The Galapagos Group

An overview of Galapagos, its strategy and portfolio in 2014

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

Onno van de Stolpe
CEO of Galapagos

Letter from the CEO

Dear shareholder,

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

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

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

2014: Strong progress in R&D

In the field of inflammation:

- Completed recruitment of Phase 2b DARWIN program with filgotinib in patients with moderate to severe RA who do not respond well to methotrexate (MTX). DARWIN 1: dose-range finding in 599 patients on background treatment with MTX DARWIN 2: dose-range finding in 287 patients without MTX. Both studies are placebo controlled for the first 12 weeks, plus 12 more weeks' treatment for longer term safety data. DARWIN 3: long term extension study
- 98% of eligible patients (434 patients as of end of February 2015) enrolled in DARWIN 3
- Presented a clean drug-drug interaction profile with filgotinib
- Continued enrollment in 180-patient Phase 2 Crohn's study with filgotinib
- Reported lack of efficacy in Proof of Concept study with GLPG0974 in ulcerative colitis
- Disclosed novel target GPR84 and positive Phase 1 data for GLPG1205, prepared for Phase 2 study in ulcerative colitis with GLPG1205, which initiated in early 2015
- Nominated pre-clinical candidate antibody MOR106 in inflammation in alliance with MorphoSys

In cystic fibrosis:

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

In osteoarthritis:

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

In pulmonary disease:

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

Grants for research:

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

2014: Largest year end cash balance in Company history

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

Revenues

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

Result

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

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

Cash position

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

Outlook 2015

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

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

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

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

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

Regards,
Onno van de Stolpe
CEO

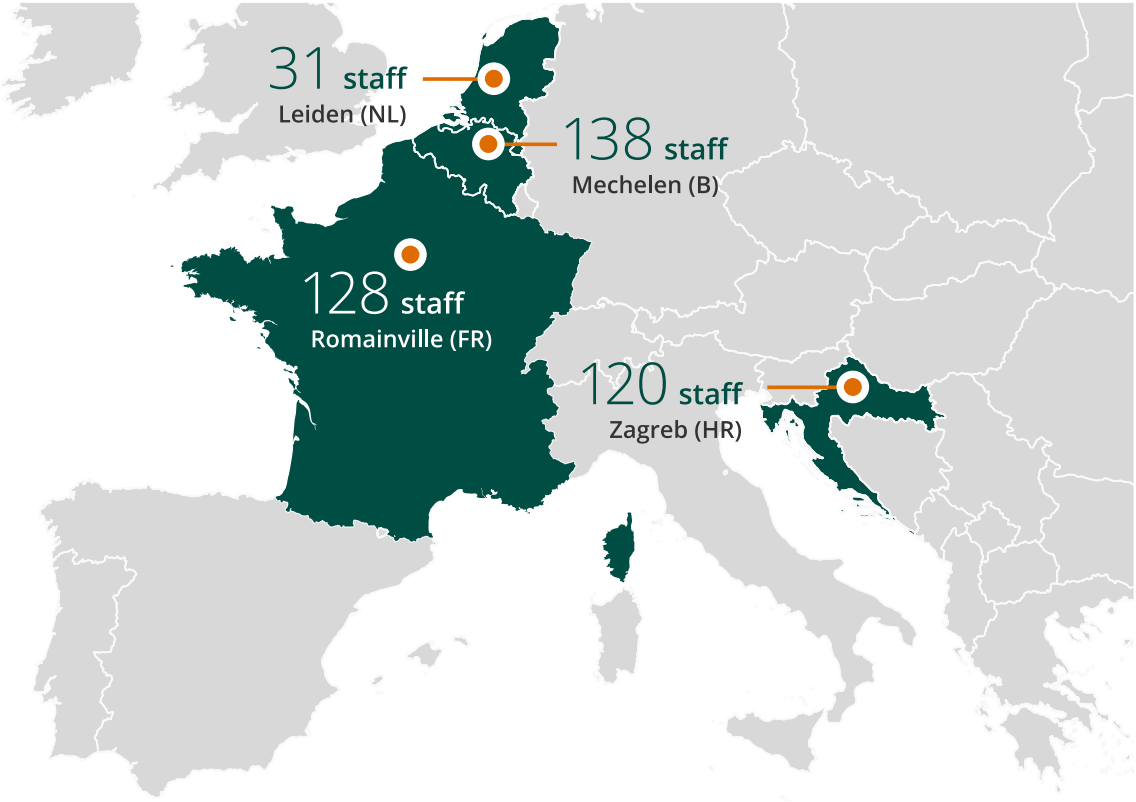
At a glance

Key figures (IFRS) Galapagos Group

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

[1] Service activities (sold to Charles River on 1 April 2014) for the years 2014, 2013 and 2012 are shown on the line item "Net income from discontinued operations". All other line items consist of amounts from continuing operations, except for line item "Net income / loss (–)", which includes both continuing and discontinued operations.
[2] Includes employees from the sold service division.

Employees per site



Number of employees

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

Strategy

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

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

Key elements of Galapagos' strategy include:

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

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

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

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

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

- **Maximize and capture the value of Galapagos' target discovery platform by becoming a fully integrated biotechnology company**
  Galapagos' platform has yielded several new mode-of-action therapies across more than 15 therapeutic areas, demonstrating the potential of our technology platform. In addition to the current clinical programs, targeting inflammation, CF and pulmonary disease, Galapagos currently has 25 different target-based discovery programs advancing toward clinical development with novel modes of action. The most mature pre-clinical program is in osteoarthritis where management expects to enter a Phase 1 trial in 2015. Galapagos intends to continue to advance more clinical candidates in various therapeutic areas independently. Galapagos aims to select promising programs in specialty pharmaceutical and orphan indications for internal development and commercialization to capture greater value for shareholders and establish Galapagos as a fully integrated biotechnology company.

Overview of statutory results of Galapagos NV

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

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

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

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

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

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

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

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

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

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

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

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

Going concern statement

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

Risk management

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

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

The internal control system is designed to ensure:

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

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

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

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

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

The Galapagos share

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

The Galapagos share in 2014

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

Galapagos vs Next Biotech Index in 2014

Investor relations activities

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

Subsequent events

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

Disclaimer and other information

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

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

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

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

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An electronic version of the Annual Financial Report 2014, including the statutory results of Galapagos NV, is available on the website of Galapagos, www.glpg.com.

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

Forward-looking statements

The Annual Financial Report 2014 may contain forward-looking statements, including, without limitation, statements containing the words "believes," "anticipates," "expects," "intends," "plans," "seeks," "estimates," "may," "will," "could," "stands to," and "continues," as well as similar expressions. Such forward-looking statements may involve known and unknown risks, uncertainties and other factors which might cause the actual results, financial condition, performance or achievements of Galapagos, or industry results, to be materially different from any historic or future results, financial conditions, performance or achievements expressed or implied by such forward-looking statements. Given these uncertainties, the reader is advised not to place any undue reliance on such forward-looking statements. These forward-looking statements speak only as of the date of publication of this document. Galapagos expressly disclaims any obligation to update any such forward-looking statements in this document to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based, unless required by law or regulation.