The Galapagos group

An overview of Galapagos,
its strategy and portfolio in 2019

Pioneering for patients

Letter from the management

Dear shareholder,

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

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

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

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

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

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

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

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

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

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

R&D

In the field of inflammation:

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

In fibrosis:

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

In osteoarthritis:

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

Corporate:

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

Post-period events:

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

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

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

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

2019: Details of the financial results

Revenues

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

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

Operating result

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

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

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

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

Net result

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

Cash, cash equivalents and current financial investments

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

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

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

Galapagos in 2020

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

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

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

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

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

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

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

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

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

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

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

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

Onno van de Stolpe
CEO

At a glance

Consolidated Key Figures

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

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

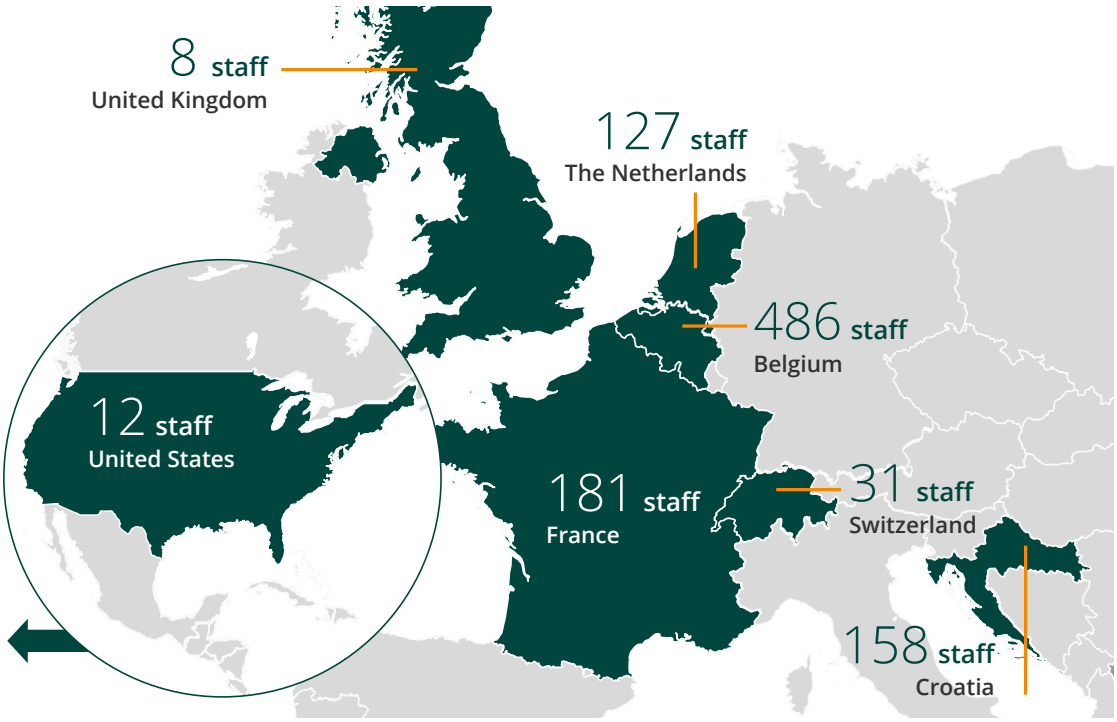
(**) We refer to note 19 of our consolidated financial statements for an explanation and reconciliation of this alternative performance measure.

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

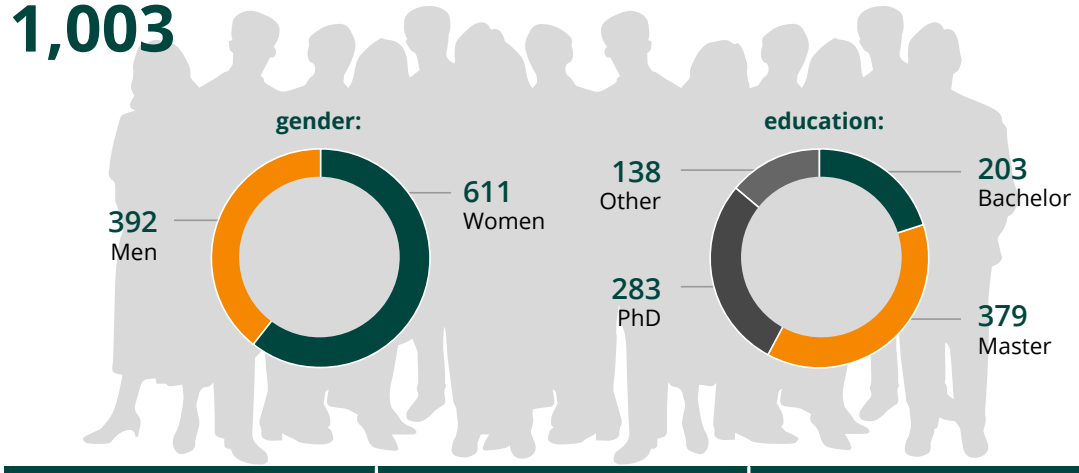
(*) Our assets, shareholders' equity, other liabilities, cash flow generated/used (-) in operating activities and cash flow generated in financing activities for the year ended 31 December 2019 were impacted by the adoption of the new standard IFRS 16 - Leases, on 1 January 2019. We refer to the notes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

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

Employees per site



Number of employees Galapagos group



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

Strategy

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

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

The key elements of our strategy include:

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

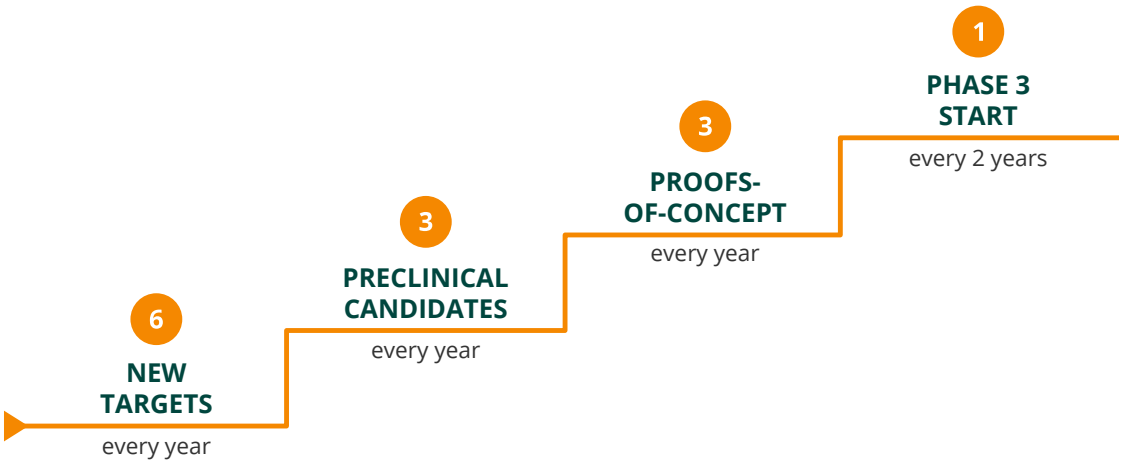
- **Tackle IPF/fibrosis with our pioneering approach**
  We are building a diverse fibrosis portfolio with different modes of action in IPF and other forms of organ and skin fibrosis. We recruited the first 800 IPF patients in the ISABELA global Phase 3 program with ATX inhibitor GLPG1690, for which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

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

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

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

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



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

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

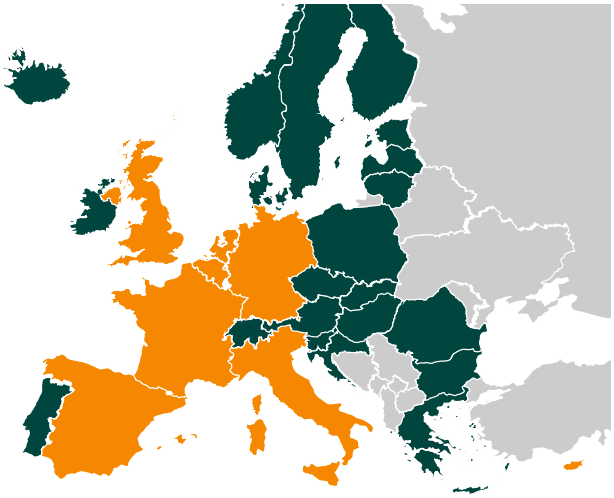
European commercial footprint

2020 – 2021 filgotinib

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

2022 – 2023

- Roll out in rest of Europe
- Future products



Going concern statement

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

Risk management and internal control

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

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

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

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

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

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

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

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

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

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

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

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

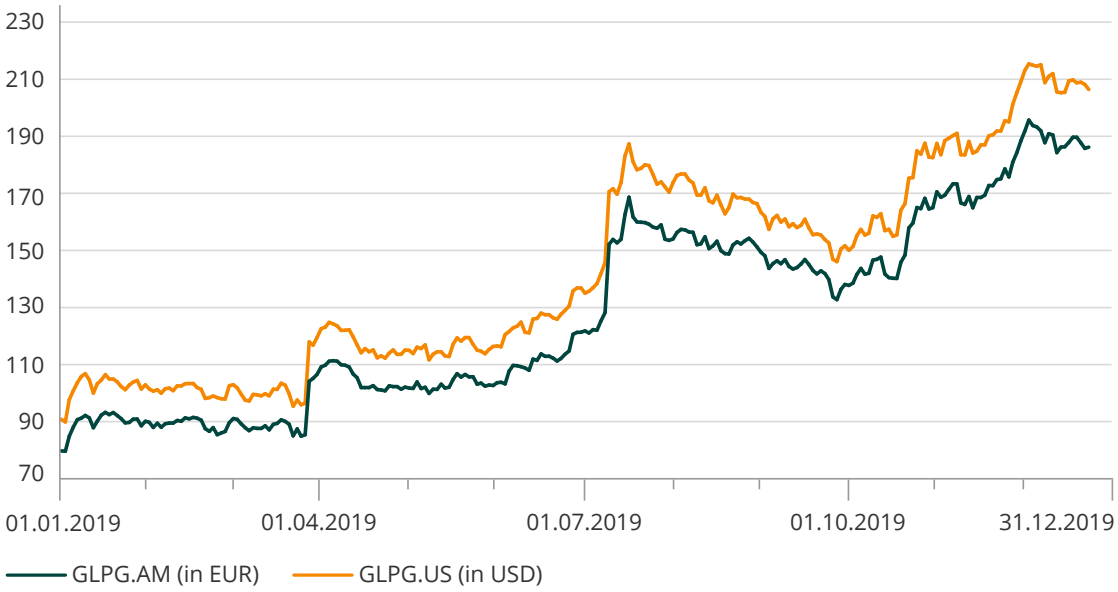
As described in Section 404 of the U.S. Sarbanes-Oxley Act of 2002 and the rules implementing such act, we will include the management and the statutory auditor's assessment of the effectiveness of internal control over financial reporting in our annual report on Form 20-F, which is expected to be filed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

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

The Galapagos share

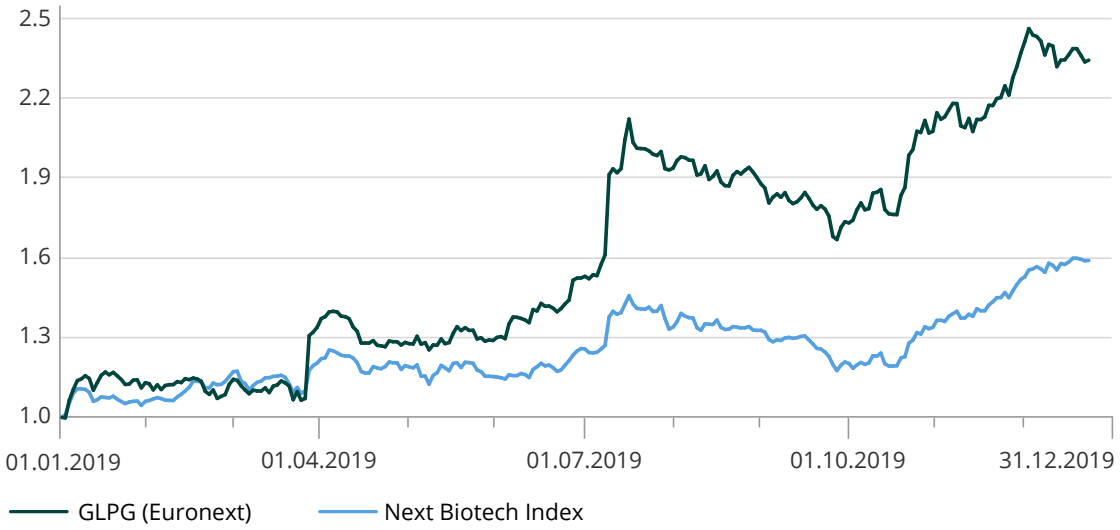
Galapagos NV (ticker: GLPG) has been listed on Euronext Amsterdam and Brussels since 6 May 2005 and on the Nasdaq Global Select Market since 14 May 2015. Galapagos NV forms part of the Bel20 index (top 20 listed companies) on Euronext Brussels, the AEX Index (top 25 listed companies) on Euronext Amsterdam,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

The Galapagos share in 2019

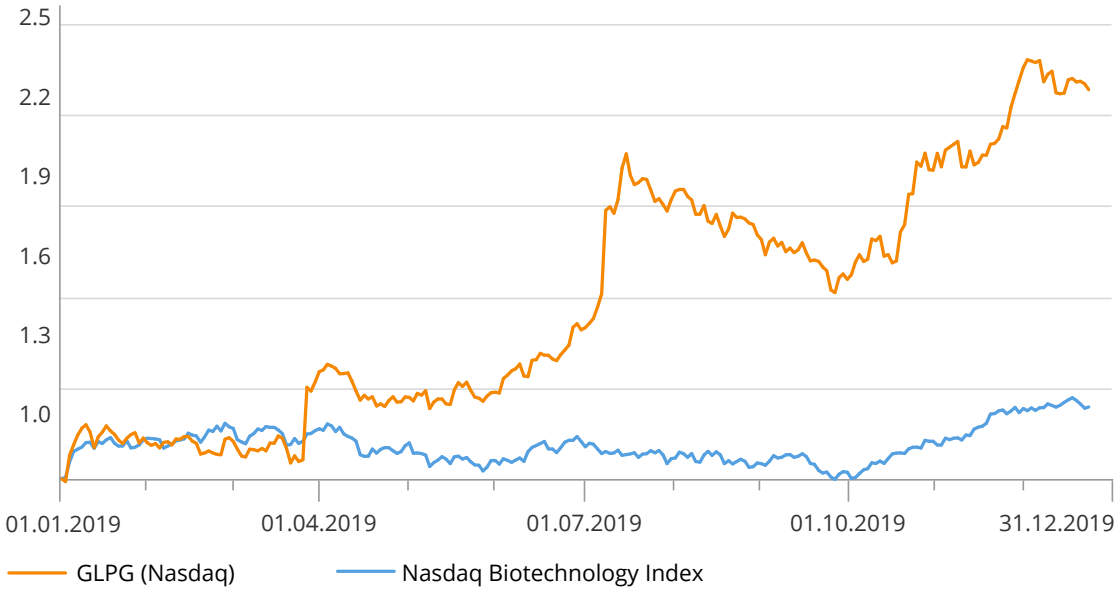


In 2019, the average daily trading volume on Euronext was 453,484 shares and €57.9 million turnover. The daily trading volume on Nasdaq in 2019 was 131,202 ADSs and $18.7 million turnover.

Galapagos vs Next Biotech Index in 2019



Galapagos vs Nasdaq Biotechnology Index



Investor relations activities

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

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

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

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

Overview statutory results of Galapagos NV

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

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

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

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

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

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

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

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

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

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

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

Galapagos NV's cash position at the end of 2019 amounted to €5,759.6 million.

The non-consolidated annual accounts of Galapagos NV which we submit for your approval were prepared in accordance with Belgian accounting rules as well as with the legal and regulatory requirements. They show a positive result. The financial year 2019 closed with a profit of €379.0 million compared to a loss of €115.7 million in 2018. The non-consolidated annual accounts of Galapagos NV show accumulated losses of €80.5 million as at 31 December 2019; we refer to the Going concern statement for justification for the application of the valuation rules under the going concern assumption.

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

Disclaimer and other information

This report contains all information required by Belgian law.

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

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

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

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Belgium
Tel: +32 15 34 29 00
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A digital version of this report, including the statutory financial statements of Galapagos NV, is available on our website, www.glpg.com.

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

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

Forward-looking statements

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