capital B.V., Thuja Capital Holding B.V. and Thuja Capital Management B.V.. Prior to founding Thuja Capital, he headed the life sciences effort of AlpInvest Partners B.V. from 2001 to 2006, managing a portfolio of over 30 companies. Previously, he was at the Boston Consulting Group, or BCG, where he worked as a consultant in management and strategy from 1999 to 2002. Prior to BCG, he headed the continental activities of The Lewin Group (a Quintiles subsidiary), an internationally active firm specialized in the field of health economics. He holds an MSc in Medical Biology and a PhD in Medicine, both from Utrecht University. From 1991 to 1992 he was a visiting scientist at the University of Chicago. He is the author of a

wide variety of peer-reviewed scientific and pharmaco-economics papers. He currently serves on the supervisory boards of Encare Biotech B.V., TheraSolve NV, Indigo Diabetes NV (chairman) and Hemics B.V. (chairman). In addition, during the last five years he also served on the boards of Okapi Sciences NV, and arGEN-X N.V.

Werner Cautreels, Ph.D. has served as a member of our board of directors since 2009. Dr. Cautreels is the President, Chief Executive Officer and member of the board of Selecta Biosciences, Inc. Previously, Dr. Cautreels joined Solvay Pharmaceuticals SA in 1998 where he was Global Head of R&D and later Global Chief Executive Officer from 2005 onwards, until it was acquired by Abbott Laboratories Inc. in February 2010. Prior to joining Solvay he was employed by Sanofi 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.

Katrine Bosley has served as a member of our board of directors since 2013. Ms. Bosley has served as the President, Chief Executive Officer and member of the board of directors of Editas Medicine, Inc. since June 2014. Prior to joining Editas, she was the Entrepreneur-in-Residence at The Broad Institute from 2013 to 2014. From 2009 to 2012, she was President, Chief Executive Officer and member of the board of directors of Avila Therapeutics, Inc., which was acquired by Celgene Corporation in 2012. She served as President, Celgene Avilomics Research at Celgene in 2012. Prior to her time at Avila Therapeutics she was Vice President, Strategic Operations at Adnexus, a Bristol-Myers Squibb R&D Company, and was Vice President, Business Development at Adnexus Therapeutics, Inc. before that. Ms. Bosley joined Adnexus Therapeutics from Biogen Idec, Inc. where she had roles in business development, commercial operations and portfolio strategy in the United States and Europe. Earlier, she was part of the healthcare team at the venture firm Highland Capital Partners, Inc. Ms. Bosley graduated from Cornell University with a B.A. in Biology. She currently serves as chairman of the board of Genocea Biosciences, Inc. and as a director of Scholar Rock, LLC. She also serves on the board of directors of the Biotechnology Innovation Organization and is a review committee member of the Wellcome Trust.

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), editor-in-chief of the Cell Press journal Stem Cell Reports, former board member of the International Society for Stem Cell Research and past-president of the International Society of Differentiation. She was co-founder of Pluriomics B.V. In addition, she is on the board of ZonMw (Dutch Medical Research Council) and chairs the executive board of the Institute for human Organ and Disease Model Technologies (hDMT), a non-profit R&D institute of which we are a founding partner. She is a review committee member of the European Research Council, the Wellcome Trust (*ad hoc*) and the Heineken Jury Prize (KNAW).

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. 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. Onno van de Stolpe, all board members are non-executive directors.

In 2016, the following persons were members of the board: Dr. Raj Parekh (Chairman), Mr. Onno van de Stolpe (CEO), Dr. Harrold van Barlingen, Dr. Werner Cautreels, Mr. Howard Rowe, Ms. Katrine Bosley, Dr. Christine Mummery and Dr. Mary Kerr (as from 26 July 2016); the latter five directors were appointed as independent directors within the meaning of article 526*ter* of the Belgian Companies Code.

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

In 2016, the board of directors held three regular meetings, six meetings by telephone conference to discuss specific matters and two meetings in the presence of a notary (relating to the issuance of Warrant Plan 2016, Warrant Plan 2016 RMV and the issuance of shares with cancellation of the shareholders' preferential subscription rights). The meetings in the presence of a notary were both attended Mr. Van de Stolpe and Dr. Van Barlingen via telephone conference and all other directors granted a written proxy to them in advance of the meeting.

The attendance rate for the other meetings was as follows: Dr. Parekh: 89%; Mr. Van de Stolpe: 78%; Dr. Cautreels: 89%; Dr. Van Barlingen: 100%; Mr. Rowe: 78%; Ms. Bosley: 78%; Dr. Mummery: 100% and Dr. Kerr: 100% (based on meetings held after the date of her appointment as director). The overall attendance rate was 89%. 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. We do not have a formalized process in place to evaluate the board, its committees and its individual directors; the board is of the opinion that such evaluation can occur on an ongoing and informal basis within the framework of the meetings of the board and its committees.

During 2016, 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.

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 B.V. (later Crucell N.V., which was acquired by Johnson & Johnson Services, Inc. in 2011). Prior to joining IntroGene in 1998, he was Managing Director of Molecular Probes Europe B.V. He established the European headquarters after joining Molecular Probes, Inc. in the United States. Previously, he worked for The Netherlands Foreign Investment Agency in California, where he was responsible for recruiting biotechnology and medical device companies to locate in the Netherlands. 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.

Bart Filius, MBA has served as our Chief Financial Officer since December 2014. 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 our company in April 2008 from Tibotec-Virco Comm. VA (a subsidiary of Johnson & Johnson Services, Inc.) where he was VP Drug Discovery, Early Development and CM&C, and a member of the management board. He started his professional career as a medicinal chemist at Janssen Research Foundation in 1992. He then joined Tibotec Group NV in 1998, where, under his leadership, TMC114 (Prezista™) and TMC435 (Olysio™) were selected and moved forward into clinical trials. Dr. Wigerinck also played a key role in Tibotec's expansion into novel diseases such as Hepatitis C and advanced several compounds into Phase 1 and Phase 2 clinical trials. He brings over 25 years of research and development experience from both large pharmaceutical companies and biotechnology companies to our company. Dr. Wigerinck holds a Ph.D. from the K.U. Leuven and is inventor on more than 25 patent applications.

Andre Hoekema, Ph.D. is responsible for M&A, licensing and intellectual property at Galapagos. He had the lead in rolling out our pharmaceutical alliance strategy since its start in 2006, and is the architect of our collaboration with AbbVie for CF. Dr. Hoekema joined our company in March 2005 from Invitrogen Corporation, where he was Managing Director of Corporate Development Europe, overseeing licensing and M&A for Invitrogen Europe. He brings 30 years of biotech experience from positions at Molecular Probes Europe B.V. (Managing Director of the European office), Crucell N.V. (Director of Business Development and Intellectual Property), Koninklijke DSM N.V., MOGEN International N.V. (Research and Project Management), and Genentech, Inc. (postdoctoral researcher). Dr. Hoekema studied Chemistry and holds a Ph.D. from Leiden University. During his Ph.D. work, he invented the binary vector system for the genetic modification of plants, which he published in Nature in 1983; this has since then become the global standard in the field of agricultural biotech. He is the author of more than 30 peer-reviewed scientific papers, and an inventor of over 20 series of patent applications, resulting in 15 patents issued in the United States. Dr. Hoekema currently also serves as a member of the supervisory board of Mimetas B.V. and has previously served as a member of the supervisory board of VitalNext B.V.

Walid Abi-Saab, MD started his job as CMO 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 Pharmaceuticals 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, Abbott Laboratories and Pfizer, 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 US, 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, the drafting and development of policy guidelines to be approved by our board of directors, management of the group through, among other things, the implementation of policy guidelines, the supervision of the actual performance of the business compared to its strategic goals, plans and budgets, and the support of the CEO with the day-to-day management of Galapagos.

On 31 December 2016, the executive committee consisted of four people: Mr. Van de Stolpe (CEO, also executive director), Mr. Bart Filius (CFO), Dr. Piet Wigerinck (CSO) and Dr. Andre Hoekema (Senior Vice President, Corporate Development).

On 17 January 2017, we announced the appointment of Dr. Walid Abi-Saab as Chief Medical Officer and member of the executive committee, beginning on 1 March 2017.

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

Audit committee

The role of the audit committee is to follow up on financial reporting and verification of financial data, 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.

At the end of 2016, the audit committee consisted of the following three directors: Dr. Cautreels (chairman), Dr. Van Barlingen and Mr. Rowe. All members of the audit committee are non-executive directors, the majority of whom are independent 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. The chairman 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 2016, the audit committee held seven meetings, in which it dealt with matters pertaining to audit review, risk management, monitoring financial reporting, the implementation of Sarbanes-Oxley compliant internal and external audit systems and the effects of the Belgian and European audit reform legislation. The audit committee acts as a collegial body. The overall attendance at the audit committee meetings in 2016 was 90%. 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 2016, the nomination and remuneration committee consisted of the following three non-executive directors: Dr. Parekh (chairman), Dr. Cautreels and Ms. Bosley, the majority of whom are independent directors. The committee has the necessary expertise in the area of remuneration policy.

The nomination and remuneration committee meets at least twice per year. In 2016, the nomination and remuneration committee held two meetings, dealing with matters pertaining to grants of warrants and bonuses, the nomination of our Chief Medical Officer 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 2016 was 100%. The CEO attended the meetings of this committee when the remuneration of the other members of the executive committee was discussed.

Composition of board committees (excluding the executive committee)

	Audit committee	Nomination and remuneration committee
Onno van de Stolpe		
Raj Parekh		*
Harrold van Barlingen	●	
Werner Cautreels[1]	*	●
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 526*ter* of the Belgian Companies Code

Galapagos NV's share capital and shares

Share capital increases and issue of shares by Galapagos NV in 2016

On 1 January 2016, the share capital of Galapagos NV amounted to €211,388,857.22 represented by 39,076,342 shares. In the course of 2016 there were four capital increases resulting from the exercise of warrants, resulting in the issuance of 419,035 new shares, an increase of the share capital by €2,222,916.85 and an increase of the issuance premium account by €2,037,419.60. In addition, on 19 January 2016, Galapagos NV completed the closing of the global collaboration agreement with Gilead Biopharmaceutics Ireland Unlimited Company, or GBIUC, which is a direct subsidiary of Gilead Sciences, Inc., in the framework of which GBIUC made a €392,120,658.00 equity investment by subscribing to new shares at a price of €58.00 per share. This resulted in a share capital increase of €36,575,392.41, an increase of the issuance premium account by €355,545,265.59 and the issuance to GBIUC of 6,760,701 new ordinary shares.

At the end of 2016, the share capital of Galapagos NV amounted to €250,187,166.48 represented by 46,256,078 shares.

On 1 June 2016, the board of directors issued 634,250 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 2016" and "Warrant Plan 2016 RMV"). The offer of warrants to the directors and to the members of the executive committee under Warrant Plan 2016 was approved by the annual shareholders' meeting of 26 April 2016. The warrants issued under Warrant Plan 2016 and Warrant Plan 2016 RMV have a term of eight years and an exercise price of €46.10.

Number and form of Galapagos shares

Of the 46,256,078 shares of Galapagos NV outstanding at the end of 2016, 7,299,397 were registered shares and 38,956,681 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. 3 June 2016. 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 €49,726,531.42. In 2016, Galapagos NV's board of directors made use of the right to increase the capital in the framework of the authorized capital on one occasion: on 1 June 2016, in connection with the issuance of Warrant Plan 2016 and Warrant Plan 2016 RMV, under which an aggregate maximum of 634,250 new shares can be issued for a total maximum capital increase of €3,431,292.50 (plus issuance premium). On 31 December 2016, an amount of €46,295,238.92 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 2016, 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 the company and Gilead Biopharmaceutics Ireland Unlimited Company 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.

The amended and restated global collaboration agreement between the company and AbbVie dated 28 April 2016 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 clause 13.2 (*Change in Control of Galapagos*), entitling AbbVie, in the event of a change in control over the company, to disband the joint committees and assume their tasks, oblige us to take appropriate measures to avoid the disclosure of confidential information, terminate our co-promotion rights 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

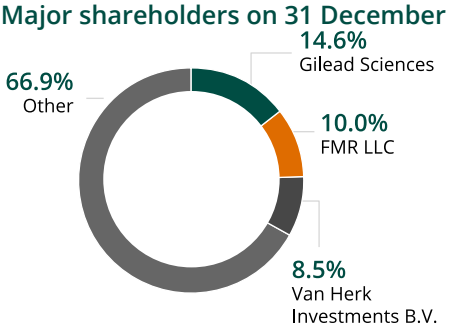
Pursuant to the Belgian Companies Code, any amendment to the articles of association, such as an increase or decrease in the share capital of Galapagos NV, and certain other matters, such as the approval of the dissolution, merger or de-merger of Galapagos NV may only be authorized with the approval 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 2016 were Gilead Biopharmaceutics Ireland Unlimited Company (6,760,701 shares or 14.62%), FMR LLC (4,606,507 shares or 9.96%), and Van Herk Investments B.V. (3,943,150 shares or 8.52%).

Major shareholders on 31 December 2016



At the end of 2016, the CEO owned 628,289 shares of Galapagos NV and 706,874 warrants. The other members of the executive committee held an aggregate of 35,352 shares and 970,000 warrants. The other members of the board held an aggregate of 49,844 shares and 165,240 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. 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.

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.

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 the level of achievement of individual and corporate objectives that are established annually. The corporate objectives and the CEO's objectives are established annually by the board of directors, and the objectives of the other members of the executive committee are established annually by the CEO and are in relation to the corporate objectives set by the board. For 2016 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, as amended on this point in 2016, can be maximum 75% (previously, this was 60%) 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

We currently have no plans to substantially deviate from the general principles of the remuneration policy used in 2016 and the years before, as described above, in the next two financial years.

Remuneration of non-executive directors of Galapagos NV

Upon recommendation of the nomination and remuneration committee, the annual shareholders' meeting of 26 April 2016 resolved that the compensation (excluding expenses) of the non-executive directors for the exercise of their mandate during the financial year ending 31 December 2016 was established as follows: (i) chairman of the board (Dr. Parekh): €80,000; (ii) other non-executive board members (Dr. Cautreels, Dr. Van Barlingen, Mr. Rowe, Ms. Bosley and Dr. Mummery): €40,000 each; (iii) annual additional compensation for membership of a board committee (audit committee: Mr. Rowe and Dr. Van Barlingen; nomination and remuneration committee: Dr. Cautreels and Ms. Bosley): €5,000; (iv) annual additional compensation for the chairmanship of a board committee (audit committee: Dr. Cautreels; nomination and remuneration committee: Dr. Parekh): €10,000.

The shareholders' meeting of 26 July 2016, which resolved upon the appointment of Dr. Mary Kerr as Director of Galapagos NV, acknowledged that the aforementioned remuneration principles for the financial year ending on 31 December 2016 approved by the annual shareholders' meeting of 26 April 2016 applied to determine the compensation (excluding expenses) of Dr. Kerr, *pro rata temporis*, for the period starting on the date of her appointment and ending on 31 December 2016. The compensation of Dr. Kerr for her mandate as non-executive director during the financial year ending 31 December 2016 hence amounted to €17,282.31.

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 2016, 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 2016 and Warrant Plan 2016 RMV. In accordance with the resolution of the annual shareholders' meeting of 26 April 2016, the following number of warrants were offered under Warrant Plan 2016 to the non-executive directors: Dr. Parekh: 15,000 warrants; and Dr. Cautreels, Ms. Bosley, Dr. Van Barlingen, Mr. Rowe and Dr. Mummery: each 7,500 warrants. All directors accepted the warrants offered. These warrants have a term of eight years. The exercise price of the warrants is €46.10. As regards the directors, the warrants vest over a period of 36 months at a rate of $1/36^{th}$ per month. The warrants cannot be transferred and cannot be exercised prior to the end of the third calendar year following the year of the grant. No warrants were offered to directors under Warrant Plan 2016 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 performance-related remuneration such as stock-related long-term incentive schemes. In deviation from this provision, the board of directors has decided to grant warrants to non-executive directors. This way, Galapagos has additional possibilities to attract competent non-executive directors and to offer them an attractive additional remuneration that does not affect Galapagos' cash position. Furthermore, the 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 who do offer stock-related incentive schemes to their non-executive directors. The board of directors is of the opinion that the granting of warrants has no negative impact on the functioning of the non-executive directors.

In addition to the benefits set forth above, the non-executive directors also received benefits consisting of tax advisory services in 2016 for an amount of €14,495.

Remuneration of executive directors of Galapagos NV

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

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

The executive director (CEO) and the members of the executive committee are eligible for performance-based remuneration (bonus). The level of the achieved bonus is established annually by the board of directors upon recommendation of the nomination and remuneration committee (whose recommendation is based on proposals from the CEO with respect to the other members of the executive committee). The award of a bonus is merit-driven and based on the group's performance rating system that is based on annual individual performance (including exceptional deliverables) in combination with 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 2016 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 2016

i. Base salary (fixed): €472,267 (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 2016), a bonus equal to 100% of the 2016 base salary was awarded over 2016, of which 50% was paid early January 2017, and the other 50% was deferred for 3 years. The value of the 50% deferred part of the bonus awarded over 2013 was established at the end of 2016 and resulted in a payment in early January 2017 of an amount of €652,974.18 (a multiple of 4.01 of the deferred bonus, as a result of the share price performance over the period 2013-2016 as per the provisions of the Senior Management Bonus Scheme).

iii. Pension: €62,843 (of which €18,859.44 is part of the fixed base salary).

iv. Other components of the remuneration: company car, tax advisory services, and payments for invalidity and healthcare cover, totaling €39,384.25.

In its meeting of 7 December 2016 (in application of article 523 of the Belgian Companies Code and without the CEO being present) the board of directors resolved, upon recommendation of the nomination and remuneration committee, to increase the CEO's salary by 2.5% as from 2017. The principles applied for such increase were in line with the Remuneration Policy described above.

Aggregate gross remuneration of the other executive committee members for financial year 2016

i. Base salaries (fixed): €898,435 (including €60,000 in the form of pension contributions).

ii. Variable remunerations (bonuses): given the level of achievement of the criteria from the Senior Management Bonus Scheme to be entitled to a bonus (i.e. the corporate objectives for 2016), an aggregate bonus of €673,826 (i.e. 100% of the aggregate bonus pool) was awarded over 2016 of which 50% was paid early January 2017, and the other 50% was deferred for 3 years. The value of the 50% deferred part of the bonus awarded over 2013 was established at the end of 2016 and resulted in a payment in early January 2017 of an amount of €521,192.64 (a multiple of 4.01 of the deferred bonus, as a result of the share price performance over the period 2013-2016 as per the provisions of the Senior Management Bonus Scheme).

iii. Pensions: €164,711.91 (of which €60,000 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, and other fringe benefits, totaling €45,695.

In its meeting of 7 December 2016 the board of directors resolved, upon recommendation of the nomination and remuneration committee, to implement salary increases as from 2017 for the members of the executive committee generally in line with the increases awarded in previous years, based on individual performance and taking into account relevant benchmarks. The principles applied for such increases were in line with the Remuneration Policy described above.

Shares, warrants or other rights to acquire shares awarded to, exercised by or expired for the executive committee members during financial year 2016

In 2016, 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 2016 and, in aggregate, 215,000 warrants were exercised by members of the executive committee in 2016 (130,000 warrants were exercised by Onno van de Stolpe, 45,000 warrants by Piet Wigerinck and 40,000 warrants by Andre Hoekema). The board of directors does not consider the granted warrants as a variable remuneration, as they are not subject to any performance criteria. The following number of warrants were offered to and accepted by members of the executive committee in 2016, under Warrant Plan 2016, issued by the board of directors under the authorized capital on 1 June 2016, to Mr. Van de Stolpe: 100,000 warrants, to each of Dr. Wigerinck and Mr. Filius: 60,000 warrants, and Dr. Hoekema: 55,000 warrants.

The warrants issued under Warrant Plan 2016 have an exercise price of €46.10 per warrant, a life time of 8 years, and vest only and fully at the end of the third calendar year after the year of the grant, except for Mr. Van de Stolpe, whose warrants vest over a period of 36 months at a rate of $1/36^{th}$ per month. The warrants cannot be exercised prior to the end of the third calendar year after the year of the grant; they are not transferable, and each warrant gives the right to subscribe to one share of Galapagos NV.

At the end of 2016, Mr. Van de Stolpe owned 628,289 shares of Galapagos NV and 706,874 warrants. The other members of the executive committee held an aggregate of 35,352 shares and 970,000 warrants. The other members of the board held an aggregate of 49,844 shares and 165,240 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 2016

Not applicable; in 2016 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 2016, 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 7 December 2016, the following was reported in accordance with article 523 of the Belgian Companies Code and in connection with the salary increase and bonus for the CEO: the chairman declared that Mr. Onno van de Stolpe had informed the board of directors of a conflict of interest, concerning the proposed award to him of a salary increase and a bonus. The salary of Mr. Van de Stolpe was increased with 2.50% as of 2017. 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 2016) a bonus equal to 100% of his 2016 salary was awarded to Mr. Van de Stolpe for 2016. It has been explained to the board that said salary increase and bonus is a justified reward for the results achieved by Mr. Van de Stolpe in 2016. The salary increase and bonus will have no material impact on the financial position of the company. The board shares the opinion of the remuneration committee that the proposed salary increase and bonus is justified and reasonable. Mr. Van de Stolpe did not take part in the deliberation and the vote concerning this decision.

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 2016.

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 2016, 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 2016, and to release the directors and the statutory auditor from liability for the performance of their mandate during the financial year ended 31 December 2016.

Mechelen, 21 March 2017

On behalf of the board of directors

Onno van de Stolpe
CEO

Raj Parekh
Chairman

Financial statements

Consolidated and non-consolidated financial statements for 2016

Richard Janssen

VP Alliance Management

Consolidated financial statements

Consolidated statements of income and comprehensive income

Consolidated income statement

(thousands of €, except share and per share data)	Year ended 31 December 2016	2015	Notes
Revenues	129,519	39,563	5
Other income	22,093	21,017	5
Total revenues and other income	**151,612**	**60,579**	
Research and development expenditure	(139,573)	(129,714)	6
General and administrative expenses	(21,744)	(19,127)	6
Sales and marketing expenses	(1,785)	(1,182)	6
Total operating expenses	**(163,103)**	**(150,023)**	
Operating loss	**(11,491)**	**(89,444)**	
Fair value re-measurement of share subscription agreement	57,479	(30,632)	8
Other financial income	9,950	1,987	9
Other financial expenses	(1,692)	(1,539)	9
Profit / loss (–) before tax	**54,246**	**(119,627)**	
Income taxes	(235)	1,218	10
Net income / loss (–)	**54,012**	**(118,410)**	11
Net income / loss (–) attributable to:			
Owners of the parent	54,012	(118,410)	
Basic income / loss (–) per share	**1.18**	**(3.32)**	11
Diluted income / loss (–) per share	**1.14**	**(3.32)**	11
Weighted average number of shares – Basic (in thousands of shares)	45,696	35,700	11
Weighted average number of shares – Diluted (in thousands of shares)	47,308	35,700	

Consolidated statement of comprehensive income

	Year ended 31 December		
(thousands of €)	**2016**	2015	Notes
Net income / loss (–)	**54,012**	**(118,410)**	
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of defined benefit obligation	(583)	202	29
Items that may be reclassified subsequently to profit or loss:			
Fair value adjustment of available-for-sale financial assets	(399)		14
Translation differences, arisen from translating foreign activities	(623)	690	21
Other comprehensive income, net of income tax	**(1,605)**	**892**	
Total comprehensive income attributable to:			
Owners of the parent	52,406	(117,517)	

Consolidated statements of financial position

(thousands of €)	31 December 2016	31 December 2015	Notes
Assets			
Intangible assets	1,023	1,550	12
Property, plant and equipment	14,961	13,782	13
Deferred tax assets	1,957	1,726	22
Non-current R&D incentives receivables	54,188	49,384	15
Non-current restricted cash	1,098	1,046	16
Other non-current assets	2,880	557	14
Non-currents assets	**76,107**	**68,044**	
Inventories	300	325	
Trade and other receivables	9,728	3,931	17
Current R&D incentives receivables	10,154	9,161	15
Cash and cash equivalents	973,241	340,314	18
Current restricted cash	6,570	6,857	16
Current financial asset from share subscription agreement	–	8,371	8
Other current assets	7,239	5,512	17
Current assets	**1,007,232**	**374,470**	
Total assets	**1,083,338**	**442,514**	
Equity and liabilities			
Share capital	223,928	185,399	19
Share premium account	649,135	357,402	19
Other reserves	(1,000)	(18)	20
Translation differences	(1,090)	(467)	21
Accumulated losses	(112,272)	(177,317)	
Total equity	**758,701**	**364,999**	
Pension liabilities	3,520	2,693	29
Provisions	63	55	25
Finance lease liabilities	9	63	23
Other non-current liabilities	2,469	2,291	24
Non-current deferred income	214,785	–	24
Non-current liabilities	**220,846**	**5,103**	

(thousands of €)	31 December 2016	2015	Notes
Finance lease liabilities	54	52	23
Trade and other payables	31,269	29,482	24
Current tax payable	1,022	2,583	10
Accrued charges	619	490	24
Deferred income	70,827	39,806	24
Current liabilities	**103,791**	**72,412**	
Total liabilities	**324,637**	**77,515**	
Total equity and liabilities	**1,083,338**	**442,514**	

Consolidated cash flow statements

(thousands of €)	2016	2015	Notes
Cash and cash equivalents at beginning of year	**340,314**	**187,712**	18
Net income / loss (–)	54,012	(118,410)	
Adjustments for:			
Tax expense / income (–)	235	(1,218)	10
Other net financial income	(8,258)	(448)	9
Fair value re-measurement of share subscription agreement	(57,479)	30,632	8
Depreciation of property, plant and equipment	3,322	2,372	13
Amortization of intangible fixed assets	860	1,030	12
Net realized gain / loss (–) on foreign exchange transactions	1,229	(398)	
Share-based compensation	11,034	5,036	30
Increase / decrease (–) in provisions	7	(125)	25
Increase in pension liabilities	244	30	29
Gain on sale of fixed assets	(14)	(62)	
Operating cash flows before movements in working capital	**5,192**	**(81,560)**	
Increase (–)/ decrease in inventories	25	(44)	
Increase in receivables	(12,978)	(7,220)	17
Increase / decrease (–) in payables	2,102	(39,508)	24
Increase in deferred income	245,806	12,780	24
Cash generated / used (–) in operations	**240,148**	**(115,553)**	
Interest paid	(47)	(49)	
Interest received	1,066	1,106	
Income taxes paid	(1,763)	(94)	
Net cash flows generated / used (–) in operating activities	**239,403**	**(114,590)**	
Purchase of property, plant and equipment	(4,458)	(6,100)	13
Purchase of and expenditure in intangible fixed assets	(332)	(565)	12
Proceeds from disposal of property, plant and equipment	18	110	13
Decrease in restricted cash	235	2,258	16
Acquisition of available-for-sale financial assets	(2,750)		14
Net cash flows used in investing activities	**(7,287)**	**(4,297)**	

(thousands of €)	2016	2015	Notes
Repayment of obligations under finance leases and other debts	(49)	(43)	23
Proceeds from capital and share premium increases, net of issue costs	391,784	259,410	19
Proceeds from capital and share premium increases from exercise of warrants	4,261	12,003	19
Net cash flows generated in financing activities	**395,996**	**271,370**	
Effect of exchange rate differences on cash and cash equivalents	**4,816**	**118**	
Increase in cash and cash equivalents	**632,927**	**152,601**	
Cash and cash equivalents at end of the year	**973,241**	**340,314**	

Consolidated statements of changes in equity

(thousands of €)	Share capital	Share premium account	Translation differences	Other reserves	Accumul. losses	Total
On 1 January 2015	**157,274**	**114,182**	**(1,157)**	**(220)**	**(63,944)**	**206,135**
Net loss					(118,410)	(118,410)
Other comprehensive income			690	202		892
Total comprehensive income			**690**	**202**	**(118,410)**	**(117,517)**
Share-based compensation					5,036	5,036
Issue of new shares	40,751	237,952				278,703
Share issue costs	(19,360)					(19,360)
Exercise of warrants	6,734	5,269				12,002
On 31 December 2015	**185,399**	**357,402**	**(467)**	**(18)**	**(177,317)**	**364,999**
On 1 January 2016	**185,399**	**357,402**	**(467)**	**(18)**	**(177,317)**	**364,999**
Net income					54,012	54,012
Other comprehensive income			(623)	(982)		(1,605)
Total comprehensive income			**(623)**	**(982)**	**54,012**	**52,406**
Share-based compensation					11,034	11,034
Issue of new shares	36,575	289,696				326,271
Share issue costs	(269)					(269)
Exercise of warrants	2,223	2,037				4,261
On 31 December 2016	**223,928**	**649,135**	**(1,090)**	**(1,000)**	**(112,272)**	**758,701**

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 (Mechelen, Belgium); Galapagos SASU (Romainville, France); Galapagos B.V. (Leiden, the Netherlands); Fidelta d.o.o. (Zagreb, Croatia); BioFocus, Inc. and its subsidiaries, BioFocus DPI LLC, and Xenometrix, Inc.; BioFocus DPI AG (Basel, Switzerland) and its subsidiary Discovery Partners International GmbH (Heidelberg, Germany); and Inpharmatica Ltd. (Saffron Walden, UK).

Our operations have 508 employees working in the operating facilities in Mechelen (the Belgian headquarters), the Netherlands, France, and Croatia.

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), issued by the International Accounting Standard Board (IASB) and the interpretations issued by the IASB's International Financial Reporting Interpretation Committee. The consolidated financial statements provide a general overview of 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 2016

- Amendments to IAS 1 Presentation of Financial Statements – Disclosure Initiative (applicable for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 16 and IAS 38 Property, Plant and Equipment and Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization (applicable for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 19 Employee Benefits – Employee Contributions (applicable for annual periods beginning on or after 1 February 2015)

Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2016

- 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 (applicable for annual periods beginning on or after 1 January 2018)
- IFRS 16 Leases (applicable for annual periods beginning on or after 1 January 2019, but not yet endorsed in the EU)

- Improvements to IFRS (2014-2016) (applicable for annual periods beginning on or after 1 January 2017 or 2018, but not yet endorsed in the EU)
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (applicable for annual periods beginning on or after 1 January 2018, but not yet endorsed in the EU)
- Amendments to IFRS 4 Insurance Contracts – Applying IFRS 9 Financial Instruments with IFRS 4 (applicable for annual periods beginning on or after 1 January 2018, but not yet endorsed in the EU)
- Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative (applicable for annual periods beginning on or after 1 January 2017, but not yet endorsed in the EU)
- Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses (applicable for annual periods beginning on or after 1 January 2017, but not yet endorsed in the EU)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (applicable for annual periods beginning on or after 1 January 2018, but not yet endorsed in the EU)

The new standards applicable did not have any impact on our financials.

Assessment of the impact of IFRS 15 Revenue from Contracts with Customers (applicable for annual periods beginning on or after 1 January 2018) on the revenue recognition of our current material license and collaboration agreements.

The IASB has issued IFRS 15 Revenue from Contracts with Customers, with an effective date of 1 January 2018. It was endorsed by the EU in third quarter of 2016.

The IASB issued clarifications to IFRS 15 Amendments to IFRS 15 – Clarifications to IFRS 15 Revenue from Contracts with Customers, with an effective date of 1 January 2018, currently awaiting EU endorsement. The clarifications address how to identify the performance obligations in a contract, how to determine whether a party involved in a transaction is a principal or an agent, how to determine whether a license provides the customer with a right to access or a right to use the entity's intellectual property, and added practical expedients to the transition requirements of IFRS 15.

Entities will apply a five step model to determine when, how and at what amount revenue is to be recognized depending on whether certain criteria are met.

The company is currently in process of reviewing all its research and development, license and collaboration agreements to ascertain how IFRS 15 will impact the identification of performance obligations and the allocation of consideration to them. We performed preliminary qualitative assessments of the consequences of IFRS 15, which are however subject to change arising from a more detailed ongoing analysis.

1. Identify the contracts

The substance of our current arrangements is that Galapagos is licensing its IP or selling its compounds to collaborative partner entities and providing research and development ("R&D") services. Such activities result in a good or service that is an output of Galapagos' 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.

Certain revenues from our current material licensing and collaboration agreements could be in the scope of IFRS 15.

2. Identify performance obligations

We assessed that there could be one single combined performance obligation for certain arrangements in our material ongoing license and collaboration arrangements under the new standards of IFRS 15; the transfer of a license combined with performance of R&D services.

This is because we could consider that the license has no stand-alone value without Galapagos being further involved in the R&D collaboration and that there is interdependence between the license and the R&D services to be provided. For certain arrangements, we could consider that there is a transformational relationship between the license and the R&D services to be delivered. We could estimate that the Galapagos' activities during the R&D collaboration are going to significantly add to Intellectual Property (IP) and thereby the value of the programs.

3. Determine the transaction price

We analyzed the transaction prices of our material ongoing license and collaboration agreements currently composed of upfront license fees, R&D milestones and cost reimbursements for R&D services being delivered. Sales based milestones and sales based royalties are part of certain of our arrangements but are not yet included in our revenues as our most advanced license and collaboration arrangement is entering into a late development phase. Transaction price must be re-assessed at each reporting periods under IFRS 15.

4. Allocate the transaction price

An entity shall allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price.

The transaction price of certain of our arrangements could be allocated to a single combined performance obligation when the transfer of a license is considered to be combined with performance of R&D services.

R&D milestone payment is variable consideration that could be entirely allocated to a specific performance obligation or to a distinct good or service that forms part of a single performance obligation if certain criteria under IFRS 15 are met.

5. Recognize revenue

Revenue from certain arrangements could be recognized as Galapagos satisfies a combined performance obligation.

Galapagos could recognize revenues allocated to a combined performance obligation over the estimated service period based on a pattern that reflects the transfer of the services. The revenues recognized would reflect the level of service each period. In this case, Galapagos would use an output model that considers estimates of the percentage of total R&D service costs that are completed each period compared to the total estimated services costs (% of completion method).

Milestone payments could be recognized in revenues entirely when achieved as we achieved a specific performance obligation or to a distinct good or service that forms part of a single performance obligation if certain criteria under IFRS 15 are met.

Costs reimbursements could be recognized in revenues when costs are incurred and agreed by the parties as Galapagos is acting as a principal in the scope of its stake of the R&D activities of its ongoing license and collaboration agreements.

Assessment of the impact of IFRS 15

As the company's assessment of all contracts, potential performance obligations, and potential allocation of the revenue is still ongoing, the company is not able at this stage to provide a final estimate of the impact of IFRS 15 on its consolidated financial statements. The company plans to adopt IFRS 15 on the effective date.

Assessment of the impact of the implementation of IFRS 9 Financial Instruments and subsequent amendments (applicable for annual periods beginning on or after 1 January 2018) on our consolidated financial statements.

The IASB has issued IFRS 9 Financial Instruments, with an effective date of 1 January 2018, endorsed by the EU in the fourth quarter of 2016. IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The new standard also introduces expanded disclosure requirements and changes in presentation.

We performed a preliminary assessment evaluating the guidance to determine the potential impact on the consolidated financial statements.

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. However, at year-end 2015 and until 19 January 2016, an embedded derivative existed under the terms of the Gilead contract (see note 8).

As of 31 December 2016, some equity instruments held by the group were classified as "available-for-sale". The group applies IAS 39 for its equity instruments.

We performed a preliminary assessment of the impact of the implementation of the new standards of IFRS 9 on our current accounting policies under IAS 39, and primarily on the current accounting treatment applied for our available-for-sale financial assets.

All equity investments in scope of IFRS 9 are to be measured at fair value in the statement of financial position, with value changes recognized in profit or loss, except for those equity investments for which the entity has elected to present value changes in 'other comprehensive income'. There is no 'cost exception' for unquoted equities.

'Other comprehensive income' option under IFRS 9

If an equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income with only dividend income recognized in profit or loss.

Assessment of the impact of IFRS 9

Galapagos' preliminary assessment is that the coming new standards IFRS 9 Financial Instruments and subsequent amendments (applicable for annual periods beginning on or after 1 January 2018) should not have a material impact on our consolidated financial statements. The company plans to adopt IFRS 9 on the effective date.

IFRS 16 Leases

The IASB has issued IFRS 16 Leases (applicable for annual periods beginning on or after 1 January 2019) currently awaiting EU endorsement. The standard requires that all leases be recognized in the balance sheet with a corresponding lease liability, except for short term assets and minor assets. IFRS 16 required leased assets to be amortized over the lease term, and payments will be allocated between instalments on the lease obligation and interest expense, classified as financial items. In addition, the nature of the expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right of the use assets and interest expense on lease liabilities.

We know that this new coming standard will have an impact on our consolidated financial statements in 2019 and we are currently evaluating the guidance to determine this impact. We plan to adopt IFRS 16 on the effective date.

Consolidated reporting

The consolidated financial statements comprise the financial statements of Galapagos NV and entities controlled by Galapagos NV. Control is achieved where Galapagos NV has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities. The results of subsidiaries are included in the income statement and statement of comprehensive income from the effective date of acquisition up to the date

when control ceases to exist. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with our accounting policies. All intra-group transactions, balances, income and expenses are eliminated when preparing the consolidated financial statements.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by us in exchange for control of the acquired entity.

The acquired entity's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair value at the acquisition date.

Goodwill arising on business combinations is recognized as an asset and initially measured as excess of the cost of acquisition over our interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary less the value of the non-controlling interests at date of the acquisition. Goodwill is not amortized but tested for impairment on an annual basis and whenever there is an indication that the cash generating unit to which goodwill has been allocated may be impaired. Goodwill is stated at cost less accumulated impairment losses. An impairment loss recognized for goodwill is not reversed in a subsequent period.

In cases in which the acquirer's interest in the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities less the value of the non-controlling interests exceeds cost, all fair values and cost calculations are reassessed. In the event that an excess still exists, it is immediately recognized in the profit or loss statement.

Intangible assets

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

An internally generated intangible asset arising from 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 lives. If the recognition criteria for accounting as an intangible asset are not met, development costs are recognized as an expense in the period in which they are incurred.

Intellectual property, which comprises patents, licenses and rights, is measured internally at purchase cost and is amortized on a straight-line basis over the estimated useful life on the following bases:

- Customer relationships: 1 – 10 years
- In process technology: 3 – 5 years
- Software & databases: 3 – 5 years
- Brands, licenses, patents & know how: 5 – 15 years

In the event an asset has an indefinite life, this fact is disclosed along with the reasons for being deemed to have an indefinite life.

Property, plant and equipment

Property, plant and equipment are recognized at cost less accumulated depreciation and any impairment loss. Depreciation is recognized so as to write off the cost or valuation of assets over their useful lives, using the straight-line method, on the following bases:

- Installation & machinery: 4 – 15 years
- Furniture, fixtures & vehicles: 4 – 10 years

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

Leasehold improvements

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

Assets held under finance lease

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

Inventories

Inventories are valued at the lower of cost and net realizable value. The net realizable value represents the estimated sales price less all estimated costs for completion and costs for marketing, sales and logistics.

Cost of raw materials comprises mainly purchase costs. Raw materials are not ordinarily interchangeable, and they are as such accounted for using the specific identification of their individual cost.

Financial instruments

Financial assets and financial liabilities are recognized on 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. However, at year-end 2015 and until 19 January 2016, an embedded derivative existed under the terms of the Gilead contract (see note 8).

Available-for-sale financial assets

The group applies IAS 39 for its equity instruments. At the time of purchase, management determines the financial instrument's classification and reviews this classification at each reporting date. The classification depends on the purpose of acquiring the financial instrument. As of 31 December 2016, some financial instruments held by the group were classified as "available-for-sale". These financial instruments are recognized or derecognized as of the date of settlement. Following their initial recognition, available-for-sale financial assets are measured at fair value, and any resulting gain or loss is reported directly in the revaluation reserve within equity until the financial instruments are sold, redeemed, otherwise disposed of or considered impaired, at which time the accumulated gain or loss is reported in profit and loss. Initial recognition at fair value is defined as the fair value of the consideration provided net of transaction costs. However, when investments in equity instruments do not have a quoted market price in an active market and the fair value cannot be reliably measured; those equity instruments are measured at cost.

Research and development incentives receivables

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

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value reduced by appropriate allowances for irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents are measured at nominal value. For the purposes of the cash flow statements, cash and cash equivalents comprise cash on hand, deposits held on call with banks, other short term deposits and highly liquid investments. Cash and cash equivalents exclude restricted cash which is presented separately in the statement of financial position.

Trade payables

Trade payables bear no interest and are measured at their nominal value.

Taxation

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

Current tax is the expected tax payable on the taxable profit of the year. The taxable profit of the year differs from the profit as reported in the financial statements as it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. 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 substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. As such, a deferred tax asset for the carry forward of unused tax losses will be recognized to the extent that is probable that future taxable profits will be available.

Foreign currencies

- Functional and presentation currency

  Items included in the financial statements of each of 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 functional and presentation currency.

- Transactions and balances in foreign currency

  Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transaction. We are using 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 alliance agreements. We also generate revenue from our fee-for-service activities, and various research and development incentives and grants.

Collaboration and alliance 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 and royalties on sales.

The revenue recognition policies can be summarized as follows:

Upfront payments

Non-refundable, upfront payments received in connection with research and development collaboration agreements are deferred and recognized over the relevant, required periods of 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 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.

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

We recognize the possible payment of the deferred component of the Senior Management Bonus Schemes 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 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 specified to the liability.

Finance and operating leases

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

Assets held under finance leases are recognized as 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 they are capitalized.

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

Impairment of tangible and intangible assets

At each balance sheet date, 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.

An intangible asset with an indefinite useful life is tested for impairment annually, and whenever there is an indication that the asset might be impaired. The recoverable amount is the higher of fair value less costs to sell and value in use.

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

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

Net income/loss per share

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

Discontinued operations

A discontinued operation is a component of us that either has been disposed of or is classified as held for sale and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or (c) is a subsidiary acquired exclusively with a view to resale.

Segment reporting

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of revenue and expenses that can be allocated on a reasonable basis to a segment. Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis; 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

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

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

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

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

Revenue recognition

Evaluating the criteria for revenue recognition with respect to our research and development and collaboration agreements requires management's judgment to ensure that all criteria have been fulfilled prior to recognizing any amount of revenue. In particular, such judgments are made with respect to determination of the nature of transactions, whether simultaneous transactions shall be considered as one or more revenue-generating transactions, allocation of the contractual price (upfront and milestone payments in connection with a collaboration agreement) to several elements included in an agreement, and the determination of whether the significant risks and rewards have been transferred to the buyer. Collaboration agreements are reviewed carefully to understand the nature of risks and rewards of the arrangement. All of our revenue-generating transactions have been subject to such evaluation by management.

Critical accounting estimates

Fair value re-measurement of the Gilead share subscription agreement (derivative financial asset instrument)

(thousands of €)

Fair value at inception	**39,003**
Movement of 2015 (recognized in the income statement)	(30,632)
Fair value per 31 December 2015	**8,371**
Movement of period 1-19 January 2016 (recognized in the income statement)	57,479
Fair value per 19 January 2016	**65,850**
Derecognition of the financial asset through the share premium account	(65,850)
Fair value per 31 December 2016	**–**

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

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

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

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

This computation was based on the following unobservable assumptions:

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

Relationship of unobservable inputs to the fair value measurement:

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

On 19 January 2016, the value of the financial asset at maturity amounted to €65.9 million, reflecting the share premium that Gilead paid above our closing share price on the day of the capital increase. This financial asset expired on the effective date of the share subscription agreement and was derecognized through the share premium account.

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, by which the characteristics of the grant have a decisive influence. This assumes also the input into the valuation model of some relevant judgments, like the estimated expected life of the warrant and the volatility. The judgments made and the model used are further specified in note 30.

Pension obligations

The cost of a defined pension arrangement is determined based on actuarial valuations. An actuarial valuation assumes the estimation of discount rates, estimated returns on assets, future salary increases, mortality figures and future pension increases. Because of the long term nature of these pension plans, the valuation of these is subject to important uncertainties. See note 29 for additional details.

Corporate income taxes

Significant judgment is required in determining the use of tax loss carry forwards. Deferred tax assets arising from unused tax losses or tax credits are only recognized to the extent that there are sufficient taxable temporary differences or there is convincing evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized. Management's judgment is that such convincing evidence is currently not sufficiently available except for two subsidiaries operating intercompany on a cost plus basis and as such a deferred tax asset is therefore recognized. At 31 December 2016, we had a total of approximately €311.1 million of statutory tax losses carried forward which can be compensated with future taxable statutory profits for an indefinite period except for an amount of €18 million in Switzerland, Croatia, the United States and the Netherlands with expiry date between 2018 and 2030. At 31 December 2016, the available tax losses carried forward in Belgium amounted to €230.9 million.

As from 1 July 2016, the existing Belgian patent income deduction ('PID') regime has been abolished and replaced by the innovation income deduction ('IID') regime (adopted by the Belgian Chamber of Representatives on 2 February 2017 – published in the official Belgian gazette on 20 February 2017).

Taxpayers benefitting from the previous PID regime will be able to still choose for the old PID regime (instead of the new IID regime) for five years (grandfathering until 30 June 2021).

The choice for the PID regime is however irrevocable. An assessment is currently ongoing to determine which regime is the most favorable for Galapagos. Given this ongoing assessment, we have taken the position to make abstract of the new IID regime when estimating the tax provision in respect of assessment year 2017. In case the newly IID regime would be applied, it is possible that an additional carried-forward tax asset could be recognized (however subject to further analysis).

4. Segment information

In 2015, the IFRS 8 threshold of 10% of the combined revenues, external and inter-segment, of all segments was met by the external and internal revenues reported by our fee-for-service business located in Croatia. Consequently, there were two reportable segments in 2015 and 2016, R&D and fee-for-service business.

Segment information for the year 2016

(thousands of €)	R&D	Fee-for-services	Inter-segment elimination	Group
External revenue	121,616	7,903		129,519
Internal revenue	–	4,379	(4,379)	
Other income	21,922	171		22,093
Revenues & other income	**143,538**	**12,453**	**(4,379)**	**151,612**
Segment result	**1,138**	**(1,787)**		**(649)**
Unallocated expenses (1)				(10,841)
Operating loss				**(11,491)**
Financial (expenses)/income (2)				65,737
Result before tax				**54,246**
Income taxes (2)				(235)
Net income				**54,012**

(1) The unallocated expenses of €10,841 thousand are composed of (a) €11,034 thousand of warrant costs, (b) €193 thousand of reduced cost from the IAS19R reclassification of actuarial losses on long term defined post-employment benefit obligations, from profit or loss accounts to other comprehensive income. The above listed items are not presented to management in our management reporting as segment results, and are, therefore, presented on the line "unallocated expenses" in our segment reporting.

(2) Cash and taxes are handled at group level and are therefore presented under unallocated (expenses) / income

Segment information for the year 2015

(thousands of €)	R&D	Fee-for-services	Inter-segment elimination	Group
External revenue	34,129	5,434		39,563
Internal revenue	–	5,459	(5,459)	–
Other income	20,778	238		21,017
Revenues & other income	**54,907**	**11,131**	**(5,459)**	**60,580**
Segment result	**(82,024)**	**(2,690)**		**(84,713)**
Unallocated expenses (1)				(4,731)
Operating loss				**(89,444)**
Financial (expenses)/income (2)				(30,184)
Result before tax				**(119,627)**
Income taxes (2)				1,218
Net income				**(118,410)**

(1) The unallocated expenses of €4,731 thousand are composed of (a) €5,036 thousand of warrant costs, (b) €507 thousand of decrease in depreciation cost triggered by an IFRS adjustment on the depreciation charges reported by Fidelta (Croatia) reflecting the expected useful lifetime following the purchase accounting of the acquisition of the Zagreb Research operations of GSK in 2010, (c) €202 thousand of cost from the IAS19R reclassification of actuarial gains on long term defined post- employment benefit obligations, from profit or loss accounts to other comprehensive income. The above listed items are not presented to management in our management reporting as segment results, and are, therefore, presented on the line "unallocated expenses" in our segment reporting.

(2) Cash and taxes are handled at group level and are therefore presented under unallocated (expenses) / income

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 2016 our operations were located in Belgium, Croatia, France and the Netherlands.

In 2016 our top 10 customers represented 98% of the revenues. Our client base in 2016 and 2015 included eight of the top 20 pharmaceutical companies in the world.

Following table summarizes our revenues by destination of customer:

	Year ended 31 December	
(thousands of €)	2016	2015
United States	88,628	17,077
Europe	40,884	22,446
Asia Pacific	6	40
Total revenues	**129,519**	**39,563**

Following table summarizes our revenues by major customers:

	Year ended 31 December			
	2016		2015	
	(thousands of €)	%	(thousands of €)	%
Gilead	**87,813**	**68%**		
United States	87,813	68%		
AbbVie	**32,596**	**25%**	**29,870**	**75%**
Europe	32,596	25%	13,640	34%
United States		0%	16,229	41%
Total revenues	**120,409**	**93%**	**29,870**	**75%**

Following table summarizes our revenues by destination of our entity:

	Year ended 31 December	
(thousands of €)	2016	2015
Galapagos NV (Belgium)	121,703	34,082
Galapagos SASU (France)	84	25
Fidelta d.o.o. (Croatia)	7,732	5,440
Xenometrix, Inc. (United States)		16
Total revenues	**129,519**	**39,563**

In 2016, we held €76 million of non-current assets (€68 million in 2015) distributed as follows:

- Belgium: €37 million (€30 million in 2015)
- France: €31 million (€29 million in 2015)
- Croatia: €4 million (€5 million in 2015)
- The Netherlands: €4 million (€4 million in 2015)

The increase in non-current assets was mainly explained by the increase in non-current R&D incentives receivables (see note 15).

5. Total revenues and other income

Revenues

The following table summarizes the revenues for the years ended 31 December 2016 and 2015.

	Year ended 31 December	
(thousands of €)	2016	2015
Recognition of non-refundable upfront payments	30,257	26,419
Milestone payments	81,784	3,835
Reimbursement income	9,699	3,807
Other revenues	7,777	5,501
Total revenues	**129,519**	**39,563**

Total revenues increased by €90.0 million, or 227%, to €129.5 million for the year ended 31 December 2016, from €39.6 million for the year ended 31 December 2015. This increase was mainly driven by a substantial increase in milestone payments, as explained below.

Revenue recognized in 2015 from upfront non-refundable payments related to the CF collaboration agreement with AbbVie signed in September 2013 and the contract signed with AbbVie in February 2012 for our filgotinib program (including the extension signed in March 2013). Those upfront payments were fully recognized into revenues by the end of August 2015.

In September 2015 AbbVie decided not to opt in, which ended the collaboration agreement regarding our filgotinib program and consequently the period of our involvement. There are no outstanding commitments for us regarding this terminated collaboration for our filgotinib program.

On 16 December 2015, we entered into a global collaboration with Gilead Sciences, Inc. for the development and commercialization of the JAK1-selective inhibitor filgotinib for inflammatory indications. On 19 January 2016, we completed the closing of the global collaboration agreement with Gilead, in the framework of which Gilead made a $425 million (or €392 million) equity investment in Galapagos NV by subscribing to new shares at a price of €58 per share, including issuance premium. This resulted in Gilead owning 6,760,701 ordinary shares of Galapagos NV, representing 14.75% percent of the then-outstanding share capital of Galapagos. We also received a license fee of $300 million. In addition, we are still eligible to receive payments of up to $695 million in additional[7] development and regulatory milestones and $600 million in sales milestones, with tiered royalties starting at 20% and a profit split in co-promotion territories. Furthermore, development costs of the licensed product will be split 20-80. As such Galapagos will support 20% of all development costs. As we do not expect to have a statutory taxable base in the foreseeable future, we did not recognize any additional deferred tax asset following the signing of this new collaboration.

The global collaboration with Gilead foresees continuous involvement from us, since we will perform certain R&D activities in the development phase of the filgotinib program; therefore, management assessed that the upfront payment of $300 million (or €275.6 million) received in January 2016 from Gilead should be spread as a function of the costs incurred for this program, applying the percentage of completion method. In the year ended 31 December 2016, €25.6 million revenues were recognized regarding this upfront payment.

[7] In 2016 $60 million of development milestones was already achieved and paid by Gilead.

In connection with the agreement with Gilead, we recognized a deferred income and an offsetting short-term financial asset (derivative) of €39 million upon signing of the share subscription agreement with Gilead, as required under IAS 39. We refer to note 8 for further details. The deferred income will be recognized in function of the costs incurred for this program, applying the percentage of completion method, along with the upfront payment. In the year ended 31 December 2016, €3.6 million revenues were recognized in the income statement.

In 2016, Galapagos signed a license agreement with ThromboGenics for an integrin antagonist (formerly GLPG0187), for which an upfront payment of €1 million was invoiced and fully recognized, as Galapagos has no further involvement or obligation in the contract.

The following table summarizes the upfront payments recognition for years ended 31 December 2016 and 2015.

Agreement	Upfront received (thousands of $)	Upfront received (thousands of €)	Date of receipt	Revenue recognized, year ended 31 December 2016	Revenue recognized, year ended 31 December 2015	Outstanding balance in deferred income as at 31 December 2016
				(thousands of €)		
AbbVie collaboration agreement for CF	$45,000	€34,001	September 2013		€11,401	
AbbVie collaboration agreement for RA and CD (filgotinib)	$150,000	€111,582	February 2012		€12,045	
First amendment to AbbVie collaboration agreement for RA and CD (filgotinib)	$20,000	€15,619	March 2013		€2,973	
Gilead collaboration agreement for filgotinib	$300,000	€275,558	January 2016	€25,621		€249,937
Gilead collaboration agreement for filgotinib	N.A.	€39.003 (*)	January 2016	€3,626		€35,376
ThromboGenics license agreement for integrin antagonists	N.A.	€1,000	April 2016	€1,000		
Sirion Biotech license agreement for RNA interference (RNAi) technologies	N.A.	€10	June 2016	€10		
Total recognition of non-refundable upfront payments				**€30,257**	**€26,419**	**€285,314**

(*) deferred income of €39 million booked upon signing of the share subscription agreement with Gilead as required under IAS 39

Milestone revenues increased substantially by €77.9 million to €81.8 million for the year ended 31 December 2016 compared to €3.8 million for the year ended 31 December 2015. Milestones in 2016 related to the filgotinib program with Gilead in Crohn's disease and UC, and the CF program with AbbVie.

Reimbursement income increased by €5.9 million or 155%, to €9.7 million for the year ended 31 December 2016 compared to €3.8 million for the year ended 31 December 2015, due to higher reimbursements in relation with the CF program with AbbVie and the filgotinib program with Gilead (which was partnered with AbbVie in 2015). The reimbursement of certain research and development costs related to the development work under the Galapagos' collaboration agreements amounted to €5.9 million for our CF program with AbbVie and €3.5 million for our filgotinib program with Gilead for the year ended 31 December 2016.

Other revenues increased by €2.3 million, or 41%, to €7.8 million for the year ended 31 December 2016 compared to €5.5 million for the year ended 31 December 2015, principally due to higher revenues from fee-for-service activities.

Other income

The following table summarizes other income for the years ended 31 December 2016 and 2015.

	Year ended 31 December	
(thousands of €)	**2016**	**2015**
Grant income	2,329	3,095
Other income	19,764	17,922
Total other income	**22,093**	**21,017**

Total other income was composed of grant income and other income and increased by €1.1 million, or 5%, from €21.0 million for the year ended 31 December 2015 to €22.1 million for the year ended 31 December 2016.

Grant income decreased by €0.8 million, or 25%, from €3.1 million for the year ended 31 December 2015 to €2.3 million for the year ended 31 December 2016. The majority of this grant income was related to grants from a Flemish agency, representing approximately 88% of all reported grant income in 2016 (2015: 94%). In many cases these carry clauses which require us to maintain a presence in the same region for a number of years and invest according to pre-agreed budgets.

The decrease in grant income was more than offset by an increase in other income of €1.8 million, or 10%, from €17.9 million for the year ended 31 December 2015 to €19.8 million for the year ended 31 December 2016. Other income was primarily composed of:

- Income from an innovation incentive system of the French government, which represented €9.5 million of other income for the year ended 31 December 2016 compared to €8.7 million for the year ended 31 December 2015
- Income from Belgian R&D incentives with regard to incurred R&D expenses, which represented €5.8 million of other income for the year ended 31 December 2016 compared to €5.3 million for the year ended 31 December 2015
- Tax rebates on payroll withholding taxes of R&D personnel in Belgium and the Netherlands, representing €3.8 million of other income for the year ended 31 December 2016 compared to €3.0 million for the year ended 31 December 2015

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 2016 and 2015.

	Year ended 31 December	
(thousands of €)	**2016**	2015
Personnel costs	(42,315)	(35,875)
Subcontracting	(65,649)	(65,883)
Disposables and lab fees and premises costs	(20,414)	(18,696)
Other operating expenses	(11,196)	(9,260)
Total research and development expenditure	**(139,573)**	**(129,714)**

R&D expenditure increased by €9.9 million, or 8%, to €139.6 million for the year ended 31 December 2016, from €129.7 million for the year ended 31 December 2015. This increase was principally due to:

- Increased R&D personnel costs of €6.4 million, or 18%, from €35.9 million for the year ended 31 December 2015 to €42.3 million for the year ended 31 December 2016, which was explained by an enlarged workforce, higher warrant costs and a higher payable for short term and long term management bonus, mainly as a result of the increase of our share price change relative to the Next Biotech Index on Euronext
- Intensified use of lab consumables was the main driver of the increase in disposables, lab fees and premises costs of €1.7 million, or 9%, from €18.7 million for the year ended 31 December 2015 to €20.4 million for the year ended 31 December 2016
- Other operating expenses increased by €1.9 million, or 21%, from €9.3 million for the year ended 31 December 2015 to €11.2 million for the year ended 31 December 2016, primarily due to an increase in depreciation of €1.0 million.

Subcontracting costs were relatively stable and decreased slightly by €0.2 million, or 0.4%, from €65.9 million for the year ended 31 December 2015 to €65.6 million for the year ended 31 December 2016.

The table below summarizes our research and development expenditure for the years ended 31 December 2016 and 2015, broken down by research and development expenses under alliance[8]

	Year ended 31 December	
(thousands of €)	**2016**	2015
R&D under alliance	(71,980)	(80,832)
Galapagos funded R&D	(67,593)	(48,882)
Total R&D expenditure	**(139,573)**	**(129,714)**

[8] All filgotinib costs (both costs incurred in the period under alliance (with AbbVie) and costs incurred after AbbVie's opt-out decision in September 2015) are presented as "R&D under alliance" or as "partnered" in the tables in this section for the year ended 31 December 2015, as a new alliance was signed in December 2015 with Gilead for this program.

We tracked all research and development expenditures against detailed budgets and allocated them by individual project. The table below summarizes our research and development expenditure for the years ended 31 December 2016 and 2015, broken down by program:

	Year ended 31 December	
(thousands of €)	2016	2015
Filgotinib program (partnered)	(22,376)	(35,404)
CF program (partnered)	(31,203)	(25,634)
IPF program on GLPG1690 (proprietary)	(7,129)	(4,612)
OA program on GLPG1972 (partnered)	(6,538)	(5,832)
AtD program on MOR106 (partnered)	(3,491)	(4,651)
Other	(68,836)	(53,582)
Total R&D expenditure	**(139,573)**	**(129,714)**

R&D expenditure under alliance decreased by €8.9 million, or 11%, from €80.8 million for the year ended 31 December 2015 to €72.0 million for the year ended 31 December 2016, mainly due to decreased R&D spending in our RA and IBD program on filgotinib (partnered with AbbVie in 2015 and partnered with Gilead in 2016), which has been partially offset by increased R&D spending on our CF program in collaboration with AbbVie. We increased our investments in our own funded portfolio by €18.7 million, or 38%, from €48.9 million for the year ended 31 December 2015 to €67.6 million for the year ended 31 December 2016, primarily because of intensified research investments in our proprietary programs on inflammation, HBV and fibrosis, as well as increased spending on our proprietary IPF program GLPG1690.

General and administrative expenses

The following table summarizes the general and administrative expenses for the years ended 31 December 2016 and 2015.

	Year ended 31 December	
(thousands of €)	2016	2015
Personnel costs and directors fees	(15,160)	(12,739)
Other operating expenses	(6,584)	(6,388)
Total general and administrative expenses	**(21,744)**	**(19,127)**

General and administrative expenses amounted to €19.1 million for the year ended 31 December 2015 and increased by €2.6 million, or 14%, to €21.7 million for the year ended 31 December 2016. This increase was principally due to directors fees, which increased by €2.7 million, or 116%, from €2.4 million for the year ended 31 December 2015 to €5.1 million for the year ended 31 December 2016, resulting from various effects, such as increased costs of share-based payments plans (our warrant plans) and increased payables for short and long term management bonus, mainly as a result of the increase of our share price change relative to the Next Biotech Index on Euronext.

Sales and marketing expenses

The following table summarizes the sales and marketing expenses for the years ended 31 December 2016 and 2015.

	Year ended 31 December	
(thousands of €)	**2016**	2015
Personnel costs	(1,167)	(785)
Other operating expenses	(618)	(397)
Total sales and marketing expenses	**(1,785)**	**(1,182)**

Sales and marketing expenses increased by €0.6 million, or 51%, from €1.2 million for the year ended 31 December 2015 to €1.8 million for the year ended 31 December 2016.

7. Staff costs

The table below summarizes the number of our employees on 31 December 2016 and 2015:

	2016	2015
Number of employees on 31 December	508	435
Total	**508**	**435**

The average number of employees during the years 2016 and 2015 was:

	Year ended 31 December	
	2016	2015
Key management	4	4
Laboratory staff	385	355
Administrative staff	79	66
Total	**468**	**425**

Their aggregate remuneration comprised:

	Year ended 31 December	
(thousands of €)	**2016**	2015
Wages and salaries	(34,857)	(33,676)
Social security costs	(7,328)	(7,328)
Pension costs	(1,728)	(1,456)
Other personnel costs	(9,617)	(4,574)
Total personnel costs	**(53,530)**	**(47,034)**

The other personnel costs mainly related to costs for warrants granted of €6.6 million (2015: €2.9 million). For the costs of warrants granted, see note 30.

8. Fair value re-measurement of share subscription agreement

On 16 December 2015, Gilead Sciences, Inc. and Galapagos NV entered into a global collaboration for the development and commercialization of filgotinib, in the framework of which Gilead committed to an upfront payment of $725 million consisting of a license fee of $300 million and a $425 million equity investment in Galapagos NV by subscribing to new shares at a price of €58 per share, including issuance premium. This agreement was effectively completed and entered into force on 19 January 2016 and the full payment was received.

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

The decrease in the fair value of the financial asset resulting from the increase in the Galapagos share price between signing of the share subscription agreement and 31 December 2015 resulted in a negative, non-cash fair value charge of €30.6 million in the financial results. The subsequent increase in the fair value of the financial asset resulting from the decrease in our share price between 1 January 2016 and 19 January 2016 resulted in a positive non-cash gain of €57.5 million in the financial result of 2016.

On 19 January 2016, the value of the financial asset at maturity amounted to €65.9 million, reflecting the share premium that Gilead paid above our closing share price on the day of the capital increase. This amount was composed of (1) the initial measurement on the day of entering into the share subscription agreement for an amount of €39 million which was reported in deferred income and (2) the subsequent re-measurements of the financial asset, reported as financial result under IAS 39: €30.6 million fair value loss reported in the year 2015 and €57.5 million fair value gain reported in the year 2016, together a net fair value gain of €26.8 million. This financial asset expired on the effective date of the share subscription agreement and was derecognized through the share premium account.

9. Other financial income/expenses

The following table summarizes other financial income and expense for the years ended 31 December 2016 and 2015.

	Year ended 31 December	
(thousands of €)	**2016**	**2015**
Other financial income:		
Interest on bank deposit	1,614	1,246
Effect of discounting long term R&D incentives receivables	99	99
Currency exchange gain	8,150	636
Other finance income	87	7
Total other financial income	**9,950**	**1,987**
Other financial expenses:		
Interest expenses	(47)	(46)
Currency exchange loss	(1,453)	(1,310)
Other finance charges	(191)	(182)
Total other financial expense	**(1,692)**	**(1,539)**
Total other net financial income	**8,257**	**448**

Other financial income increased significantly by €8.0 million, or 401%, from €2.0 million for the year ended 31 December 2015 to €10.0 million for the year ended 31 December 2016. The increase primarily related to an exchange gain of €4.8 million on deposits held in U.S. dollar and exchange gains of €2.0 million realized on milestone payments from AbbVie and Gilead in U.S. dollar.

Other financial expenses increased by €0.2 million, or 10% from €1.5 million for the year ended 31 December 2015 to €1.7 million for the year ended 31 December 2016. Net exchange profit amounts to €6.7 million for the year ended 31 December 2016, compared to a net exchange loss of €0.7 million for the year ended 31 December 2015. Interest expenses were related to interests paid on financial lease.

10. Taxes

The following table summarizes the income tax recognized in profit or loss for the years ended 31 December 2016 and 2015.

	Year ended 31 December	
(thousands of €)	**2016**	**2015**
Current tax	(466)	(215)
Deferred tax	231	1,433
Total income taxes	**(235)**	**1,218**

Current tax amounted to €0.5 million for the year ended 31 December 2016 and €0.2 million for the year ended 31 December 2015, and was related to taxes for subsidiaries operating on cost plus basis.

Deferred tax income of €0.2 million for the year ended 31 December 2016 and of €1.4 million for the year ended 31 December 2015 related to subsidiaries working on a cost plus basis.

Tax liabilities

The below table illustrates the tax liabilities related captions in the balance sheet as at 31 December 2016 and 2015.

	31 December	
(thousands of €)	**2016**	**2015**
Current tax payable	1,022	2,583
Total tax liabilities	**1,022**	**2,583**

On 31 December 2015, tax liabilities included €2.6 million primarily related to the recognition of tax liabilities for two subsidiaries operating on a cost plus basis. This amount was partly due to a tax audit on the years 2008 to 2011 and underlying proposed tax adjustment amounting to €1.9 million in cash and decrease of our tax losses carried forward for €19.5 million. A liability was recognized in 2014 considering this claim and the potential risk, partly under current tax liability for €1.3 million and partly as a decrease of the R&D incentives receivables for €0.6 million. The tax adjustment was settled in cash in the fourth quarter of 2016. However, discussions are still ongoing with regard to this claim.

In addition, taxes on gain on the sale of the service division in 2014 were included in the tax liabilities on 31 December 2015 for €0.4 million and were paid in 2016.

On 31 December 2016, €1.0 million of tax liabilities were primarily related to two of our subsidiaries operating on a cost plus basis.

Taxes recognized in profit or loss

Corporation tax was calculated at 34% (2015: 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 €)	**2016**	2015
Income / loss (–) before tax	**54,246**	**(119,627)**
Income tax debit / credit (–), calculated using the Belgian statutory tax rate (34%) on the accounting income / loss (–) before tax (theoretical)	18,438	(40,661)
Tax expenses / income (–) in income statement (effective)	**235**	**(1,218)**
Difference in tax expenses / income to explain	**(18,203)**	**39,444**
Effect of tax rates in other jurisdictions	163	328
Effect of non taxable revenues	(27,399)	(5,934)
Effect of consolidation entry without tax impact	2	57
Effect of non tax deductible expenses	4,387	12,378
Effect of recognition of previously non recognized deferred tax assets	(421)	(1,307)
Effect of tax losses (utilized) reversed	(655)	(597)
Effect from under or over provisions in prior periods		58
Effect of non recognition of deferred tax assets	5,720	34,783
Effect of R&D tax credit claims		(322)
Total explanations	**(18,203)**	**39,444**

The main difference between the theoretical tax and the effective tax for the years 2016 and 2015 was primarily explained by the unrecognized deferred tax assets on tax losses carried forward for which we conservatively assess that it is not likely that these will be realized in the foreseeable future.

Non-taxable revenues for the years ended 31 December 2016 and 2015 were related to non-taxable subsidies and tax credits. Non-taxable revenues in 2016 included also the financial profit related to the fair value re-measurement of the share subscription agreement.

11. Result per share

Basic result per share is calculated by dividing the net result attributable to shareholders by the weighted average number of ordinary shares issued during the year. Diluted result 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.

Income / loss per share

	Year ended 31 December	
	2016	2015
Result for the purpose of basic income / loss (–) per share (thousands of €)	**54,012**	**(118,410)**
Number of shares (thousands)		
Weighted average number of shares for the purpose of basic income / loss per share	45,696	35,700
Basic income / loss (–) per share (€)	**1.18**	**(3.32)**
Result for the purpose of diluted income / loss (–) per share (thousands of €)	**54,012**	**(118,410)**
Number of shares (thousands)		
Weighted average number of shares for the purpose of diluted income / loss per share	45,696	35,700
Number of dilutive potential ordinary shares	1,612	-
Diluted income / loss (–) per share (€)	**1.14**	**(3.32)**

As we reported a net loss in 2015, the outstanding warrants (specified in note 30) have an anti-dilutive effect rather than a dilutive effect. Consequently, basic and diluted loss per share are the same for 2015.

Basic income per share of €1.18 and diluted income per share of €1.14 in 2016 are based on a net income for 2016 which was strongly influenced by the non-cash gain from the fair value re-measurement of the share subscription agreement with Gilead amounting to €57.5 million.

12. Intangible assets

(thousands of €)	Customer relationships	In process technology	Software & databases	Brands, licenses, patents & know-how	Total
Acquisition value					
On 1 January 2015	**–**	**5,561**	**8,088**	**1,512**	**15,161**
Additions			565		565
Sales and disposals			(1,512)		(1,512)
Translation differences			177		177
On 31 December 2015	**–**	**5,561**	**7,318**	**1,512**	**14,392**
Additions			317	15	332
Sales and disposals			(508)	(4)	(512)
Translation differences			58	0	58
On 31 December 2016	**–**	**5,561**	**7,185**	**1,523**	**14,269**
Amortization and impairment					
On 1 January 2015	**–**	**5,561**	**6,087**	**1,497**	**13,147**
Amortization			1,026	4	1,030
Sales and disposals			(1,512)		(1,512)
Translation differences			177		177
On 31 December 2015	**–**	**5,561**	**5,777**	**1,501**	**12,841**
Amortization			856	4	860
Sales and disposals			(509)	(5)	(514)
Translation differences			57		57
On 31 December 2016	**–**	**5,561**	**6,182**	**1,501**	**13,246**
Carrying amount					
On 31 December 2015	–		1,540	11	1,550
On 31 December 2016	**–**		**1,003**	**22**	**1,023**

The intangible assets decreased by €0.5 million from €1.5 million as at 31 December 2015, to €1.0 million as at 31 December 2016. The amortization of €0.9 million was partly compensated by new additions for €0.3 million.

13. Property, plant and equipment

(thousands of €)	Land & building improvements	Installation & machinery	Furniture, fixtures & vehicles	Other tangible assets	Total
Acquisition value					
On 1 January 2015	**8,286**	**28,820**	**2,594**	**321**	**40,021**
Additions	2,158	2,250	285	1,407	6,100
Sales and disposals	(6,395)	(5,041)	(188)	(11)	(11,635)
Reclassifications	–	540	3	(543)	–
Translation differences	–	19	1	(1)	20
On 31 December 2015	**4,049**	**26,588**	**2,695**	**1,174**	**34,506**
Additions	296	3,325	210	627	4,458
Sales and disposals	–	(1,315)	(105)	(0)	(1,420)
Reclassifications	67	1,064	167	(1,299)	(1)
Translation differences	–	70	6	4	81
On 31 December 2016	**4,412**	**29,733**	**2,973**	**505**	**37,624**
Depreciations and impairment					
On 1 January 2015	**7,984**	**19,790**	**2,046**	**110**	**29,930**
Amortization	164	1,873	272	63	2,372
Sales and disposals	(6,395)	(4,996)	(188)	(7)	(11,587)
Reclassifications		44		(44)	–
Translation differences	–	8			8
On 31 December 2015	**1,753**	**16,718**	**2,130**	**122**	**20,724**
Amortization	272	2,752	243	55	3,322
Sales and disposals	–	(1,315)	(100)	–	(1,415)
Reclassifications	–	67	(93)	26	–
Translation differences	–	29	5		34
On 31 December 2016	**2,025**	**18,252**	**2,184**	**203**	**22,663**
Carrying amount					
On 31 December 2015	2,296	9,870	565	1,051	13,782
On 31 December 2016	**2,387**	**11,481**	**789**	**302**	**14,961**

The property, plant and equipment increased from €13.8 million as at 31 December 2015 to €15.0 million as at 31 December 2016. This increase was mainly the result of new additions of €4.5 million, partly compensated by a depreciation charge of €3.3 million. The sales and disposals in 2015 related to the move to new premises in France and the Netherlands.

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

14. Other non-current assets

On 15 July 2016, we invested €2.75 million in Pharnext, a French advanced clinical stage biopharmaceutical company developing new therapeutics for severe orphan and common neurological diseases, listed on Euronext. Galapagos has no restrictions on the sale of this equity investment and the asset is not pledged under any Galapagos' liabilities. This investment is classified as available-for-sale equity investment which qualifies for level 1 fair value measurement based upon the closing price of the PXT securities on Euronext at each reporting date.

Fair value changes on available-for-sale financial assets are recognized directly in equity, through the statement of changes in equity.

As of 31 December 2016, other non-current assets mainly consisted of available-for-sale equity investments in Pharnext re-measured at fair value for €2.4 million as follows.

(thousands of €)	Fair value of available-for-sale financial assets
Cost at 1 January 2016	–
Additions of the year	2,750
Cost at 31 December 2016	**2,750**
Fair value adjustment of the year	(399)
Fair value adjustment at 31 December 2016	**(399)**
Net book value at 31 December 2016	**2,351**

The unrealized loss of €399 thousand as of 31 December 2016, based on unadjusted quoted market price, was recorded as a separate item within equity (revaluation reserve) in the line "other reserves".

15. Research and development incentives receivables

The table below illustrates the R&D incentives receivables related captions in the balance sheet as at 31 December 2016 and 2015.

	31 December	
(thousands of €)	2016	2015
Non-current R&D incentives receivables	54,188	49,384
Current R&D incentives receivables	10,154	9,161
Total R&D incentives receivables	**64,342**	**58,545**

Total R&D incentives receivables increased by €5.8 million compared to 31 December 2015. This increase is explained by new R&D incentives reported in 2016 for €15.3 million (€9.5 million related to French R&D incentives and €5.8 million related to Belgian R&D incentives) less the payments received related to French R&D incentives amounting to €8.7 million and to Belgian R&D incentives amounting to €0.8 million. The R&D incentives receivables relate to future refunds resulting from R&D incentives on research expenses in France and Belgium. Non-current R&D incentives receivables are discounted over the period until maturity date.

The table below provides detailed information on the maturity of the non-current R&D incentives receivables reported in the balance sheet at 31 December 2016.

Non-current R&D incentives receivables

	31 December 2016					
	Maturity date					
(thousands of €)	2018	2019	2020	2021	2022–2026	Total
French non-current R&D incentives receivables – nominal value	8,214	8,621	9,168			26,003
French non-current R&D incentives receivables – discounted value	8,214	8,621	9,168			26,003
Belgian non-current R&D incentives receivables – nominal value	2,074	2,966	3,831	4,188	15,235	28,294
Belgian non-current R&D incentives receivables – discounted value	2,074	2,966	3,831	4,188	15,126	28,185
Total non-current R&D incentives receivables – nominal value	**10,288**	**11,587**	**12,999**	**4,188**	**15,235**	**54,297**
Total non-current R&D incentives receivables – discounted value	**10,288**	**11,587**	**12,999**	**4,188**	**15,126**	**54,188**

16. Restricted cash

	31 December	
(thousands of €)	2016	2015
Non-current restricted cash	1,098	1,046
Current restricted cash	6,570	6,857
Total restricted cash	**7,668**	**7,903**

Restricted cash amounted to €7.9 million on 31 December 2015, and decreased to €7.7 million on 31 December 2016. This decrease is related to the payment of a claim to Charles River by decrease of the escrow account for €0.3 million, which has been slightly offset by an increase in non-current restricted cash of €0.1 million related to an increase in the bank guarantee with regard to the rental of additional office space for the Belgian premises.

Restricted cash on 31 December 2016 is related to €0.4 million and €0.7 million of bank guarantees on real estate lease obligations in Belgium and in the Netherlands respectively, and to €6.6 million escrow account containing part of the proceeds from the sale of the service division in 2014 for which the release will be possible after final agreement between the parties.

17. Trade and other receivables and other current assets

	31 December	
(thousands of €)	2016	2015
Trade receivables	6,629	1,494
Prepayments	21	11
Other receivables	3,078	2,426
Trade and other receivables	**9,728**	**3,931**
Accrued income	3,617	2,976
Deferred charges	3,621	2,536
Other current assets	**7,239**	**5,512**
Total trade and other receivables & other current assets	**16,966**	**9,443**

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 2016, we did not have any bad debt allowance.

18. Cash and cash equivalents

	31 December	
(thousands of €)	2016	2015
Cash at banks	357,630	240,292
Term deposits	515,632	100,000
Money market funds	99,977	-
Cash on hand	2	22
Total cash and cash equivalents	**973,241**	**340,314**

We reported a cash position of €973.2 million at the end of December 2016 compared to €340.3 million at year-end 2015. Net cash inflow from operating activities amounted to €239.4 million for the year ended 31 December 2016. This net cash inflow from operations recorded in 2016 was primarily due to the license fee of $300 million (€275.6 million) received from Gilead in relation with our collaboration agreement on filgotinib. In addition, milestone payments increased substantially in 2016 (compared to 2015), which contributed significantly to the net cash inflow from operations in 2016. The net cash outflow from investing activities amounted to €7.3 million for the year ended 31 December 2016, which included an acquisition of available-for-sale financial assets (see note 14). The net cash inflow from financing activities amounted to €396.0 million for the year ended 31 December 2016, which can mainly be attributed to the subscription of Galapagos shares by Gilead on 19 January 2016 for which the cash proceeds from capital and share premium increases amounted to €391.9 million, net of issue costs. In addition, proceeds received on exercise of warrants contributed to cash generated by financing activities in 2016 in the amount of €4.3 million.

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 comprise €515.6 million of term deposits of which €458.7 million had an original maturity longer than 3 months. All cash and cash equivalents are available upon maximum one month notice period. Cash at banks

were mainly composed of savings accounts and current accounts. We maintain our bank deposits in highly rated financial institutions to reduce credit risk. Cash invested in highly liquid money market funds represented €100.0 million and was aimed at meeting short-term cash commitments, while reducing the counterparty risk of investment.

19. Share capital

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

(thousands of €)	2016	2015
On 1 January	**185,399**	**157,274**
Share capital increase	38,798	47,485
Costs of capital increase	(269)	(19,360)
Share capital on 31 December	**223,928**	**185,399**
Aggregate share capital	250,187	211,389
Costs of capital increase (accumulated)	(26,259)	(25,990)
Share capital on 31 December	**223,928**	**185,399**

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 2015 and 31 December 2016 is as follows:

Date	Share capital increase new shares (in thousands of €)	Share capital increase warrants (in thousands of €)	Number of shares issued (in thousands of shares)	Aggregate number of shares after transaction (in thousands of shares)	Aggregate share capital after transaction (in thousands of €)
1 January 2015				**30,299**	**163,904**
26 March 2015		3,092	572		
19 May 2015	40,751		7,532		
19 June 2015		2,659	491		
25 September 2015		640	118		
4 December 2015		344	64		
31 December 2015				**39,076**	**211,389**
1 January 2016				**39,076**	**211,389**
19 January 2016	36,575		6,761		
1 April 2016		668	132		
19 May 2016		762	141		
19 September 2016		326	60		
28 November 2016		467	86		
31 December 2016				**46,256**	**250,187**

On 1 January 2015, Galapagos NV's share capital amounted to €163,904.1 thousand, represented by 30,299,129 shares. All shares were issued, fully paid up and of the same class.

On 26 March 2015, warrants were exercised at various exercise prices (with an average exercise price of €10.18 per warrant), resulting in a share capital increase (including issuance premium) of €5,819 thousand and the issuance of 571,548 new ordinary shares. The closing price of the Galapagos share on this date was €21.26.

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

Galapagos received €278.7 million of gross proceeds from the global offering, decreased by €19.4 million of underwriter discounts and commission, and offering expenses, of which €19.3 million has been paid at 31 December 2015 and €0.1 million has been paid in 2016. The total net cash proceeds from the global offering after remaining settlements amounted to €259.3 million.

On 19 June 2015, warrants were exercised at various exercise prices (with an average exercise price of €8.94 per warrant), resulting in a share capital increase (including issuance premium) of €4,395 thousand and the issuance of 491,406 new ordinary shares. The closing price of the Galapagos share on this date was €46.73.

On 25 September 2015, warrants were exercised at various exercise prices (with an average exercise price of €10.13 per warrant), resulting in a share capital increase (including issuance premium) of €1,198 thousand and the issuance of 118,260 new ordinary shares. The closing price of the Galapagos share on this date was €44.75.

On 4 December 2015, warrants were exercised at various exercise prices (with an average exercise price of €9.30 per warrant), resulting in a share capital increase (including issuance premium) of €590.8 thousand and the issuance of 63,500 new ordinary shares. The closing price of the Galapagos share on this date was €44.78.

On 31 December 2015, Galapagos NV's share capital amounted to €211,388.9 thousand, represented by 39,076,342 shares. All shares were issued, fully paid up and of the same class.

On 19 January 2016, Gilead made a $425 million equity investment in Galapagos NV by subscribing to 6,760,701 new ordinary shares at a price of €58 per share, including issuance premium. Galapagos received €392.1 million of gross proceeds, decreased by €0.26 million of expenses, which were all paid at 31 December 2016. The total net cash proceeds from the share subscription by Gilead amounts to €391.9 million. The closing price of the Galapagos share on 19 January 2016 was €48.26.

On 1 April 2016, warrants were exercised at various exercise prices (with an average exercise price of €10.70 per warrant) resulting in a share capital increase (including issuance premium) of €1,409.3 thousand and the issuance of 131,695 new shares. The closing price of the Galapagos share on this date was €36.64.

On 19 May 2016, warrants were exercised at various exercise prices (with an average exercise price of €10.49 per warrant) resulting in a share capital increase (including issuance premium) of €1,476.4 thousand and the issuance of 140,770 new shares. The closing price of the Galapagos share on this date was €45.41.

On 19 September 2016, warrants were exercised at various exercise prices (with an average exercise price of €10.00 per warrant) resulting in a share capital increase (including issuance premium) of €603.3 thousand and the issuance of 60,320 new shares. The closing price of the Galapagos share on this date was €58.62.

On 28 November 2016, warrants were exercised at various exercise prices (with an average exercise price of €8.94 per warrant) resulting in a share capital increase (including issuance premium) of €771.3 thousand and the issuance of 86,250 new shares. The closing price of the Galapagos share on this date was €55.73.

On 31 December 2016, Galapagos NV's share capital amounted to €250,187 thousand, represented by 46,256,078 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 2016 and 2015.

(thousands of €, except share data)	Number of shares	Share capital	Share premium	Share capital and share premium
On 1 January 2015	**30,299,129**	**157,274**	**114,182**	**271,456**
26 March 2015: exercise of warrants	**571,548**	**3,092**	**2,727**	**5,819**
19 May 2015: global offering				
Ordinary shares (fully paid)	1,786,499	9,665	56,436	66,100
ADSs (fully paid)	5,746,000	31,086	181,516	212,602
Underwriter discounts and offering expenses (fully paid)		(19,360)		(19,360)
Total global offering	**7,532,499**	**21,391**	**237,952**	**259,343**
19 June 2015: exercise of warrants	**491,406**	**2,659**	**1,737**	**4,395**
25 September 2015: exercise of warrants	**118,260**	**640**	**558**	**1,198**
4 December 2015: exercise of warrants	**63,500**	**344**	**247**	**591**
On 31 December 2015	**39,076,342**	**185,399**	**357,402**	**542,801**

(thousands of €, except share data)	Number of shares	Share capital	Share premium	Share capital and share premium
On 1 January 2016	**39,076,342**	**185,399**	**357,402**	**542,801**
19 January 2016: share subscription from Gilead				
Ordinary shares (fully paid)	6,760,701	36,575	355,546	392,121
Derecognition of financial asset from share subscription agreement			(65,850)	(65,850)
Capital increase expenses (fully paid)		(269)		(269)
Total share subscription by Gilead	**6,760,701**	**36,306**	**289,696**	**326,002**
1 April 2016: exercise of warrants	**131,695**	**668**	**741**	**1,409**
19 May 2016: exercise of warrants	**140,770**	**762**	**715**	**1,476**
19 September 2016: exercise of warrants	**60,320**	**326**	**277**	**603**
28 November 2016: exercise of warrants	**86,250**	**467**	**305**	**772**
On 31 December 2016	**46,256,078**	**223,928**	**649,135**	**873,063**

Other information

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

The board of directors is authorized for a period of five years starting from the date of publication in the Annexes to the Belgian State Gazette of the shareholders' resolution that granted the renewed authorization, being 3 June 2016, 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 26 April 2016 amounted to €49,727.5 thousand. As of 31 December 2016, €3,431.2 thousand of the authorized capital was used, so that an amount of €46,295.2 thousand still remained available.

20. Other reserves

Actuarial and other gains or losses recognized through other comprehensive income

(thousands of €)	2016	2015
On 1 January	**(18)**	**(220)**
Gain or loss (–) on defined benefit obligation recognized through OCI	(583)	202
Loss on financial asset available-for-sale recognized through OCI	(399)	
Other reserves on 31 December	**(1,000)**	**(18)**

Other reserves consisted of (1) a negative of €601 thousand, compared to a negative of €18 thousand in 2015, which was related to the re-measurement of defined benefit obligations recognized through OCI in line with IAS19R, and (2) a negative of €399 thousand, compared to nil in 2015, related to the fair value adjustment on the available-for-sale equity investment in 2016 (see note 14).

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 (2015: nil).

On 31 December 2016 the fair value of our currency derivatives was nil (2015: nil).

We do not designate our foreign currency denominated debt as a hedge instrument for the purpose of hedging the translation of our foreign operations.

See note 33 for further information on how we manage financial risks.

21. Translation differences

(thousands of €)	2016	2015
On 1 January	**(467)**	**(1,157)**
Translation differences, arisen from translating foreign activities	(623)	690
Translation differences on 31 December	**(1,090)**	**(467)**

Translation differences decreased from a negative €0.5 million at the end of December 2015 to a negative of €1.1 million at the end of December 2016 mainly due to fluctuations of the GB pounds and the U.S. dollar exchange rates.

22. Deferred tax

	31 December	
(thousands of €)	2016	2015
Recognized deferred tax assets and liabilities		
Assets	1,957	1,726
Liabilities		
Deferred tax assets unrecognized	128,377	145,513
Deferred taxes in the consolidated statement of operations	231	1,433
Tax benefit arising from previously unrecognized tax assets used to reduce deferred tax expense (+)	421	1,433
Deferred tax expenses relating to use of previously recognized deferred tax assets	(190)	

The notional interest deduction for an amount of €2.6 million (2015: €2.6 million) and the investment deduction of €1 million (2015: €1 million) could give rise to deferred tax assets. The amount of notional interest deduction that has been accumulated in the past can be carried forward for maximum seven years, the notional interest deduction of 2012 and following years will not be carried forward according to a change in the Belgian tax legislation. There is no limit in time for the investment deduction.

The consolidated unused tax losses carried forward at 31 December 2016 amounted to €385 million (2015: €434 million), €17 million were related to unrecognized tax losses with expiry date between 2018 and 2030.

The available statutory tax losses carried forward that can be offset against future statutory taxable profits amounted to €311.1 million on 31 December 2016. These statutory tax losses can be compensated with future statutory profits for an indefinite period except for an amount of €18 million in Switzerland, Croatia, the United States and the Netherlands with expiry date between 2018 and 2030. On 31 December 2016, the available tax losses carried forward in Galapagos NV (Belgium) amounted to €230.9 million.

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 pre-clinical development programs and discovery platforms. Consequently, no deferred tax asset was set up as at 31 December 2016, except for two subsidiaries operating on a cost plus basis for which deferred tax assets were recognized for €2.0 million (2015 : €1.7 million).

23. Finance lease liabilities

	Minimum lease payments		Present value of minimum lease payments	
	31 December		31 December	
(thousands of €)	2016	2015	2016	2015
Amounts payable under finance lease				
Within one year	56	56	54	52
In the second to fifth years inclusive	9	65	9	63
After five years				
	65	**121**	**63**	**115**
Less future finance charges	2	6		
Present value of lease obligation	**63**	**115**		
Less amount due for settlement within 12 months			54	52
Amount due for settlement after 12 months			**9**	**63**

	Net book value		Acquisition cost	
	31 December		31 December	
(thousands of €)	2016	2015	2016	2015
Leased assets				
Installation & machinery	58	109	251	251
Total leased assets	**58**	**109**	**251**	**251**

We lease certain of our installation and machinery under finance leases. For the year ended 31 December 2016, the average borrowing rate was 4.34% (2015: 4.30%). The interest rates were fixed at the date of the contracts. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of our lease obligations approximates their carrying value.

24. Trade and other liabilities

	31 December	
(thousands of €)	**2016**	**2015**
Trade and other payables	31,209	29,113
Other current liabilities	60	369
Other non-current liabilities	2,469	2,291
Accrued charges	619	490
Deferred income	285,612	39,806
Total trade and other liabilities	**319,969**	**72,068**
Included in current liabilities	102,715	69,777
Included in non-current liabilities	217,254	2,291
Total trade and other liabilities	**319,969**	**72,068**

Our trade and other liabilities, amounting to €320.0 million as of 31 December 2016, increased by €247.9 million compared to the €72.1 million reported as of 31 December 2015.

The trade and other payables, amounting to €31.2 million as of 31 December 2016, increased slightly compared to the €29.1 million reported as of 31 December 2015. This increase is mainly due to higher trade payables.

Deferred income (long term and short term) amounted to €285.6 million at 31 December 2016 and increased by €245.8 million compared to €39.8 million as at 31 December 2015. On the one hand we had per 31 December 2015 a deferred income of €39 million due to the recognition of a deferred income upon signing of the share subscription agreement with Gilead (see note 8). On the other hand we received in January 2016 an upfront payment from Gilead for an amount of $300 million (or €276 million). The global collaboration with Gilead foresees continuous involvement from us, since we will perform certain R&D activities in the development phase of the filgotinib program; therefore, management assessed that both items of deferred income should be spread in function of the costs incurred for this program, applying the percentage of completion method. For the year ended 31 December 2016, €29.2 million were recognized in revenue, of which €3.6 million were related to the deferred income from the share subscription agreement and €25.6 million were related to the upfront payment.

The outstanding deferred income balance at 31 December 2016 included €285.3 million deferred income related to filgotinib (€214.8 million classified as non-current deferred income) - of which €35.4 million deferred income related to the Gilead share subscription agreement, remaining €249.9 million deferred income related to the $300 million upfront payment - and €0.3 million deferred grant income.

25. Provisions

(thousands of €)	Post-employment benefits (non-current)	Other provisions (non-current)	Total
On 1 January 2016	**8**	**47**	**55**
Additional provisions	–	10	10
Provisions utilized amounts	(2)	–	(2)
Translation differences	0	0	1
On 31 December 2016	**6**	**57**	**63**

The provisions remained stable at €0.1 million.

26. Operating lease obligations

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

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

	Year ended 31 December	
(thousands of €)	2016	2015
Total minimum lease payments under operating leases	**4,302**	**4,020**

Regarding outstanding commitments for future minimum lease payments under operating leases, see off-balance sheet arrangements as explained in note 27.

27. Off-balance sheet arrangements

Contractual obligations and commitments

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

On 31 December 2016, we had outstanding obligations for future minimum rent payments and purchase commitments, which become due as follows:

(thousands of €)	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
Operating lease obligations	27,263	4,114	6,494	5,504	11,151
Purchase commitments	27,579	27,084	495	–	–
Total contractual obligations & commitments	**54,842**	**31,198**	**6,989**	**5,504**	**11,151**

28. 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 has not been obtained. Approximately 5% of the total consideration, including price adjustments, was being held on an escrow account. To date, four claims have been introduced by CRL, which all have been settled for a total amount of €1.3 million. On 17 January 2017 an amount of €4.1 million was released from the escrow account. The release of the remaining balance of the escrow account will be possible after final agreement between the parties on the amounts at stake.

Following the divestment, we remained guarantor until early February 2017 in respect of the lease obligations for certain U.K. premises amounting to £3 million future rent payments. CRL shall fully indemnify us against all liabilities arising in connection with the lease obligations. We evaluated the risk to be remote. Finally, following common practice, we have given customary 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 the subsidiaries sued for wrongful termination and seeks damages of €1.5 million. We believe that the amount of damages claimed is unrealistically high. In 2014, the court requested an external advisor to evaluate the exact amount of damages. 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, which is currently pending. So far, no hearings have been scheduled and no decisions have been made. Considering the defense elements provided, as well as the fact that so far the court has made no decision indicating that the claim would be sustained, our board and management evaluated the risk to be remote to possible, but not likely. Accordingly, it was decided not to record any provision in 2016 as the exposure was considered to be limited.

29. Retirement benefit plans

Defined contribution plans

We operate defined contribution systems for our qualifying employees. 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

Our personnel in Belgium participated in a defined contribution plan (extra-legal pension). The Belgian defined contribution pension plans were by law subject to minimum guaranteed rates of return, i.e. 3.25% on employer contributions and 3.75% on employee contributions. These rates, which apply as an average over the entire career, may be modified by Royal Decree. Therefore, those plans were basically accounted for as defined contribution plans.

As a consequence of the law of 18 December 2015, minimum returns were guaranteed by the employer as follows: (a) for the contributions paid as from 1 January 2016, a new variable minimum return based on OLO rates, with a minimum of 1.75% and a maximum of 3.75%. In review of the low rates of the OLO in the last years, the return has been initially set to 1.75%; (b) for the contributions paid until end of December 2015, the previously applied legal returns as mentioned above, continue to apply until retirement date of the employees.

In view of the minimum returns guarantees, the Belgian defined contribution plans classify as defined benefit plans as from end December 2015.

As at 31 December 2015 no net liability was recognized in the balance sheet as the minimum rates of return to be guaranteed by the employer were closely matched by the rates of return guaranteed by the insurer. As at 31 December 2016 however a net liability of €386.6 thousand was recorded.

The contributions for those plans that were due by the employer for 2016 and 2015 amounted to respectively €528.0 thousand and €476.3 thousand, of which €42.5 thousand was paid after 31 December 2016 (2015: €35.9 thousand). No contributions were made by the employees.

The plan assets as at 31 December 2016 consisted of €1,788.7 thousand (2015: €1,063.7 thousand) individual insurance reserves, which benefit from a weighted average guaranteed interest rate of 2.82% (2015:3.0%).

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 €1,808.5 thousand for 2016 (2015: €1,520.9 thousand). This increase is mainly due to changed actuarial assumptions (decrease of discount rate from 2% to 1.44%).

Additionally, there are also seniority premiums paid in France. The provisions for these premiums amounted to €1,324.9 thousand in 2016 (2015: €1,172.0 thousand).

Total obligation included in the balance sheet related to the defined benefit plans amounts to €3,133.4 thousand for the year ended 31 December 2016 (2015: €2,692.9 thousand).

Actuarial gains and losses are recognized immediately on the balance sheet, with a charge or credit to other comprehensive income (OCI), in accordance with IAS 19R. They are not recycled subsequently. Actuarial losses of €193.2 thousand have been booked through other comprehensive income (OCI) at the end of 2016 (2015: €201.5 thousand of actuarial gains).

Total amounts due by all entities to the pension plans in 2016 were €1.7 million in total (2015: €1.5 million).

Obligations included in the balance sheet:

	31 December	
(thousands of €)	2016	2015
Present value of funded defined benefit obligation	2,175	
Plan assets	(1,789)	(1,064)
Deficit / surplus	387	(1,064)
Present value of unfunded defined benefit obligation	3,133	2,693
Reclassification – Belgian contribution plans	–	1,064
Liability included in the balance sheet	**3,520**	**2,693**

The present value of the gross obligation developed as follows:

(thousands of €)	2016	2015
Opening balance	3,757	2,865
Current service cost	649	194
Actual taxes on contributions paid	(48)	
Interest cost	82	50
Benefits paid	(119)	(44)
Reclassification – Belgian contribution plans	–	1,064
Actuarial gains (–) or losses due to experience adjustments	500	(27)
Actuarial gains (–) or losses due to experience adjustments related to new financial assumptions	432	(99)
Actuarial gains (–) or losses due to experience adjustments related to new demographic assumptions	56	(247)
Closing balance	**5,308**	**3,757**

The fair value of the plan assets developed as follows:

(thousands of €)	2016	2015
Opening balance	(1,064)	
Interest income on plan assets	(32)	
Actual administration costs	2	
Contributions from employer	(411)	
Actual taxes on contributions paid	48	
Plan assets gain during the period	(332)	
Reclassification – Belgian contribution plans	–	(1,064)
Closing balance	**(1,788)**	**(1,064)**

The expected rate of return on the plan assets is 2%.

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 €)	2016	2015
Current service cost	649	194
Interest cost	82	50
Interest income	(32)	
Administration expenses	2	
Revaluations of net liability / net asset	73	(171)
Total expense	**773**	**73**

Obligation included in the balance sheet reconciles as follows:

(thousands of €)	2016	2015
Opening balance	2,693	2,865
Real employer contributions	(411)	
Total expense recognized in the income statement	773	73
Re-measurement on the net defined benefit liability	583	(202)
Benefits paid	(119)	(44)
Closing balance	**3,520**	**2,693**

The most important actuarial assumptions were:

	31 December	
(%)	2016	2015
Discount rate	1.60%	2.00%
Expected salary increase	2.50%	2.25%
Inflation rate	1.75%	1.75%

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).

Breakdown of defined benefit obligation by type of plan participants:

	31 December	
(number of participants)	2016	2015
Active plan participants	267	254

Breakdown of defined benefit obligation by type of benefits:

	31 December	
(thousands of €)	2016	2015
Retirement and death benefits	3,983	2,585
Other post-employment benefits	1,325	1,172

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

	31 December	
(thousands of €)	2016	2015
Equity	89	74
Debt	1,698	979
Cash		11

Sensitivity analysis on discount rate: effect on obligation

	31 December
Obligation (thousands of €)	2016
Discount rate 1.10%	3,792
Discount rate 1.35%	3,661
Discount rate 1.60%	3,520
Discount rate 1.85%	3,419
Discount rate 2.10%	3,312

Sensitivity analysis on discount rate: effect on obligation

	31 December
Obligation (thousands of €)	2015
Discount rate 1.50%	2,868
Discount rate 1.75%	2,779
Discount rate 2.00%	2,693
Discount rate 2.25%	2,612
Discount rate 2.50%	2,534

30. Warrant plans

Presented below is a summary of warrant plans activities for the reported periods. Various warrant plans were approved for the benefit of 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 up to (and including) Warrant Plan 2015 vest at the end of the third calendar year following the year of the grant, with no intermediate vesting. The warrants granted under Warrant Plan 2015 (B) and Warrant Plan 2015 RMV vest on the third anniversary of the notary deed enacting the acceptance of the warrants. The warrants granted under Warrant plan 2016 and Warrant plan 2016 RMV vest at the end of the third calendar year following the year of the grant, with no intermediate vesting.

The warrants offered to directors vest over a period of 36 months at a rate of $1/36^{th}$ per month.

Warrants cannot be exercised before the end of the third calendar year following the year of the grant, except for warrants granted under Warrant Plan 2015 (B) and Warrant Plan 2015 RMV, which become exercisable on the third anniversary of the notary deed enacting the acceptance of the warrants. In the event of a change of control over Galapagos NV, all outstanding warrants vest immediately and will be immediately exercisable.

After the reverse 4:1 share split approved by the extraordinary shareholders' meeting of 29 March 2005, four warrants under Warrant Plan 2002 Belgium entitle the warrant holder to subscribe for one ordinary share. For the warrant plans created from 2005 onwards, one warrant entitles the warrant holder to subscribe for one ordinary share. In the summaries and tables below, the numbers of warrants issued under Warrant Plan 2002 Belgium are divided by four to avoid confusion in entitlements and rights.

The table below sets forth a summary of warrants outstanding and exercisable at 31 December 2016, per warrant plan:

Warrantplan	Allocation date	Expiry date	Exercise price (€)	Outstanding per 1 January 2016	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding per 31 December 2016	Exercisable per 31 December 2016
2002 B	09/07/2004	08/07/2017	4	31,250		(31,250)			0	0
2002 B	31/01/2005	30/01/2017	6.76	30,000		(5,000)			25,000	25,000
2005	04/07/2005	03/07/2018	6.91	120,000		(30,000)			90,000	90,000
2005	15/12/2005	14/12/2018	8.6	12,500					12,500	12,500
2006 BNL	04/05/2007	03/05/2020	9.22	7,500					7,500	7,500
2006 BNL	28/06/2007	27/06/2020	8.65	735					735	735
2006 BNL	21/12/2007	20/12/2020	7.12	1,575		(525)			1,050	1,050
2007	28/06/2007	27/06/2020	8.65	48,909					48,909	48,909
2007 RMV	25/10/2007	24/10/2020	8.65	44,125		(6,475)			37,650	37,650
2008	26/06/2008	25/06/2021	5.6	89,915		(10,315)			79,600	79,600
2009	01/04/2009	31/03/2017	5.87	42,500		(35,000)			7,500	7,500
2010	27/04/2010	26/04/2018	11.55	96,300		(43,300)			53,000	53,000
2011	23/05/2011	22/05/2019	9.95	77,500		(18,400)			59,100	59,100
2011 (B)	23/05/2011	22/05/2016	9.95	117,940		(117,940)			–	–
2012	03/09/2012	02/09/2020	14.19	370,490		(120,830)		(2,500)	247,160	247,160
2013	16/05/2013	15/05/2021	19.38	445,740			(13,500)		432,240	
2013 (B)	18/09/2013	17/09/2021	15.18	30,000					30,000	
2014	25/07/2014	24/07/2022	14.54	556,660			(20,000)		536,660	
2014 (B)	14/10/2014	13/10/2022	11.93	150,000					150,000	
2015	30/04/2015	29/04/2023	28.75	532,053			(15,000)		517,053	
2015 (B)	22/12/2015	21/12/2023	49		399,000				399,000	
2015 RMV	22/12/2015	21/12/2023	49		97,500				97,500	
2016	01/06/2016	31/05/2024	46.1		514,250				514,250	
2016 RMV	01/06/2016	31/05/2024	46.1		120,000				120,000	
Total				**2,805,692**	**1,130,750**	**(419,035)**	**(48,500)**	**(2,500)**	**3,466,407**	**669,704**

	Warrants	Weighted average exercise price (€)
Outstanding on 31 December 2014	**3,590,853**	**12.06**
Exercisable on 31 December 2014	1,355,213	
Granted during the period	532,053	
Forfeited during the year	(72,500)	
Exercised during the period	(1,244,714)	
Expired during the year		
Outstanding on 31 December 2015	**2,805,692**	**16.22**
Exercisable on 31 December 2015	720,749	
Granted during the period	1,130,750	
Forfeited during the year	(48,500)	
Exercised during the period	(419,035)	
Expired during the year	(2,500)	
Outstanding on 31 December 2016	**3,466,407**	**27.06**
Exercisable on 31 December 2016	669,704	

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

Warrant plans

	2016	2016 RMV	2015 (B)	2015 RMV	2015
	1 June	1 June	22 December	22 December	30 April
Exercise price (€)	46.10	46.10	49.00	49.00	28.75
Share price at acceptance date (€)	48.71	47.63	39.85	39.78	46.09
Fair value on the acceptance date (€)	21.95	21.16	15.41	15.39	26.05
Estimated volatility (%)	40.7	40.7	41.1	41.1	39.2
Time to expiration (years)	8	8	8	8	8
Risk free rate (%)	0	0	0.24	0.28	0.39
Expected dividends	None	None	None	None	None

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

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

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

The warrants were accounted for in accordance with International Financial Reporting Standard 2 on Share Based Payments. IFRS 2 takes effect for all warrants offered after 7 November 2002.

Our warrants expense in 2016 amounted to €11,034 thousand (2015: €5,036 thousand).

The following table provides an overview of the outstanding warrants per category of warrant holders at 31 December 2016 and 31 December 2015.

	31 December	
(number of warrants)	2016	2015
Non-executive directors	165,240	115,730
Executive team	1,676,874	1,376,874
Other	1,624,293	1,313,088
Total warrants outstanding	**3,466,407**	**2,805,692**

The outstanding warrants at the end of the accounting period have an average exercise price of €27.06 (2015: €16.22) and a weighted average remaining expected life of 1,482 days (2015: 1,469 days).

31. 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 32 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 2016, our executive committee had four members: Mr. Onno van de Stolpe, Mr. Bart Filius, Dr. Piet Wigerinck and Dr. Andre Hoekema. On 31 December 2016, our board of directors consisted of eight members: Mr. Onno van de Stolpe, Dr. Raj Parekh, Dr. Werner Cautreels, Dr. Harrold van Barlingen, Mr. Howard Rowe, Ms. Katrine Bosley, Dr. Christine Mummery and Dr. Mary Kerr.

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.

Historically, the chairman of the board of directors, Dr. Parekh, did not receive remuneration like the other directors. Between 1 August 2005 and 30 April 2016, Dr. Parekh received an annual consulting fee of £50,000 under a consultancy contract with his management company, Parekh Enterprises Ltd. as compensation for his specific assignment to assist the group in strategic positioning, financing and acquisitions. Since 1 May 2016, Dr. Parekh receives remuneration for his director's mandate in the same way as the other directors.

The remuneration package of the members of key management personnel comprises:

	Year ended 31 December	
(thousands of €, except for the number of warrants)	2016	2015
Short-term benefits (*)		
Executive committee members as a group	3,124	2,937
Raj Parekh (^)	73	–
Harrold van Barlingen	47	40
Howard Rowe	50	40
Werner Cautreels	56	45
Katrine Bosley	45	40
Christine Mummery (#)	43	10
Mary Kerr (##)	18	–
Post-employment benefits (°)	228	215
Total benefits excluding warrants	**3,683**	**3,327**
Number of warrants granted in the year		
Executive committee members as a group	515,000	175,000
Raj Parekh	30,000	5,400
Harrold van Barlingen	15,000	2,520
Howard Rowe	15,000	2,520
Werner Cautreels	15,000	3,780
Katrine Bosley	15,000	2,520
Christine Mummery (#)	15,000	–
Mary Kerr (##)	–	–
Total number of warrants granted in the year	**620,000**	**191,740**

(*) Includes for executive committee members: salaries, employer social security contributions, other short-term benefits; includes for board members: board fees, other short-term benefits.
(^) During the first four months of 2016, Dr. Parekh did not receive remuneration for his director's mandate, but was compensated through a consultancy agreement with his management company, Parekh Enterprises Ltd. (consultancy fee of €20 thousand in 2016).
(°) Only executive committee members are granted post-employment benefits.
(#) Dr. Mummery joined the board on 30 September 2015.
(##) Dr. Kerr joined the board on 26 July 2016.

Short-term employee benefits and board fees

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

The four members of the executive committee (including the CEO) who were in function in the course of 2016 were paid an aggregate amount of €1,291.84 thousand in remuneration and received an aggregate amount of €1,747.21 thousand in bonuses (2015: €1,245.5 thousand in remuneration and €1,629.5 thousand in bonuses). The aggregate bonus amount for 2016 was composed of two parts: (i) an aggregate bonus of €573.05 thousand, being 50% of the bonus for performance over 2016 (paid in early January 2017), with the other 50% being deferred for 3 years and (ii) an aggregate amount of €1,174.17 thousand as deferred part of the bonus for performance over 2013 (paid in early January 2017). The aggregate bonus amount for 2015 was composed of 3 parts: (i) an aggregate bonus of €488.5 thousand, being 50% of the bonus for performance over 2015 (paid in early January 2016), with the other 50% being deferred for 3 years, (ii) an aggregate amount of €628.5 thousand as deferred part of the bonus for performance over 2012 (paid in early January 2016) and (iii) an aggregate amount of €512.5 thousand, being 50% of the exceptional special bonus awarded for the success of the NASDAQ listing (paid in June 2015), with the other 50% being deferred for 3 years.

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 26 April 2016, Dr. Parekh received €70 thousand (or, taking into account €20 thousand received in consultancy fees for the first four months of 2016, an aggregate of €90 thousand: €80 thousand as chairman of the board, and €10 thousand as chairman of the nomination and remuneration committee), Dr. Cautreels received €55 thousand (€40 thousand as non-executive director, €10 thousand as chairman 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 received €40 thousand as non-executive director. Dr. Kerr, being appointed as non-executive director as from 26 July 2016, received €17 thousand as remuneration for the performance of her mandate during the remainder of 2016 pursuant to the decision of the special shareholders' meeting of 26 July 2016. Pursuant to a power of attorney granted by the annual shareholders' meeting of 28 April 2015, the board determined, after discussion within the nomination and remuneration committee, to allocate the aggregate annual remuneration for directors for 2015 as follows: (a) annual remuneration for each non-executive director (Dr. Cautreels, Dr. Van Barlingen, Mr. Rowe and Ms. Bosley): €40 thousand; and (b) additional remuneration for the chairman of the audit committee (Dr. Cautreels): €5 thousand. Dr. Mummery, being appointed as non-executive director as from 30 September 2015, received €10 thousand as remuneration for the performance of her mandate during the last quarter of 2015.

The increase in board fees is due to the increased number of directors and the decision of the annual shareholders' meeting of 26 April 2016 to increase the amount of remuneration paid to the directors, also taking into account their positions as board chairman, committee chairman and committee member. In addition, Dr. Parekh did not receive remuneration for his director's mandate in 2015 and the first four months of 2016, but was instead compensated only through a consultancy agreement until 30 April 2016. Finally, in 2016, a total amount of €14.5 thousand was paid as other short-term benefit for the non-executive directors (2015: €4.95 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 2016

In 2016, 60,000 warrants were granted to independent directors (2015: 8,820) and 45,000 warrants were granted to the other non-executive directors (2015: 7,920). The increase can be explained by the fact that the final acceptance and issuance of the warrants under Warrant Plan 2015 (B) took place in 2016, and are counted as warrants granted in 2016 along with the warrants granted under Warrant Plan 2016. The special shareholders' meeting of 22 December 2015, upon the proposal of our nomination and remuneration committee, offered additional warrants to our directors under Warrant Plan 2015 (B) in light of an independent benchmarking exercise and recommendation by an external advisor, following the growth of the company and the U.S. listing on Nasdaq in 2015.

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.

32. Consolidated companies as of 31 December 2016

Name of the subsidiary	Country	% voting right Galapagos NV (directly or indirectly through subsidiaries)	Change in % voting right previous period (2016 vs 2015)
BioFocus DPI AG	Switzerland	100%	
BioFocus DPI LLC	United States	0%	(100%)
BioFocus, Inc.	United States	100%	
Discovery Partners International GmbH	Germany	100%	
Galapagos B.V.	The Netherlands	100%	
Galapagos NV	Belgium	parent company	
Fidelta d.o.o.	Croatia	100%	
Galapagos SASU	France	100%	
Inpharmatica Ltd.	United Kingdom	100%	
Xenometrix, Inc.	United States	100%	

BioFocus DPI LLC was voluntarily cancelled in 2016.

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.

33. 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, because we have nearly no financial debt and have a strong cash position. We do not buy or trade financial instruments for speculative purposes.

Categories of material financial assets and liabilities:

	31 December	
(thousands of €)	2016	2015
Financial assets		
Cash and cash equivalents	973,241	340,314
Restricted cash (current and non-current)	7,668	7,903
Trade receivables	6,629	1,494
R&D incentives receivables (current and non-current)	64,342	58,545
Current financial asset from share subscription agreement	–	8,371
Financial assets available for sale	2,351	
Other amounts receivable	3,078	2,426
Total financial assets	**1,057,309**	**419,052**
Financial liabilities		
Trade and other payables	31,269	29,482
Other non-current liabilities	2,469	2,291
Leasing debts	63	115
Tax payable	1,022	2,583
Total financial liabilities	**34,823**	**34,471**

Share subscription agreement with Gilead

We have been temporarily exposed to financial market and currency risk through our share subscription agreement with Gilead.

On 16 December 2015, Gilead Sciences, Inc. and Galapagos NV entered into a global collaboration for the development and commercialization of filgotinib, in the framework of which Gilead committed to an upfront payment of $725 million consisting of a license fee of $300 million and a $425 million equity investment in Galapagos NV by subscribing to new shares at a price of €58 per share, including issuance premium. This agreement was effectively completed and entered into force 19 January 2016 and full payment was received.

In connection with the agreement, we recognized a deferred income and an offsetting short term financial asset (derivative) of €39 million upon signing of the share subscription agreement with Gilead as required under IAS 39. This financial asset initially reflected the share premium that Gilead committed to pay above the closing stock price of Galapagos on the day of entering into the subscription agreement. This amount also represented a deferred income that is recognized in revenues at the same rhythm than the $300 million upfront payment for the license.

The fair value of this derivative financial asset was initially measured on 16 December 2015, based on the implied value of the Galapagos share at the end of January 2016, the implied volatility of the EUR/USD currency exchange rates and applicable discount rates.

Under IAS 39 the fair value of the derivative financial asset was re-measured at year end and again upon entering into force of the subscription agreement on 19 January 2016, when the financial asset expired. Variations in fair value of the financial asset were recorded in the income statement.

The decrease in the fair value of the financial asset resulting from the increase in the Galapagos share price between signing of the subscription agreement and 31 December 2015 resulted in a non-cash, fair value re-measurement of €30.6 million in the financial results. On 31 December 2015, the fair value of the financial asset was re-measured based on the implied value of the Galapagos share at the end of January 2016, the implied volatility of the EUR/USD currency exchange rates and applicable discount rates.

On 19 January 2016, the transaction was officially completed materialized by the share subscription of Gilead Biopharmaceutics Ireland Unlimited Company, of 6,760,701 new ordinary shares of Galapagos NV at a price of €58.00 per share including share premium, amounting to $425 million converted to €392,120,658 at a EUR/USD exchange rate of 1.0839.

The increase in the fair value of the financial asset resulting from the decrease in the Galapagos share price between 1 January 2016 and 19 January 2016 resulted in a positive non-cash gain of €57.5 million in the financial result of 2016.

On 19 January 2016, the value of the financial asset at maturity amounted to €65.9 million, reflecting the share premium that Gilead paid above our closing share price on the day of the capital increase. This amount was composed of (1) the initial measurement on the day of entering into the share subscription agreement for an amount of €39 million which was reported in deferred income and (2) the subsequent re-measurements of the financial asset, reported as financial result under IAS 39: €30.6 million fair value loss reported in the year 2015 and €57.5 million fair value gain reported in the first quarter of 2016, together a net fair value gain of €26.8 million. This financial asset expired on the effective date of the share subscription agreement and was derecognized through the share premium account.

Available-for-sale financial assets

On 15 July 2016, we invested €2.75 million in Pharnext, a French advanced clinical stage biopharmaceutical company developing new therapeutics for severe orphan and common neurological diseases, listed on Euronext. Galapagos has no restrictions on the sale of this equity investment and the asset is not pledged under any Galapagos' liabilities. This investment is classified as available-for-sale equity investment which qualifies for level 1 fair value measurement based upon the closing price of the PXT securities on Euronext at each reporting date.

The market price of the Pharnext 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 consolidated balance sheet shows an amount of €112.3 million as incurred losses at the end of 2016. Management forecasts our liquidity requirements to ensure that we have sufficient cash to meet operational needs. We have no credit lines. Such forecasting is based on realistic assumptions with regards to milestone and upfront payments to be received, taking into account our past track record, including the assumption that not all new projects that are being planned will be realized.

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 receivables are considered collectable, except for these for which a provision for doubtful debtors has been established.

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

	31 December	
(thousands of €)	2016	2015
60–90 days	170	86
90–120 days		
more than 120 days	54	17

Our cash and cash equivalents are invested primarily in saving and deposit accounts. Saving and deposit accounts generate a small amount of interest income. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted at the beginning of the term.

Interest rate risk

The only variable interest-bearing financial asset is 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 by approximately €10 million (2015: €3 million); a 100 basis points decrease in interest rates would have decreased profit and loss by approximately €10 million (2015: €3 million).

Foreign exchange risk

We are exposed to foreign exchange risk arising from various currency exposures. Our functional currency is euro, but we receive payments from our main collaboration partners AbbVie and Gilead in U.S. dollar 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.

In order to further reduce this risk, we implemented a netting system in the course of 2012, which restrains intra-group payments between entities with a different functional currency.

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

	Year ended 31 December	
(thousands of €)	2016	2015
Net book value		
Increase in Euros – U.S. Dollars	(16,863)	506
Increase in Euros – GB Pounds	130	164
Increase in Euros – CH Francs	165	169
Increase in Euros – HR Kunas	(95)	(50)
Increase in U.S. Dollars – GB Pounds	(913)	(907)

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 currently we barely have: as of 31 December 2016, we have no financial debt other than finance leases and advances from Oseo, a French public organization for innovation support, for €0.1 million), 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, 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.

34. Statutory auditor's remuneration

The statutory auditor's fees for carrying out his mandate at group level amounted to €475.0 thousand in 2016 (2015: €235.0 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 €186.0 thousand in 2016 (2015: €538.4 thousand), of which €6.2 thousand related to legal assignments (2015: €33.0 thousand). Fees for persons related to the statutory auditor for carrying out an auditor's mandate at group level amounted to €40.0 thousand in 2016 (2015: €45.0 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.

35. Events after balance sheet date

On 17 January 2017 we announced the appointment of Dr. Walid Abi-Saab as Chief Medical Officer and member of the executive committee, beginning on 1 March 2017.

On 20 January 2017 the board of directors conditionally issued 150,000 warrants within the framework of the authorized capital, for the benefit of Dr. Abi-Saab ("Warrant Plan 2016 (B)"). The issuance of the warrants is subject to acceptance by Dr. Abi-Saab. These warrants have a term of eight years and an exercise price of €62.50.

On 1 February 2017 we announced the dosing of the first patient with CF Class III (F508del and a gating mutation like G551D) with our novel CF corrector GLPG2222 as an add-on to Kalydeco® in a Phase 2a study. We also announced the opening of an Investigational New Drug file with the U.S. Food & Drug Administration for GLPG2222, which triggered a $10 million milestone payment from AbbVie to Galapagos.

On 10 March 2017 we announced the initiation of two additional Phase 2 studies with filgotinib: one in small bowel Crohn's disease, and one in fistulizing Crohn's disease.

On 22 March 2017 we announced the initiation of a Phase 1 trial with GLPG3067, triggering a $7.5 milion milestone payment from our collaboration partner AbbVie.

Our consolidated financial statements were approved by the board of directors and authorized for publication, on 21 March 2017. They were signed on behalf of the board of directors by:

(signed)
Onno van de Stolpe
Managing Director and CEO
21 March 2017

Non-consolidated financial statements

Statement of profit and loss

	Year ended 31 December	
(thousands of €)	**2016**	2015
Turnover	161,957	59,871
Internally generated intangible assets	125,083	118,010
Other operating income	16,283	15,196
Operating income	**303,322**	**193,076**
Raw materials, consumables and goods for resale	(4,278)	(4,441)
Services and other goods	(119,319)	(131,678)
Remuneration, social security costs and pensions	(16,551)	(15,684)
Depreciation, impairment and other amounts written off on constitution costs, intangible and tangible assets	(203,524)	(82,597)
Other operating charges	(6,365)	(8,471)
Operating profit/loss (–)	**(46,714)**	**(49,795)**
Finance income	8,891	1,551
Finance cost	(1,530)	(1,247)
Profit / loss (–) on ordinary activities before taxes	**(39,354)**	**(49,491)**
Extraordinary income		0
Extraordinary cost	(5,855)	(13,510)
Profit / loss (–) before taxes	**(45,209)**	**(63,001)**
Taxes	(19)	
Profit / loss (–) for the year	**(45,228)**	**(63,001)**
Loss brought forward	(132,756)	(69,756)
Accumulated losses to be carried forward	**(177,984)**	**(132,756)**

Balance sheet

(thousands of €)	31 December 2016	2015
Assets		
Non-current assets	**115,053**	**192,641**
Intangible fixed assets	71,640	154,455
Tangible fixed assets	4,200	3,379
Financial fixed assets	39,212	34,807
Current assets	**1,024,868**	**375,857**
Inventories	296	317
Trade and other receivables	18,576	8,034
Deferred costs	1,123	469
Accrued income	32,283	27,626
Cash and cash equivalents	972,591	339,411
Total assets	**1,139,920**	**568,498**
Equity and liabilities		
Equity	**783,252**	**434,758**
Share capital and reserves	250,187	211,389
Share premium account	709,025	351,442
Accumulated losses	(177,984)	(132,756)
Investment grants	2,025	4,683
Liabilities	**356,667**	**133,740**
Non-current liabilities	**1,292**	**1,234**
Obligations under finance lease (non-current)	9	63
Other liabilities	1,283	1,171
Current liabilities	**355,375**	**132,506**
Trade and other payables	73,315	56,466
Obligations under finance lease (current)	54	52
Tax, payroll and social security liabilities	3,785	3,619
Accrued costs	537	369
Deferred income	277,683	72,000
Total equity and liabilities	**1,139,920**	**568,498**

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 2016 closed with a loss of €45.2 million compared to a loss of €63.0 million in 2015. Overall, the result of Galapagos NV is largely affected by the fact that, as from financial year 2010, Galapagos NV capitalizes some of its R&D expenses and revenues that are eligible for such capitalization under Belgian GAAP. This capitalization negatively impacted

the net result of Galapagos NV by €29.9 million in 2016, compared to a positive impact of €55.0 million in 2015. The non-consolidated annual accounts of Galapagos NV show accumulated losses of €178.0 million as at 31 December 2016; 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 on the consolidated financial statements for the year ended 31 December 2016

As required by law, we report to you in the context of our appointment as the company's statutory auditor. This report includes our report on the consolidated financial statements together with our report on other legal and regulatory requirements. These consolidated financial statements comprise the consolidated statements of financial position as at 31 December 2016, the consolidated income statement and statement of comprehensive income, the consolidated cash flow statements and the consolidated statements of changes in equity for the year then ended, as well as the summary of significant accounting policies and other explanatory notes.

Report on the consolidated financial statements – Unqualified opinion

We have audited the consolidated financial statements of Galapagos NV ("the company") and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium. The consolidated statement of financial position shows total assets of 1,083,338 (000) EUR and the consolidated income statement shows a consolidated profit (group share) for the year then ended of 54,012 (000) EUR.

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

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

Statutory auditor's responsibility

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

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

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

Unqualified opinion

In our opinion, the consolidated financial statements of Galapagos NV give a true and fair view of the group's net equity and financial position as of 31 December 2016, and of its results and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Report on other legal and regulatory requirements

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

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

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

Zaventem, 21 March 2017
The statutory auditor

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

The original text of this report is in Dutch.

Glossary of terms

Glossary of terms, to be read only in conjunction with this annual report 2016.

100 points clinical response

Percentage of patients achieving a 100 point decrease in CDAI score during a clinical trial in Crohn's disease 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

ADR

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

AFM

Dutch Authority for the Financial Markets

Anemia

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

(anti-)TNF

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

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 signalling molecule lypophosphatidic acid (LPA). GLPG1690 targets autotaxin for IPF

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 candidate drug 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 mouse model

A pre-clinical model involving use of bleomycin (a cancer medication) to induce IPF symptoms

Candidate drug

Substance that has satisfied the requirements of early pre-clinical testing and has been selected for development, starting with formal preclinical safety evaluation followed by clinical testing for the treatment of a certain disorder in humans

CDAI

Crohn's Disease Activity Index, evaluating patients on 8 different factors, each of which has a pre-defined weight as a way to quantify the impact of Crohn's disease

CFTR

Cystic **F**ibrosis **T**ransmembrane conductance **R**egulator protein. CFTR is an ion channel that transports chloride and thiocyanate ions across epithelial cell membranes. Mutations in the CFTR gene, that codes for the CFTR protein, cause cystic fibrosis

CIR

Crédit d'Impôt Recherche, or research credit. Under the CIR, the French government refunds up to 30% of the annual investment in French R&D operations, over a period of three years. Galapagos benefits from the CIR through its operations in Romainville, just outside Paris

Class II mutation

A genetic mutation in cystic fibrosis resulting in errors in CFTR folding, transport of functional CFTR to the cell membrane, and CFTR channel opening, whereby chloride ion flow at the cell surface in the membrane of affected organs is impacted negatively. More than 90% of cystic fibrosis patients are carriers of the Class II mutation. It is believed that a potentiator and multiple correctors will be needed to address the CFTR malfunction of Class II mutation patients. Orkambi is the only approved disease-modifying therapy for Class II mutation patients today

Class III mutation

A genetic mutation in cystic fibrosis resulting in errors in CFTR channel opening, whereby chloride ion flow at

the cell surface in the membrane of affected organs is impacted negatively. Approximately 4% of cystic fibrosis patients are carriers of the Class III mutation. It is believed that a potentiator is needed to address the malfunction of Class III mutation patients. Kalydeco is the only approved disease-modifying therapy for Class III mutation patients today

Clinical Proof of Concept (PoC)

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

Compound

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

Contract research organization

Organization which provides drug discovery and development services

Corrector drug

Drug that restores the correct protein formation in cystic fibrosis patients. In most CF patients, a potentiator and corrector drug are needed in combination to restore the channel function of the CFTR. Galapagos and AbbVie are planning to combine a potentiator with two correctors to investigate in CF patients with the most prevalent mutation of CFTR

Crohn's disease (CD)

An inflammatory bowel disease involving inflammation of the small and large intestines, leading to pain, bleeding, and ultimately in some cases surgical removal of parts of the bowel

CRP

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

Cystic fibrosis (CF)

A life-threatening genetic disease that affects approximately 80,000 people worldwide. Although the disease affects the entire body, difficulty breathing is the most serious symptom as a result of clogging of the airways due to mucus build-up and frequent lung infections

Cytokine

A category of small proteins which play important roles in signaling in processes in the body

DARWIN

Phase 2 program for filgotinib in rheumatoid arthritis: completed and reported in 2015 (except for the currently still ongoing DARWIN 3 study). DARWIN 1 explored three doses, in bid and qd 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 qd 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 c-reactive protein the 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 pre-clinical and clinical development research, chemical and pharmaceutical development and regulatory filings of drug candidates

Discovery

Process by which new medicines are discovered and/or designed. At Galapagos, this is the department that oversees target and drug discovery research through to nomination of pre-clinical candidates

Disease-modifying

Addresses the cause of disease and modifying the disease progression, not just the symptoms of the disease

DIVERSITY

Phase 3 program evaluating filgotinib in Crohn's disease

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

Drug development

All activities required to bring a new drug to the market. This includes pre-clinical and clinical development research, chemical and pharmaceutical development and regulatory filings of drug candidates

Drug discovery

Process by which new medicines are discovered and/or designed. At Galapagos, this is the department that oversees target and drug discovery research through to nomination of pre-clinical candidates

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

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 authorization of new medication

Fee-for-service

Payment system where the service provider is paid a specific amount for each procedure or service performed

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 candidate drug

Filgotinib

Formerly known as GLPG0634. Small molecule selective JAK1 inhibitor which showed promising safety and activity profile in RA and Crohn's disease 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 expect to initiate Phase 2 trials with filgotinib in new indications in the course of 2017. Filgotinib is an investigational drug and its efficacy and safety have not been established.

FINCH

Phase 3 program evaluating filgotinib in RA

Fistulizing Crohn's disease

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 are expected in H2 2017

FSMA

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

FTE

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

GLPG0634

Molecule number currently known as filgotinib

GLPG1690

A novel drug targeting autotaxin, with potential application in idiopathic pulmonary fibrosis. Fully proprietary to Galapagos. Testing in Phase 2 proof-of-concept FLORA study in IPF underway, with topline results expected in H2 2017

GLPG1837

A potentiator product candidate which showed activity and favorable safety in the SAPHIRA 1 and 2 trials in Phase 2 in Class III CF mutation patients

GLPG1972

A novel mode-of-action product candidate that is part of the OA alliance with Servier. GLPG1972 was well-tolerated and showed no emerging safety signals in a Phase 1 trial with healthy volunteers. In addition, GLPG1972 showed up to 60% reduction in a relevant OA biomarker within 14 days in these volunteers. Galapagos expects to initiate a Phase 1b trial with GLPG1972 in OA patients in the U.S. in 2017

GLPG2222

A C1 (early) corrector product candidate which showed favorable safety in Phase 1 and is currently being tested in the ALBATROSS Phase 2 study in combination with Kalydeco in Class III mutation patients. In February 2017 Galapagos announced first dosing of GLPG2222 with GLPG2451 in healthy volunteers

GLPG2451

A potentiator product candidate currently undergoing a Phase 1 safety trial. In February 2017 Galapagos announced first dosing of GLPG2222 with GLPG2451 in healthy volunteers

GLPG2534

A pre-clinical candidate with novel mode of action with potential application in AtD. GLPG2543 is expected to enter Phase 1 trials in 2017

GLPG2737

A C2 (late) corrector product candidate currently in a Phase 1 safety trial

GLPG2851

A C1 (early) corrector product candidate currently at the pre-clinical stage. GLPG2851 is expected to enter Phase 1 trials in 2017

GLPG2938

A pre-clinical candidate with novel mode of action with potential application in IPF. GLPG2938 is expected to enter Phase 1 trials in 2017

GLPG3067

A potentiator drug candidate. GLPG3067 started a Phase 1 trial in March 2017

GLPG3221

A C2 (late) corrector drug candidate currently at the pre-clinical stage. GLPG3221 is expected to enter Phase 1 trials in 2017

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*

* Source: webmd.com/cholesterol-management/guide/hdl-cholesterol-the-good-cholesterol#1

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

Heterozygous

Genetic term meaning a cell containing different alleles for a gene

Histopathology

Microscopic examination of tissues for manifestations of a disease

Homozygous

Genetic term meaning identical alleles of the gene are present on both homologous chromosomes

IBD

Inflammatory Bowel Disease. This is a general term for an autoimmune disease affecting the bowel, including CD and UC. CD affects the small and large intestine, while UC affects the large intestine. Both diseases involve inflammation of the intestinal wall, leading to pain, bleeding, and ultimately, in some cases, surgical removal of part of the bowel

IL-17C

IL-17C has been shown to be distinct from other members of the IL-17 family of cytokines. IL-17C has been shown to be an important mediator in inflammatory skin diseases, and is the target of MOR106

In-/out-licensing

Receiving/granting permission from/to another company or institution to use a brand name, patent, or other proprietary right, in exchange for a fee and/or royalty

In vitro

Studies performed with cells outside their natural context, for example in a laboratory

Inflammatory diseases

A large, unrelated group of disorders associated with abnormalities in inflammation

Intellectual property

Creations of the mind that have commercial value and are protected by patents, trademarks or copyrights

Intersegment

Occurring between the different operations of a company

Investigational New Drug (IND) application

United States Federal law requires a pharmaceutical company to obtain an exemption to ship an experimental drug across state lines, usually to clinical investigators, before a marketing application for the drug has been approved. The IND is the means by which the sponsor 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

JAK

Janus kinases (JAK) are critical components of signaling mechanisms utilized by a number of cytokines and growth factors, including those that are elevated in rheumatoid arthritis. Filgotinib is a selective JAK1 inhibitor

Kalydeco

A potentiator drug marketed by Vertex Pharmaceuticals

LDL

Low-density lipoprotein. LDL contributes to heart disease at high levels*

* Source: webmd.com/cholesterol-management/guide/hdl-cholesterol-the-good-cholesterol#1

Liver enzymes

Inflamed or injured liver cells secrete higher than normal amounts of certain chemicals, including liver enzymes, into the bloodstream*

* Source: Mayoclinic.org

LPA

Lysophosphatidic acid, or LPA, is a signaling molecule involved in fibrosis

Lymphocyte

Type of white blood cell that is part of the immune system.

Milestone

Major achievement in a project or program; in Galapagos' 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 being evaluated in AtD patients in a Phase 1b trial. MOR106 acts on IL-17C, a novel antibody target discovered by Galapagos. MOR106 is part of the alliance with MorphoSys

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

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

Orkambi

A combination potentiator-corrector therapy marketed by Vertex Pharmaceuticals

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 a 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

Placebo-controlled

A substance having no pharmacological effect but administered as a control in testing of a biologically active preparation

Potentiator drug

Drug that restores the CFTR ion channel opening in CF patients. In most CF patients, a potentiator and corrector drug are needed in combination to restore the genetic defect causing CF. Galapagos and AbbVie are planning to combine a potentiator with two correctors to investigate CF patients with the most prevalent mutation of CFTR

Pre-clinical

Stage of drug research development, undertaken prior to the administration of the drug to humans. Consists of *in vitro* and *in vivo* screening, pharmacokinetics, toxicology, and chemical upscaling

Pre-clinical candidate (PCC)

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

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

QD dosing

Once daily dosing (quaque die)

R&D operations

Research and development operations; unit responsible for discovery and developing new candidate drugs for internal pipeline or as part of risk/reward sharing alliances with partners

Rheumatoid arthritis (RA)

A chronic, systemic inflammatory disease that causes joint inflammation, and usually leads to cartilage destruction, bone erosion and disability

SAPHIRA

A Phase 2 trial of potentiator GLPG1837 in cystic fibrosis patients carrying a Class III mutation. Results were reported in 2016, showing safety and tolerability and activity in two Class III mutations.

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 2/3 program evaluating filgotinib in UC patients. Galapagos expects an interim readout for the Phase 2 portion of the program in late 2017

Service operations

Business unit primarily focused on delivering products and conducting fee-for-service work for clients. Galapagos' service operations included the BioFocus and Argenta business units, which were both sold in April 2014 to Charles River Laboratories

SES-CD scores

Simple Endoscopic Score for Crohn's Disease, involving review of 5 pre-defined bowel segments, assigning values from 0 (unaffected) to 3 (highly affected)

Small bowel CD

Crohn's disease causes chronic inflammation and erosion of the intestines. It can affect different regions of GI 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 (SB), particularly the ileum, is common.

Target

Protein that has been shown to be involved in a disease process and forms the basis of therapeutic intervention or drug discovery

Target discovery

Identification and validation of proteins that have been shown to play a role in a disease process

Technology access fee

License payment made in return for access to specific technology (e.g. compound or virus collections)

Ulcerative colitis (UC)

UC is an inflammatory bowel disease (IBD) causing chronic inflammation of the lining of the colon and rectum (unlike CD with inflammation throughout the gastrointestinal tract)

Financial calendar

25 April 2017

Annual Shareholders' Meeting in Mechelen

27 April 2017

First Quarter 2017 Results

27 July 2017

First Half 2017 Results

26 October 2017

Third Quarter 2017 Results

22 February 2018

Full Year 2017 Results

Colophon

Concept, design, and online programming
nexxar GmbH, Vienna - Online annual reports and online sustainability reports
www.nexxar.com

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Frank van Delft

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Contact

Elizabeth Goodwin
Vice President Investor Relations & Corporate Communications
Galapagos NV
Generaal De Wittelaan L11 A3
2800 Mechelen, Belgium
Tel. +32 15 34 29 00
Mob. +1 781 460 1784
Email: ir@glpg.com