Galápagos

Annual Financial Report 2010

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This document, Galapagos' Annual Financial Report 2010, contains all required information as per the Belgian Code of Companies.

LANGUAGE OF THE ANNUAL FINANCIAL REPORT 2010

According to Belgian law, Galapagos must publish its Annual Financial Report in Dutch. The Company 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.

AVAILABILITY OF THE ANNUAL FINANCIAL REPORT 2010

This document is available to the public free of charge and upon request:

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For informational purposes, an electronic version of the Annual Financial Report 2010 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 2010 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 2010 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.

Report of the Board of Directors

BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2010

Ladies and gentlemen,
Dear shareholders,

With pleasure we present to you our report relating to Galapagos' consolidated and non-consolidated results during the financial year ended on 31 December 2010.

Throughout this report the term "Galapagos NV" shall refer solely to the non-consolidated Belgian company. "Galapagos" or "Group" or "Company" shall refer to the consolidated group of companies.

The companies included in the consolidated results are: Galapagos NV (Mechelen, Belgium); Galapagos BV (Leiden, The Netherlands); BioFocus DPI (Holdings) Ltd. and its subsidiaries BioFocus DPI Ltd., Cambridge Drug Discovery Holding Ltd., Cambridge Genetics Ltd., Cambridge Discovery Ltd. (Saffron Walden, UK); BioFocus, Inc. and its subsidiaries, BioFocus DPI LLC, Xenometrix Inc. and Compound Focus, Inc. (USA); BioFocus DPI AG (Basel, Switzerland) and its subsidiary Discovery Partners International GmbH (Heidelberg, Germany); Inpharmatica Ltd. (Saffron Walden, UK); Galapagos SASU (Romainville, France), Argenta Discovery 2009 Ltd. (Harlow, UK) and Galapagos istraživački centar d.o.o. (Zagreb, Croatia).

1. OVERVIEW OF DEVELOPMENT, RESULT AND POSITION OF THE GALAPAGOS GROUP

Galapagos has continued to execute its unique strategy and is now a leading international biotechnology company. In our 2010 report, we focus on our business model, drug development approach, and expertise in drug discovery to create shareholder value. We are rapidly building a sizeable pipeline of novel drugs, while delivering operational and net profitability, a rare combination in the biotech arena.

Galapagos' strategy for shareholder value

Our main goal is to increase Company value with minimal equity dilution, thereby increasing shareholder value. Galapagos' hybrid business model is proving to be successful in generating significant revenues while reducing the Company's risk profile. Our R&D and service divisions strengthen each other and create an optimal risk-reward profile for shareholders. Through the R&D division, Galapagos delivers substantial revenues from milestone payments, as partners pay for success in drug discovery and early development. Galapagos now has six alliances: two with GlaxoSmithKline and others with Janssen Pharmaceutica, Eli Lilly, Roche and Servier, potentially worth more than €2.5 billion in downstream milestones plus royalties. In February 2011, we announced the end of the alliance with Merck due to a strategic change within Merck. We regained all rights to the assets we created for Merck, adding to the pool of novel targets available for future alliances. Since initiating our alliance strategy, Galapagos has received €177 million in payments, which enables us to progress these alliances on a cash positive basis that funds the expansion of Galapagos' proprietary therapeutic pipeline. In 2010, Galapagos took two important steps to expand our R&D division. In March we announced our long-term strategy to deliver breakthrough medicines to patients with orphan diseases, starting with cystic fibrosis as a first indication. In September, we announced the acquisition of GSK's R&D center in Zagreb, which provides increased capacity and capability to serve the Group's R&D needs.

The Group's service operations are complementary to the R&D activities and work on a fee-for-service basis for pharma and biotech companies and non-profit organizations. In February we announced the acquisition of Argenta's discovery operations, which solidified our leading position among Western drug discovery companies. BioFocus and Argenta operate under separate trade names. They announced a number of large collaborations in 2010, including the 5-year collaboration in Huntington's disease between CHDI and BioFocus and a 5-year collaboration with Janssen Pharmaceutica in oncology for Argenta.

Research & development – taking the road less travelled

Galapagos differentiates itself from other biotechs also by the breadth of its clinical portfolio. Our development team has made rapid progress through innovative design and execution of pre-clinical trials. In 2010, Galapagos expanded the portfolio from four to seven clinical programs. In October, Galapagos initiated a Phase II trial in rheumatoid arthritis patients for our program GLPG0259. This is the first program based on Galapagos' target discovery platform to go into patient trials. In our GLPG0634 program based on a differentiated JAK inhibitor in rheumatoid arthritis, we started clinical trials in August 2010. We have shown safety in the first-in-human trials for both our metastasis candidate drug (GLPG0187) and our cachexia (muscle loss) candidate drug (GLPG0492), and will initiate longer term studies and patient trials on these candidates in the course of 2011. We plan to progress these internal programs to a point in development where the value for a licensing deal can be maximized. In the arthritis alliance with GSK, we have already delivered four candidate drugs, two of which are currently in the clinic.

The discovery process starts with developing innovative ways to use patient cells or other disease-relevant cells to identify novel targets, finding proteins that play a role in the disease and molecules that bind to these proteins and can be optimized into candidate drugs. In 2010, the discovery team progressed 50 programs, including discovery antibodies for bone and joint diseases in an alliance with MorphoSys and our Alzheimer's and cystic fibrosis programs. We started two antiviral programs and received major grants from the Flemish agency for Innovation by Science and Technology (IWT) to help fund cystic fibrosis and antiviral drug discovery over the course of the next few years.

Financial results 2010

Financially, Galapagos delivered a second consecutive year of operational and net profitability in 2010. The Company achieved €136.6 million in consolidated revenues, an increase of 29% over 2009, with the R&D division accounting for 66% of the revenues. The performance of the service operations, combined with tight control of R&D expenditures, resulted in the positive operational result and net profit of €4.4 million. Galapagos ended 2010 with a cash position of €40.4 million, which benefited from a share placement of €28.7 million. Although cash flow for the full year was negative, milestones leading to payments totaling €25 million were achieved and recognized as revenue in 2010. They are included in accounts receivable on the balance sheet and will be collected in the first quarter of 2011.

Winning year

Our approach has been recognized through a number of awards. We took home the award for Best Communication at the European Mediscience Awards last summer and Best Press Officer at the Dutch Investor Relations Awards in January 2011. Galapagos also received the 2010 Biotechnica Award, the most established and important biotech prize in Europe, awarded for innovative products, services and business ideas.

Report of the Board of Directors

Outlook 2011

Looking forward, we anticipate reporting the go/no-go decision based on an interim analysis of the Phase II clinical study for GLPG0259 in the second quarter of this year, with top-line results by the end of 2011. GLPG0259 will be the first candidate drug based on our novel targets to show results in patients. Throughout 2011, we anticipate reporting on our clinical progress, alliance milestones, and services deals. We expect to sign a new alliance and to outlicense one program this year. The continued growth from alliance revenues, service contracts, and partnering encourage us to give guidance of at least €150 million in revenues, operational and net profitability, and a positive cash flow in 2011.

We thank you for your support in executing our strategy last year. We aim to make 2011 a good year for Galapagos, the shareholders and the patients we serve.

Details of the financial results

Revenue

Galapagos' revenues for the full year 2010 grew 29% to €136.6 million. The service operations generated €65.8 million in revenues (+30%), including €15.0 million intra-company revenues. Intra-company revenues are eliminated in the consilidation. The R&D division increased its revenues by 41% to €89.9 million, including €3.6 million intra-company revenues.

Results

The Group net profit for the full year 2010 was €4.4 million, or €0.18 earnings per share, compared to €3.0 million, or €0.14 earnings per share in 2009. R&D investment increased from €60.0 million to €84.7 million, making Galapagos' R&D budget one of the largest in European biotech.

The 2010 segment report was impacted by a transfer pricing study, changing the distribution of the operating result between the two divisions. Consequently, the R&D result improved to almost break even. The BioFocus and Argenta service operations reported a gross margin of 33% and a positive segment result of €4.8 million using the new transfer pricing. The service operations showed improved results in the second half of 2010; this was attributable to the acquisition of Argenta, better capacity utilization, and the initiation of work on the two largest service deals to date.

General and administrative costs increased to €21.5 million due to the acquisition of Argenta and the Zagreb Research Center, but remained at an unchanged 16% of revenues. The group net result was positively impacted by recognition of €3.8 million in deferred tax assets.

Cash position

Galapagos' cash and cash equivalents amounted to €40.4 million on 31 December 2010, compared to €47.4 million at the end of 2009. The 2010 cash flow benefited from a share placement of €28.7 million. Although cash flow for the full year was negative, milestones leading to payments totalling €25.0 million were achieved and recognized as revenue in 2010. They are included in accounts receivable on the balance sheet and will be collected in the first quarter of 2011.

Personnel

At the end of 2010, the total number of employees working within the Group amounted to 815.

Environment

All companies of the Group continue to hold the necessary permits for their exploitation, and to respect the applicable environmental rules.

2. OVERVIEW OF DEVELOPMENT, RESULT AND POSITION OF GALAPAGOS NV IN PARTICULAR

Chapter 2 only concerns the non-consolidated statutory results of Galapagos NV. These results are part of the consolidated results as discussed above.

In October 2010, Galapagos NV initiated a Phase II clinical trial in rheumatoid arthritis patients for its GLPG0259 program. In August 2010, Galapagos NV initiated Phase I clinical trials for GLPG0634, its second candidate drug being developed for rheumatoid arthritis. Galapagos NV showed safety in the first-in-human trials for its metastasis candidate drug, GLPG0187, and cachexia (unwanted muscle loss) candidate drug, GLPG0492, with plans to initiate longer term studies and patient trials on these candidates in the course 2011. Galapagos NV also made solid progress in the arthritis alliance with GSK, which has already delivered four candidate drugs based on Galapagos' target discovery platform, two of which are currently in the clinic as part of the alliance. In 2010, Galapagos NV progressed over 50 programs, including those in the antibody alliance with MorphoSys in bone and joint diseases and the Company's Alzheimer's and cystic fibrosis programs. Galapagos NV also augmented its internal drug discovery efforts with two antiviral programs.

Galapagos NV's operating income in 2010 amounted to €115.1 million compared to €59.0 million in 2009. As a result of a capitalization of intangible assets, both operating income and depreciation increased significantly. The other operating income amounts to €10.2 million, including €1.2 million in grants we recognized for our R&D projects, €3.4 million recharges to subsidiaries and €3.6 million recognized tax incentives for investments in intangible fixed assets.

The operating costs of 2010 amounted to €102.9 million compared to €66.5 million in 2009. Material purchases increased to €4.0 million compared to €3.4 million in 2009. Services and other goods increased to €71.5 million compared to €50.1 million in 2009, mainly as a result of the costs related to recharges from subsidiaries, and the increased outsourcing for development of our products.

Personnel costs in 2010 amounted to €9.3 million compared to €8.2 million in 2009. The number of employees with Galapagos NV at the end of 2010 amounted to 111.

Depreciation increased to €14.6 million in 2010, compared to €1.4 million in 2009. This is due to amortisation booked on the internally generated intangible assets.

Report of the Board of Directors

Galapagos NV's 2010 financial income increased to €3.8 million compared to €0.5 million in 2009. Financial costs amounted to €3.3 million compared to €0.3 million in 2009. This was due to income and cost of unrealized translation differences on the outstanding receivables and loans in foreign currency.

No significant extraordinary income was recorded in 2010 or 2009.

Other investments in 2010 totalled €0.6 million, excluding the internally generated assets. They consisted of investments in tangible fixed assets relating to laboratory equipment, hardware, and technical equipment.

Galapagos NV's cash position at the end of 2010 amounted to €28.5 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 statutory requirements. They show a positive result. The financial year 2010 closed with a profit of €12.7 million. The profit of Galapagos NV is mainly a result of the fact that, as from financial year 2010, Galapagos NV capitalizes some of its R&D expenses that are eligible for such capitalization under Belgian GAAP. This change in the application of the valuation rules positively impacted the net result of Galapagos NV with €25.0 million.

In 2010, neither Galapagos NV nor its affiliates made direct or active use of financial instruments (e.g. hedging).

3. ACTIVITIES IN THE AREA OF RESEARCH AND DEVELOPMENT

For a description of Galapagos' Research & Development activities in 2010, we refer to what is set forth above in section 1, topic "Research & development – taking the road less travelled."

4. SHARES AND CAPITAL

Capital increases and issue of shares

On 1 January 2010, the share capital of Galapagos NV amounted to €127,723,203.20 represented by 23,610,820 shares. In the course of 2010 there were four capital increases resulting from the exercise of warrants, resulting in the issuance of 358,817 new shares, an increase of the share capital by €1,941,199.97 and an increase of the issuance premium account by €1,159,268.25. On 22 October 2010, Galapagos issued 2,389,347 new shares by way of a private placement with institutional investors, resulting in an increase of the share capital by €12,926,367.27 and an increase of the issuance premium account by €15,745,796.73. At the end of 2010, the total share capital of Galapagos NV amounted to €142,590,770.44 represented by 26,358,984 shares.

On 27 April 2010, the Board of Directors issued 506,500 warrants (after acceptances) within the framework of the authorized capital, for the benefit of employees and two independent consultants of Galapagos and its subsidiaries under a new warrant plan ("Warrant Plan 2010"). These warrants have a term of eight years and an exercise price of €11.55.

On 27 April 2010, the Extraordinary General Shareholders' Meeting of Galapagos issued 195,040 warrants (after acceptances), for the benefit of directors under a new warrant plan ("Warrant Plan 2010 (B)"). These warrants have a term of five years and an exercise price of €11.55.

On 23 December 2010, the Board of Directors issued 75,000 warrants (after acceptances) within the framework of the authorized capital, for the benefit of an employee of a subsidiary of Galapagos under a new warrant plan ("Warrant Plan 2010 (C)"). These warrants have a term of eight years and an exercise price of €11.74.

Shares and rights attached to the shares

Of the 26,358,984 shares of Galapagos NV outstanding at the end of 2010, 1,651,882 were shares registered in the register of shareholders, 24,689,610 shares were dematerialized shares and 17,492 shares were bearer shares. All shares are issued and fully paid up and are of the same class.

Each share:

- entitles its holder to one vote at the Shareholders' Meetings;
- represents an identical fraction of the capital and has the same rights and obligations and participates equally in the profit of Galapagos NV;
- 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 Company Code and Galapagos NV's articles of association.

Authorized capital

Conform the articles of association, the Extraordinary General Shareholders' Meeting of Galapagos NV authorized the Board of Directors to increase the share capital of the Company, 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 this renewal, i.e. 2 June 2009. 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 €115,068,666.45.

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 Company or its subsidiaries.

In 2010, Galapagos NV's Board of Directors made use of the right to increase the capital in the framework of the authorized capital on three occasions: (1) on 27 April 2010, in connection with the issuance of the Warrant Plan 2010 under which a maximum of 506,500 new shares can be issued for a total maximum capital increase of €2,740,165.00 (plus issuance premium); (2) on 22 October 2010, in connection with a private placement with which 2,389,347 new shares were issued for a share capital increase of €12,926,367.27

Report of the Board of Directors

(plus issuance premium of €15,745,796.73); and (3) on 23 December 2010, in connection with the issuance of the Warrant Plan 2010 (C) under which a maximum of 75,000 new shares can be issued for a total maximum capital increase of €405,750.00 (plus issuance premium). On 31 December 2010 an amount of €87,452,611.43 of authorized capital remained available.

Changes in share capital

In accordance with the Belgian Company Code, Galapagos NV may increase or decrease its capital by decision of the Extraordinary Shareholders' Meeting taken with 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 represented at this meeting. There are in this respect no conditions imposed by the bylaws that are more stringent than those required by law.

Within the framework of the powers 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 own shares

At the Extraordinary General Shareholders' Meeting of 2 June 2009, the Board of Directors was authorized to approve the acquisition, subject to the provisions of the Belgian Company Code, of Galapagos NV's own shares representing up to 10% of Galapagos NV's capital at a price which may not be lower than €0.05 and not higher than 110% of the price at which such shares were quoted on the Brussels stock exchange on the day preceding the day of the purchase. This authorization was granted for a period of 18 months after the publication of such decision in the Annexes to the Belgian State Gazette. The authorization is also applicable to the acquisition of shares of Galapagos NV by its affiliates. The conditions for the purchase and sale of own shares are set forth in extenso in the articles of association of Galapagos NV.

On 31 December 2010, 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 their behalf.

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

The Board of Directors is expressly authorized during a period of three years as of the date of the general meeting which granted this authorization, i.e. 2 June 2009, to increase Galapagos NV's share capital within the context of the authorized capital by contributions in kind or in cash with restriction or cancellation of the shareholders' preferential subscription rights, even after the BFIC has notified Galapagos NV of a public take-over offer for the Company's shares, provided that the relevant provisions of the Belgian Company Code are complied with including that the number of shares issued under such capital increase does not exceed 10% of the shares representing Galapagos NV's capital that is issued prior to such capital increase. The authorization referred to above may be renewed. The articles of association explicitly authorize the Board of Directors to acquire and dispose of any own shares of Galapagos NV, without prior approval by the Shareholders' Meeting, if this is necessary to avoid a threat of serious disadvantage for Galapagos NV. This authorization was granted for a period of three years from the publication of such decision in the Annexes to the Belgian State Gazette. This authorization applies under the same conditions to the acquisition of the shares of Galapagos NV by its subsidiaries.

Anti-takeover provisions under Belgian laws

Under Belgian law, public takeover bids for all the outstanding voting securities issued by the issuer are subject to the supervision of the BFIC. 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. According 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 highest 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 the obligation of the acquirer to offer the takeover of the shares of other shareholders starts.

Change of the articles of association

Pursuant to the Belgian Company Code, any amendment to the articles of association such as an increase or decrease in the 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 a Shareholders' Meeting where at least 50% of Galapagos NV's share capital is present or represented.

Agreements with and between Shareholders

On the date of this report, Galapagos NV had no knowledge of the existence of any shareholders' agreements between Galapagos' shareholders. Throughout 2010 there were no lock-up agreements in effect between the Company and any of its shareholders.

5. RISK FACTORS

Risk management is embedded in our strategy and is considered important for achieving our operational targets (see section 1, topic 'Outlook 2011').

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 the Company's 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 the Company is exposed.

The internal control system is designed to ensure:

- the careful monitoring of the effectiveness of our strategy
- the Company's 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

Report of the Board of Directors

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

- business performance measures; operational and net profitability
- financial strength in the long run, mainly represented by revenue growth
- 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 and the Company's risk appetite, the key controls within the Company 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 the Company change.

Reliance on key staff and management

Our ability to attract and retain highly skilled personnel on acceptable terms is limited by the competition for qualified personnel. The absence of professionals could have a material adverse effect on business, financial condition, results of operations and prospects. Adequate remuneration and incentive schemes and the sharing of the Company's knowledge amongst key employees mitigate this risk. In the recent past, Galapagos has continued to be successful in attracting and retaining qualified employees.

Operational risk

- This risk can incur in many forms including business interruption, inappropriate behaviour, lack of performance. This risk has a high potential impact, but is mitigated by policies and procedures such as surveillance of the buildings, annual appraisals and bonuses, monthly management meetings.

- Internal and external IT systems
  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. The Company's personnel should adhere to continuity plans and procedures regarding access rights and installation of different programs.

Safety risk: handling materials potentially hazardous to health

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.

Finance risk

- Accounting estimates – impairment of goodwill

  The Group constantly uses estimates and assumptions concerning the future, especially when performing impairment tests on goodwill and (in)tangible assets. These tests are performed on a realistic and regular basis.

- Credit risk

  Credit risk represents the risk of financial loss caused by default of the counterparty. This risk is within acceptable boundaries as clients are major, well- respected, creditworthy, international pharmaceutical companies, research foundations, and biotech companies.

- Taxation

  The Company 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 the Group's activities, financial situation and results. Such potential changes and their impact are monitored carefully by management and its advisors.

- Changes in accounting standards

  Any changes to the accounting standards may influence the Group's financial situation and results. Here as well, such potential changes and their impact are carefully monitored.

- Financial and liquidity risk

  Liquidity risk represents the risk that an entity will encounter difficulty in meeting obligations associated with its (financial) liabilities.

  The Company monitors its cash on a regular basis by means of cash forecasts and sensitivity analyses. The Group's net operating cash flow after investments was quite negative in 2010 (cash burn) and slightly positive in 2009: the decrease in cash in 2010 was mainly due to the investment in the new acquisitions of the Group. To fund its operations, research activities, and acquisitions, the group may need additional cash, which may not be available on acceptable terms when required, if at all. At the moment the group has no financial debt except limited financial lease obligations.

- Foreign exchange risk

  As a large part of the revenues and costs are denominated in currencies other than the Euro, our functional currency, the Company has considerable potential exposure to foreign currency fluctuation. The effect of these fluctuations is recorded in the profit & loss statement or in the consolidated equity. The Company tries to limit the exposure by closing contracts in local currencies and by matching revenues and costs in a foreign currency.

Report of the Board of Directors

Intellectual property risk

The Company's commercial success depends in part on the ability to obtain, maintain and enforce adequate protection of the intellectual property rights, including patents, in technologies and products and this in a large geographical zone. The development of grantable patents is not obvious.

The possession of patents increases the revenues and is an important tool when negotiating with potential partners.

The outcome of legal disputes concerning patent infringement is difficult to predict. Legal proceedings over IP rights can be time consuming and expensive and should be avoided by our constant monitoring of published patents and patent applications.

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

Future changes in IP law also can substantially influence the Company's operations.

Market risk

- Possible volatility 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 Galapagos or its suppliers or customers may impact the ability or willingness of others to trade with the Company.

- Dilution through exercise of warrant plans

  The exercise of existing warrant plans can significantly increase the number of shares.

- Inability to distribute dividends

  The Group has a limited operating history and future profitability remains uncertain. 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 the Company's stock.

- Acquisition / integration risk

  The acquisition and integration of other companies, as part of the Company's strategy to expand its business through acquisition of other businesses, present challenges to Galapagos' personnel and operations. Specific risks are unanticipated costs, loss of key personnel, the inability to obtain the expected benefits and synergies of the merger. Galapagos makes sure that every acquisition is preceded by a thorough due diligence and sets up systems that allow a smooth integration of the acquired businesses and teams.

- Reputational damage

  High ethical standards are maintained throughout the entire organisation at all levels. Laws and guidelines are complied with.

Interrupted product supply - loss of key suppliers

A reliable supply of materials is required in order to eliminate production delays.

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.

Reliance on key clients

Certain relationships represent significant sources of revenues. Loss or deterioration of these relationships can significantly impact the results of the Group. The weakness of the global economy and the ongoing financial crisis has adversely affected businesses.

This risk can be mitigated through multiple alliances with different partners, and through strengthening relationships with existing clients.

Competition: organizations providing similar contract research – price pressure in the contract research market

The Group faces competition from contract research companies that may bring products and services to the market which are more competitive and affordable and which might hurt the position of the service operations.

Legal risks

- Possible litigations and claims – product liability

  Product liability cases and claims may give rise to adverse regulatory action and/or negative market perception of the Company and its products. In most cases damages can be controlled. The likelihood of claims increases with the increase in size and visibility of the Company. The company carries appropriate insurance policies to cover its risks, including for its clinical trials.

- Failure to comply with laws and regulations – penalties or cease operations

  The industry in which the Company operates is strictly regulated. If the Company fails to meet strict regulatory requirements, the Company may be required to pay penalties or even to close down its facilities.

- Change in alliance strategy

  Current or prospective licensees and partners may use or develop alternative strategies, technologies or competing products, independently or in collaboration with others. This strategic shift in business focus can seriously impact the Company's results.

- Compliance with Corporate Governance

  Galapagos has always in all material respects been compliant with the Corporate Governance Code. Members of the Executive Committee and of the Board are expected to conduct their duties according to the highest ethical and professional business standards.

Product development

Pre-clinical testing, clinical research and regulatory approval of a pharmaceutical or medical product is a very intensive and costly process, and is subject to a high degree of failure in every phase. In some cases regulatory approval might not be received, or might be restricted to certain geographical regions or indications, or later withdrawn or significantly delayed, which could impact the receipt of product revenues, if any.

Report of the Board of Directors

General statement about Galapagos Group risks

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

6. SIGNIFICANT EVENTS ANNOUNCED AFTER THE END OF THE FINANCIAL YEAR

Galapagos announced the following significant events after 31 December 2010:

- 11 January: Galapagos initiated Phase I clinical trials for candidate drug GLPG0778, which triggered a milestone payment of €7.4 million from GlaxoSmithKline as part of the companies' arthritis alliance. Furthermore, Galapagos completed first-in-human trials for the first candidate drug in the arthritis alliance, GLPG0555.
- 4 February: Galapagos and Merck & Co. concluded their alliances in metabolic and inflammatory diseases. Galapagos regained worldwide rights for all assets developed under its strategic alliances with Merck. For work completed by Galapagos in 2010, Merck made a payment of €12 million to Galapagos.
- 7 February: Galapagos was awarded a €2.7 million grant from IWT over a two-year period to progress two proprietary antiviral drug discovery research programs.
- 7 February: Galapagos created a new Warrant Plan 2010 (C) on 23 December 2010, under which 75,000 new warrants were offered and accepted by a newly appointed Senior Vice President. The acceptance and issuance of these warrants was established by notary deed of 24 January 2011.
- 8 February: Galapagos achieved milestones in its osteoarthritis alliance with Servier, resulting in a payment of €4 million from Servier, which was included in 2010 revenues.
- 2 March: Galapagos delivered a fourth candidate drug in its arthritis alliance with GlaxoSmithKline (GSK) in December 2010. This achievement triggered a €6.7 million milestone payment to Galapagos, which was included in 2010 revenues.
- 4 March: Galapagos reports revenues of €137 million and a net profit of €4.4 million for 2010. Management reiterates guidance for Group revenues of at least €150 million, positive operating result and cash flow, and net profitability.
- 14 March: Galapagos starts Phase Ib clinical study in cancer patients.

7. GOING CONCERN AND ACCOUNTING STANDARDS

The 2010 consolidated results are positive for Galapagos, but the balance sheet shows a loss carry-over. The Board has examined the statements and accounting standards. Taking into account the relatively solid cash position and the favorable developments of Galapagos NV's own drug discovery activities and its subsidiaries' activities (drug discovery in Romainville, Leiden and Zagreb; service activities at BioFocus and Argenta), the Board is of the opinion that it can submit the annual accounts on an ongoing concern basis.

The Board is also of the opinion that additional financing could be obtained, if required. Whilst Galapagos NV's cash position is sufficient for the Company's immediate and midterm needs, the Board points out that if the R&D activities continue to go well, Galapagos NV may seek additional funding to support the continuing development of its products or to be able to execute other business opportunities.

8. STATEMENT CONCERNING CORPORATE GOVERNANCE

Galapagos' Board of Directors approved a Corporate Governance Charter. This Charter, which is available on the Company's website, is in addition to the law, and the company's articles of association, and the corporate governance provisions included in the Belgian Company Code. Galapagos uses the Belgian Corporate Governance Code 2009 (which can be found on www.corporategovernancecommittee.be) as reference code.

The Company's Corporate Governance Charter includes the following specific rules and charters:

- Charter of the Board of Directors;
- Charter of the Audit Committee;
- Charter of the Nomination- and Remuneration Committee;
- Charter of the Executive Committee;
- Dealing Charter (which provides procedures and guidelines to prevent abuse of insider knowledge and to prevent insider trading and market manipulation).

The Board of Directors has set as an objective that the provisions of the Belgian Corporate Governance Code be respected. However, the Board of Directors also determined that it is permissible not to comply with certain corporate governance provisions when the specific circumstances are taken into account. In such cases, which are mentioned in this chapter, it applies the principle of "comply or explain."

Report of the Board of Directors

Board of Directors

Galapagos' 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. The Board of Directors consists of at least three independent Directors.

Except for Onno van de Stolpe, all Board members are non-executive Directors. In 2010, the following persons were members of the Board: Dr Raj Parekh (Chairman), Ir Onno van de Stolpe (CEO), Dr Harrold van Barlingen, Dr Ronald Brus (as from 27 April 2010), Mr Ferdinand Verdonck, Dr Werner Cautreels, and Mr Howard Rowe (as from 5 August 2010); the latter three Directors were appointed as independent Directors. Dr Rudi Pauwels and Dr Garth Rapeport were independent Directors until their resignation on 27 April 2010 and 29 May 2010 respectively.

The Board's role is to pursue the long-term success of the Company by assuming the authority and responsibility of the Board set out in Belgian Corporate law and by providing entrepreneurial leadership and enabling risks to be assessed and managed.

In 2010, the Board of Directors held 4 regular meetings, 5 meetings by telephone conference to discuss specific matters and 3 meetings in the presence of a notary (the latter relating to the issuance of the Warrant Plan 2010, the private placement of October, and the Warrant Plan 2010(C)).

The Board of Directors acts as a collegial body. The attendance rate (in person or by written proxy to a fellow Director) for the Board members in function at 31 December 2010 was as follows: Raj Parekh, Onno van de Stolpe, Ferdinand Verdonck, Harrold van Barlingen and Howard Rowe: 100%, Werner Cautreels 92% and Ronald Brus 78%.

Committees

At the end of 2010, the Nomination- and Remuneration Committee consisted of the following three non-executive Directors: Raj Parekh (Chairman), Werner Cautreels and Howard Rowe, the majority of whom are independent Directors.

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 candidate-directors and making recommendations to the Board of Directors in relation to the appointment of Directors and members of the Executive Committee.

The Nomination and Remuneration Committee meets at least twice per year. In 2010, the Nomination- and Remuneration Committee held 3 meetings, in which it dealt with matters including grants of warrants and bonuses, new warrant plans, appointment of a Director and a member of the Executive Team, and salary increases. The Nomination- and Remuneration Committee acts as a collegial body. The attendance (present or represented) at the Nomination-and Remuneration Committee meetings in 2010 was 100%.

At the end of 2010, the Audit Committee consisted of the following three Directors: Ferdinand Verdonck (Chairman), Raj Parekh and Werner Cautreels. All members of the Audit Committee are non-executive Directors, the majority of whom are independent. The Chairman is an independent non-executive Director and has extensive experience in financial matters (including general accounting and financial reporting) and in matters of audit, internal control and risk control.

The role of the Audit Committee is to follow up on financial reporting and verification of financial data, verify and follow up on the internal control mechanisms, evaluate and verify the effectiveness of the risk assessment systems, and follow up on the internal and external audit activities.

In 2010, the Audit Committee held 4 meetings, in which it dealt with matters including audit review, corporate restructuring, authorities and procedures, risk management and insurances. The Audit Committee acts as a collegial body. The attendance of the Audit Committee meetings in 2010 was 100%.

The tasks of the Executive Committee include the following matters: the research, identification and development of strategic possibilities and proposals which may contribute to Galapagos' development in general, the drafting and development of policy guidelines to be approved by the Board of Directors, Galapagos' management through, among other things, the implementation of policy guidelines, the supervision of the performance of the business in comparison with the strategic goals, plans and budgets, and the support of the CEO with the day-to-day management of Galapagos.

On 31 December 2010, the Executive Committee consisted of seven people: Ir Onno van de Stolpe (also executive Director), Dr Graham Dixon, Dr Andre Hoekema, Dr Chris Newton, Dr Piet Wigerinck, Mr Guillaume Jetten and Dr Radan Spaventi (as of 23 September 2010).

The Executive Committee meets regularly, and at least once per month.

Remuneration of the members of the Board and of the Executive Committee

According to the decision of the Annual General Meeting of 27 April 2010, the independent Directors receive a remuneration of €20,000 per year. The Chairman of the Audit Committee receives an additional amount of €5,000 for performing his duties. The non-executive Directors who do not qualify as independent Directors and who do not represent a shareholder of the Company also receive remuneration for their mandate as a Director of €20,000 per year. In the event a Director is less than 75% present at the meetings of the Board of Directors, the amounts referred to above will be proportionally decreased. Directors who represent a shareholder in the Board of Directors will only receive reimbursement of the expenses incurred for participating in the Board of Directors (there were no such Directors in 2010).

The Chairman of the Board of Directors, Dr Raj Parekh, does not receive remuneration or reimbursement of expenses like the other Directors. However, a consultancy contract was made with the Chairman of the Company, under which he receives an annual fee of £50,000 as compensation for giving strategic advice.

Report of the Board of Directors

For clarity, the CEO does not receive any special 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.

The Board of Directors points out that the Belgian Corporate Governance Code 2009 does not recommend granting warrants to non-executive Directors, as this code contains a provision which states that non-executive Directors should not be entitled to performance-related remuneration such as stock related long-term incentive schemes. In deviation to this provision, the Board of Directors has decided to grant warrants to non-executive directors. This way, the Company has additional possibilities to attract competent non-executive Directors and to offer them an attractive additional remuneration that does not affect the cash position of the Company. Furthermore, the grant of warrants is a commonly used method in the sector in which the Company is active. Without this possibility, the Company would be confronted with a considerable disadvantage compared to competitors who do offer warrants to their non-executive Directors. The Board of Directors is of the opinion that the granting of warrants has no negative impact on the function of the non-executive Directors.

The remuneration of the CEO consists of a basic part, a variable part and other components. In deviation from the Belgian Corporate Governance Code, the Board of Directors has elected not to comply with the corporate governance recommendation to disclose all parts of the CEO's remuneration, such as the basic salary. The Board of Directors explains this non-compliance by referring to privacy concerns.

The seven members of the Executive Committee (including the CEO) who were in function on 31 December 2010 were paid an aggregate amount of €1,594,249 in remuneration and an aggregate amount of €342,269 in bonuses for their performance in 2010 (the amount of the bonuses paid is half of the bonuses awarded; the payment of the other half is deferred for 3 years and is subject to the conditions set forth in the Group bonus scheme); they also received the 50% deferred part of the bonus of 2007, which amounted in the aggregate to €538,163. Other components of their remuneration include contributions to the Company's pension and health insurance schemes, and certain fringe benefits of non-material value.

Increases of the remuneration of the individual members of the Executive Committee and the amounts of their individual bonuses are determined by the Board of Directors upon recommendation of the Remuneration Committee. Remuneration increases and bonuses are merit driven and based on the Company's performance rating system; they depend on delivery with regard to the individual's personal objectives in combination with exceptional deliverables during the past year. The bonuses are discretionary; half of the bonus is paid immediately and the payment of the other half is deferred for three years. The bonus level for senior management is determined taking into account the level of achievement of the corporate objectives for the Galapagos group, which objectives include elements of revenue, cash flow, operating profitability of the service division, clinical trials and other matters.

Reference is also made to what is set forth in the next topic ("Conflict of interest and related parties").

Conflict of interest and related parties

In the event of a transaction where a Director's interest conflicts with the interest of the Company, the Director shall notify the Board of Directors in advance of the conflict and will act in accordance with the relevant rules of the Company Code (i.e. article 523 of the Company Code).

In addition, the Company's Corporate Governance Charter includes a policy for transactions between the Company and its Directors and executive managers. Without prejudice to the procedure defined in article 523 of the Belgian Company Code, this policy provides that all transactions between the Company and its directors, its members of the Executive Committee or its representatives need the approval of the Board of Directors, whose approval can only be provided for transactions at normal market conditions.

Such a conflict of interest, in the event it is not a conflict of interest as provided for in article 523 of the Belgian Company Code, shall be written down in the minutes, and the Director or member of the Executive Committee shall not vote.

In 2010, two cases of conflict of interest between the Company and a Director were noted.

In a meeting of the Board of Directors of 24 September 2010, it was resolved that the Board would make a recommendation to the next General Shareholders' Meeting to offer Mr Howard Rowe, member of the Board, 7,500 warrants. In application of article 523 of the Belgian Code of Companies the following is reported in connection with the proposed warrant offer to Mr Rowe: the Chairman declared that Mr Rowe has informed the Board of a conflict of interest, concerning the proposed award to him of 7,500 warrants. It has been explained to the Board that the award of said benefit is proposed upon recommendation of the Remuneration Committee and is a justified in the context of attracting Mr Rowe as a Board member and is common practice in the biotech sector. The award of this benefit will have no material impact on the financial position of the company. The Board shares the opinion of the Remuneration Committee that the proposed benefits are justified and reasonable. Mr Rowe has not taken part in the deliberation and the vote concerning this decision.

In a meeting of the Board of Directors on 9 December 2010 the following was reported, in application of article 523 of the Belgian Code of Companies, in connection with the bonus for the CEO: the Chairman declares that Mr Onno van de Stolpe has informed the Board of Directors of a conflict of interest, concerning the proposed award to him of a bonus. It has been explained to the Board that the award of said benefits is proposed upon recommendation of the Remuneration Committee and is a justified reward for the results achieved by Mr van de Stolpe in 2010. The award of these benefits will have no material impact on the financial position of the company. The Board shares the opinion of the Remuneration Committee that the proposed benefits are justified and reasonable. Mr van de Stolpe has not taken part in the deliberation and the vote concerning this decision.The CEO's bonus for 2010 amounted to €330,700 (half of this bonus was immediately payable and the other half was deferred for three years and is linked to conditions relating to the realization of certain parameters concerning the evolution of the Galapagos share price).

The CEO owns 310,936 shares of Galapagos and 455,000 warrants. The other members of the Executive Team hold an aggregate of 44,400 shares and 677,500 warrants. The other members of the Board hold an aggregate of 16,800 shares and 141,350 warrants. Each warrant entitles to one share of the Company.

For a description of the most important characteristics of the internal control and risk management systems of the Company we refer to Section 5 "Risk Factors" of this Report.

For information relating to anti-takeover provisions we refer to Section 4 "Shares and Capital" of this report.

Based on the transparency notifications received by the Company, the shareholders owning 5% or more of the Company's shares on 31 December 2010 are Abingworth Management Ltd (1,576,327 shares) and Delta Lloyd Asset Management NV (2,458,000 shares).

9. FURTHER INFORMATION

This report of the Board of Directors will also be made available on the Company website: www.glpg.com/investor/financial_reports.htm.

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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 the Company and its consolidated companies as of 31 December 2010.

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 2010, gives a true and fair view on the development, results and position of the Company and its consolidated companies and on the most important risks and uncertainties with which the Company is being confronted.

* * *

The Board of Directors thanks you for the confidence you show in Galapagos.

The Board of Directors will submit to you proposals of resolutions to approve the annual accounts for the financial year 2010, and to discharge the Directors and the Statutory Auditor, for the exercise of their mandate during the financial year that ended on 31 December 2010.

Mechelen, 25 March 2011

On behalf of the Board of Directors,

(signed)

Onno van de Stolpe
CEO

(signed)

Raj Parekh
Chairman

Consolidated financial statements

CONSOLIDATED INCOME STATEMENTS AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER

Consolidated income statement

Thousands of €	Notes	2010	2009
Services revenue		50,857	41,315
R&D revenue		71,553	51,774
Other income		14,148	12,951
Negative goodwill		5,000	
Total operating income	4	**141,558**	**106,041**
Services cost of sales	5	-31,367	-25,082
R&D Expenditure	5	-84,649	-60,015
General and administrative costs	5	-21,483	-16,934
Sales and marketing expenses	5	-2,586	-2,075
Restructuring and integration costs	5	-442	-277
Operating profit/loss (-)	4/5	**1,031**	**1,659**
Finance income	7	1,114	738
Finance cost	8	-1,557	-711
Profit/loss (-) before tax		**588**	**1,685**
Taxes	9	3,782	1,324
NET PROFIT/LOSS (-)	10	**4,370**	**3,010**
NET PROFIT/LOSS (-) attributable to:			
Owners of the parent	10	4,370	3,010

Consolidated statement of comprehensive income

Exchange difference arising on translating of foreign operations	1,683	282
Other comprehensive income	**1,683**	**282**
Total comprehensive income attributable to:		
Owners of the parent	6,053	3,292

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER

Assets

Thousands of €	Notes	2010	2009
NON-CURRENT ASSETS		**84,738**	**59,024**
Goodwill	12	42,380	33,751
Intangible assets	13	13,534	3,480
Property, plant and equipment	14	23,886	19,285
Deferred tax assets	23	3,658	1,700
Available for sale financial assets and other non-current assets	16	1,280	808
CURRENT ASSETS		**109,223**	**84,686**
Inventories	15	1,437	1,816
Trade and other receivables	17	54,901	24,305
Current tax receivables	9	8,583	7,679
Cash and cash equivalents	18	40,397	47,391
Other current assets	17	3,905	3,495
TOTAL ASSETS		**193,961**	**143,709**

Equity and liabilities

Thousands of €	Notes	2010	2009
TOTAL EQUITY		**148,507**	**108,877**
Share capital	19	137,122	122,870
Share premium account	20	71,806	54,901
Translation differences	21	-343	-2,026
Accumulated losses		-60,079	-66,868
TOTAL LIABILITIES		**45,454**	**34,832**
NON-CURRENT LIABILITIES		**7,232**	**3,488**
Pension liabilities		1,129	872
Provisions	27	842	127
Deferred tax liabilities	23	2,693	564
Finance lease liabilities	24	867	964
Other non-current liabilities	26	1,701	961
CURRENT LIABILITIES		**38,223**	**31,344**
Finance lease liabilities	24	378	520
Trade and other payables	26	22,012	15,130
Current tax payable	9	44	44
Other current liabilities	26	15,789	15,650
TOTAL LIABILITIES AND EQUITY		**193,961**	**143,709**

Consolidated financials

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER

Thousands of €	Notes	2010	2009
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**47,391**	**27,316**
Result from operations		1,031	1,659
Adjustments for:			
Depreciation of property, plant and equipment	14	7,773	5,308
Amortization of intangible fixed assets	13	3,862	1,647
Inventories write off		148	674
Exchange gain/loss (-) on translation of net assets of subsidiary		233	-259
Share based compensation		2,418	2,642
Increase/Decrease (-) provisions		77	-734
Increase/Decrease (-) pension liabilities (assets)		257	42
Negative goodwill		-5,000	
Operating cash flows before movements in working capital		**10,799**	**10,979**
Increase (-)/Decrease in inventories		344	1,265
Increase (-)/Decrease in receivables	17	-28,145	-6,560
Increase/Decrease (-) in payables	26	-889	361
Increase/Decrease (-) in provisions		-1	15
Cash generated/used (-) in operations		**-17,892**	**6,059**
Interest paid and other financial costs	8	-797	-439
Taxes		115	682
NET CASH FLOWS GENERATED/USED (-) IN OPERATING ACTIVITIES		**-18,573**	**6,303**

Thousands of €	Notes	2010	2009
Purchase of property, plant and equipment	14	-4,244	-4,128
Purchase of and expenditure in intangible fixed assets	13	-9	-1,058
Proceeds from disposal of intangible assets	13		216
Proceeds from disposal of property, plant and equipment	14	35	227
Acquisitions of subsidiaries, net of cash acquired	34	-15,958	
NET CASH USED IN INVESTING ACTIVITIES		**-20,176**	**-4,743**
Repayment of obligations under finance leases and other debts		-255	-497
Proceeds of Capital and Share premium increases, net of issue costs		31,157	18,648
Interest received and other financial income	7	257	364
NET CASH GENERATED/USED (-) IN FINANCING ACTIVITIES		**31,159**	**18,515**
EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS		**597**	
INCREASE/DECREASE (-) IN CASH AND CASH EQUIVALENTS		**-6,994**	**20,075**
CASH AND CASH EQUIVALENTS AT END OF YEAR		**40,397**	**47,391**

Consolidated financials

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Thousands of €	Share capital	Share premium account	Translation differences	Accumulated losses	Total
Balance at 1 January 2009	**110,855**	**48,268**	**-2,307**	**-72,492**	**84,324**
Net result				3,010	3,010
Other comprehensive income			282		282
Share based compensation				2,642	2,642
Issue of share capital	10,831	6,633			17,464
Exercise warrants	1,184				1,184
Other				-28	-28
Balance at 31 December 2009	**122,870**	**54,901**	**-2,026**	**-66,868**	**108,877**
Net result				4,370	4,370
Other comprehensive income			1,683		1,683
Share based compensation				2,418	2,418
Issue of share capital	12,310	15,746			28,056
Exercise warrants	1,941	1,159			3,100
Other	1			1	2
Balance at 31 December 2010	**137,122**	**71,806**	**-343**	**-60,079**	**148,506**

The consolidated financial statements of Galapagos NV (hereafter the "Group" or the "Company") were approved by the Board of Directors and authorized for issue on 25 March 2011. They were signed on its behalf by:

(signed)

Onno van de Stolpe
Executive Director
25 March 2011

Notes to Consolidated Financial Statements

1. GENERAL INFORMATION

Galapagos NV ("the Company" or "the Group") is a limited liability company incorporated in Belgium and has its registered office at Generaal De Wittelaan L11/A3, 2800 Mechelen, Belgium.

Galapagos NV was founded in 1999 as a joint venture between Crucell BV and Tibotec NV. Galapagos is a mid-size biotechnology company specialized in the discovery and development of small molecule and antibody therapies with novel modes-of-action.

R&D

The R&D division is progressing one of the largest pipelines in biotech, with seven clinical and over 50 discovery/pre-clinical programs. Many of these programs are based on novel and proprietary disease-modifying drug targets in disease areas for which there is a need for safe and effective medicines. Through risk/reward-sharing alliances with GlaxoSmithKline, Lilly, Janssen Pharmaceutica, Roche and Servier, Galapagos' R&D division is eligible to receive up to €2.5 billion in downstream milestones*, plus royalties. Galapagos' R&D division also has an alliance with MorphoSys to develop new antibody therapies in bone and joint diseases.

Services

The Service operations comprise BioFocus and Argenta. Galapagos acquired BioFocus in October 2005 and added to this business through a number of acquisitions in 2006 and 2008. BioFocus offers a full suite of target-to-drug discovery products and services to pharmaceutical and biotech companies and to patient foundations, encompassing target discovery and validation, screening and drug discovery through to delivery of pre-clinical candidates.

Galapagos acquired Argenta in February 2010 and retained this company as a separate operation next to BioFocus. Argenta's contract research, which includes expertise in medicinal chemistry, computer-aided drug discovery, *in vitro* biology, analytics, *in vivo* pharmacokinetics, pharmacology and world-leading respiratory models, has a strong reputation for scientific excellence.

History of the Company since IPO

The shares of Galapagos have been listed on Euronext Brussels and Amsterdam since May 2005.

The Group has grown strongly over the last years, both organically and through acquisitions.

At the end of 2005, Galapagos acquired UK-based BioFocus plc (and its affiliates). The shares of BioFocus were listed on the Alternative Investment Market (AIM) of the London Stock Exchange and the acquisition occurred through a public takeover bid in which Galapagos shares were offered in exchange for BioFocus shares. In connection with this acquisition the shares of Galapagos were then also listed on AIM.

In July 2006, Galapagos acquired the shares of the subsidiaries of Discovery Partners International, Inc. against cash payment. As a result, US-based ChemRx Advanced Technologies, Inc. (later renamed into BioFocus DPI, Inc.) and the Swiss DPI AG (now called BioFocus DPI AG) and their respective affiliates, were added to the Group.

* See glossary for further explanation of this figure.

Notes

In September 2006 Galapagos NV raised €11.1 million in a private placement on Euronext Brussels and Euronext Amsterdam amounting to a net cash contribution of €10.7 million.

In December 2006, Galapagos acquired the UK-based Inpharmatica Ltd and the French ProSkelia SASU (renamed into Galapagos SASU). Both acquisitions were financed with Galapagos shares.

Together with the acquisition of ProSkelia, Galapagos NV raised €31 million in a private placement, amounting to a net cash contribution of €29.6 million.

In March 2008, Galapagos' Level 1 American Depositary Receipt (ADR) facility in the United States became effective. In April 2008 Galapagos' quotation on AIM was cancelled.

In August 2008, Galapagos acquired the assets and ongoing service agreements of UK-based Sareum Limited against cash payment. These assets positioned Galapagos' service division BioFocus strongly in the growing field of structure-based drug discovery.

In November 2008 Galapagos completed the sale of its San Diego based affiliate BioFocus DPI, Inc. to ChemVentures Pty Ltd.

On 1 October 2009 Galapagos' service division changed its trading name to BioFocus.

On 21 October 2009, Galapagos raised €18.2 million in a private placement on Euronext resulting in a net cash contribution of €17.5 million.

On 1 February 2010, Galapagos acquired the service operations of Argenta Discovery for a €16.5 million cash payment.

On 9 September 2010, Galapagos acquired GlaxoSmithKline's research center in Zagreb, Croatia.

On 21 October 2010, Galapagos raised €28.7 million in a private placement with international institutional investors.

A complete list of all companies directly or indirectly owned by Galapagos is detailed in note 33.

2. ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The principal accounting policies used for the preparation of these consolidated financial statements are set out below.

Standards and interpretations effective in the current period

Nine Standards, annual improvements, issued by the IASB and four interpretations, issued by the 'International Financial Reporting Interpretations Committee' are applicable to the current period. These are:

- Improvements to IFRS (2008-2009) (normally applicable for annual periods beginning on or after 1 January 2010)
- Amendment to IFRS 1 First Time Adoption of International Financial Reporting Standards – Additional exemptions (applicable for annual periods beginning on or after 1 January 2010)
- Amendment to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions (applicable for annual periods beginning on or after 1 January 2010)
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (applicable for annual periods beginning on or after 1 July 2009)
- IFRIC 12 Service Concession Arrangements (applicable for annual periods beginning on or after 1 April 2009)
- IFRIC 15 Agreements for the construction of real estate (applicable for annual periods beginning on or after 1 January 2010)
- IFRIC 16 Hedges of a net investment in a foreign operation (applicable for accounting years beginning on or after 1 July 2009)
- IFRIC 17 Distributions of Non-cash Assets to Owners (applicable for annual periods beginning on or after 1 November 2009)
- IFRIC 18 Transfers of Assets from Customers (applicable for annual periods beginning on or after 1 November 2009)

These interpretations do not have a significant influence on the Group and therefore did not lead to any changes in the Group's accounting policies.

Early adoption of Standards and Interpretations

The Group decided to apply the following Standards or Interpretations in advance of their effective dates:

- IFRS 3 Business Combinations (applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2009). This Standard replaces IFRS Business Combinations as issued in 2004
- Amendment to IAS 27 Consolidated and Separate Financial Statements (applicable for annual periods beginning on or after 1 July 2009). This Standard amends IAS 27 Consolidated and Separate Financial Statements (revised 2003)

Notes

Standards and Interpretations in issue but not yet adapted

The Group did not apply the following Standards and Interpretations in advance of their effective dates; these Standards were issued at the date of these financial statements, but were not yet effective at the balance sheet date:

- IFRS 9 Financial Instruments (applicable for annual periods beginning on or after 1 January 2013)
- Improvements to IFRS (2009-2010) (normally applicable for annual periods beginning on or after 1 January 2011)
- Amendment to IFRS 1 First Time Adoption of International Financial Reporting Standards – IFRS 7 exemptions (applicable for annual periods beginning on or after 1 July 2010)
- Amendment to IFRS 1 First Time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (applicable for annual periods beginning on or after 1 July 2011)
- Amendment to IFRS 7 Financial Instruments: Disclosures – Derecognition (applicable for annual periods beginning on or after 1 July 2011)
- Amendment to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets (applicable for annual periods beginning on or after 1 January 2012)
- Amendment to IAS 24 Related Party Disclosures (applicable for annual periods beginning on or after 1 January 2011). This Standard supersedes IAS 24 Related Party Disclosures as issued in 2003.
- Amendments to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (applicable for annual periods beginning on or after 1 February 2010)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (applicable for annual periods beginning on or after 1 July 2010)
- Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Prepayments of a Minimum Funding Requirement (applicable for annual periods beginning on or after 1 January 2011)

Based on the current business model and basis for financial reporting, management does not expect that the application of these standards and interpretations will have an important impact on the financial statements of the Group in the period of initial application.

Going concern basis

The consolidated financial statements are prepared in accordance with the International Financing Reporting Standards (IFRS) published by the International Accounting Standard Board (IASB) and the interpretations issued by the IASB's International Financial Reporting Interpretation Committee, which have been endorsed by the European Commission.

The consolidated financial statements provide a general overview of the Group's activities and the results achieved. They give a true and fair view of the entity's financial position, its financial performance and cash flows, on a going concern basis.

Group accounting

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Together these comprise the Group. Control is achieved where the Company 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 bring the accounting policies used in line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase 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 the Group in exchange for control of the acquiree.
The acquiree'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, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non Current Assets Held for Sale and Discontinued Operations, which are recognized and measured at fair value less costs to sell.

Business combinations and related goodwill/negative goodwill

Goodwill arising on business combinations is recognized as an asset and initially measured at cost, being the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of 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 acquiree's identifiable assets, liabilities and contingent liabilities 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 the Group's 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
- The Group has the intention to complete the intangible assets and use or sell it
- The Group has 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
- The Group is able to measure reliably the expenditure attributable to the intangible asset during its development

Notes

The amount capitalized as internally generated intangible assets is the sum of the development costs incurred at the date that the asset meets the conditions described above.

Internally generated intangible assets are amortized on a straight-line basis over their useful lives. Where no internally generated asset can be recognized, development cost is recognized as an expense in the period in which it is 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 is 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 booked 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 relevant lease.

Inventories

Inventories are stated 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.

The costs of work in progress comprise costs of materials, direct costs for personnel, and manufacturing overheads linked to transportation costs of inventory to the production location.

Molecule screening libraries are stated at cost on acquisition and written off over their useful economic lives, calculated by reference to utilization, but which in any event cannot exceed 5 years.

Financial instruments

Financial assets and financial liabilities are recognized on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

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

Available for sale financial assets

Available for sale investments are stated at fair value, except for those equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Those equity instruments are stated at cost.

Gains and losses arising from changes in fair value are recognized directly in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the net profit or loss for the period. Impairment losses recognized in profit or loss for equity investments classified as available for sale are not subsequently reversed through profit or loss. Impairment losses recognized in profit or loss for debt instruments classified as available for sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition at the impairment loss.

Cash and cash equivalents

Cash and cash equivalents are carried on the balance sheet 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, highly liquid investments and bank overdrafts. On the balance sheet, bank overdrafts are included in borrowings as current liabilities.

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 tax currently payable and deferred tax.

The tax currently payable 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Notes

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 income 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.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets relating to tax losses carried forward are recognized to the extent that it is probable that the related tax benefit will be realized.

Foreign currencies

- **Functional and presentation currency**

  Items included in the financial statements of each of the Group's 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 the Company's 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. 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 Group entities that have a functional currency different from the presentation currency are translated into the presentation currency 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 exchange differences are recognized as a separate component of equity;
  - Such exchange rates are recognized in profit or loss in the period in which the foreign operation is disposed of.

Revenue recognition

The Group generates revenues from providing research and development services, drug discovery and development activities, license or royalty agreements, the sale of products, various R&D incentives and from grants. The revenue recognition policy can be summarized as follows:

- Service business milestone payments are recognized as revenues when achieved;
- 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. Milestones that are not substantive, not commensurate or that are not irrevocable are recorded as deferred revenue. The Group believes that each substantive milestone payment represents a separate fair value for that phase of the collaboration agreement;
- Non-refundable, up-front payments received in connection with research and development collaboration agreements are deferred and recognized on a straight-line basis over the relevant periods of continuing involvement, which is assessed to end at the moment the first milestone is achieved;
- Fees received from partners for options to license molecules or programs are recognized as revenue at fair value, over the option period unless the license is taken by the partner at an earlier moment than foreseen in the contract, in which case the remaining fees are recognized as license revenue at that point;
- Sales from the BioFocus and Argenta business units typically comprise multiple elements combined in one or more license agreements. The elements in such multiple element arrangements are accounted for as follows:
    - Sales of molecule collections and reagents are recognized as product revenue when delivered;
    - Contract research and development services are recognized as service revenues at fair value as such services are rendered. These services are usually in the form of a defined number of the Group's full-time equivalent ("FTE") at a specified rate per FTE;
    - Upfront non-refundable license fees are only recognized as revenue at fair value when products were delivered and/or services were rendered in a separate transaction and the Group has fulfilled all conditions and obligations under the related agreement. In case of continuing involvement of the Group, the upfront fee would not be regarded as a separate transaction and the upfront non-refundable license fees will be deferred at fair value over the period of the collaboration;
    - Molecule collections or viruses and technology access fees are recognized as license revenue over the period in which access is granted;
    - Revenue under compound repository services is recorded as costs are incurred, which includes indirect costs that are based on provisional rates estimated by management. If actual costs are subsequently calculated to be greater than provisional rates, the additional income is recorded if there is a contractual right to submit updated claims. A reserve is provided against receivables for estimated losses that may result from rate negotiations, audit adjustments and/or lack of government funding availability if it is deemed necessary. To the extent that we incur adjustments due to rate negotiations or lack of government funding availability, revenue may be impacted;
- The Group receives operational grants and tax credits from certain governmental agencies which support the Group's research and development efforts. These grants and tax credits generally aim to partly reimburse approved expenditures incurred in

research and development efforts of the Group and are credited to the income statement when the relevant expenditure has been incurred and there is reasonable assurance that the grant or tax credit is receivable;

- 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, and only if the license imposes no time restrictions.

Equity instruments

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

Research & development costs

Research costs are charged to the income statement as incurred. The Group capitalizes development costs as intangible assets only if the criteria for internally generated intangible assets are met, otherwise such costs are expensed. The Group considers that the regulatory and clinical risks inherent to the development of clinical molecules preclude it from capitalizing the development costs incurred in its drug development business.

Defined contribution plans

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

Defined benefit plans

For defined benefit plans, the cost of providing benefits is determined using the "projected unit credit method," with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Group's defined benefit obligation and the fair value of plan assets as at the end of the prior year are amortized over the expected average remaining working lives of the participating employees. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

For defined benefits plans, the amount recognized in the balance sheet is determined as the present value of the defined obligations adjusted for the unrecognized actuarial gains and losses and less any past service costs not yet recognized and the fair value of any plan assets.

Provisions

Provisions are recognized on the balance sheet when a Group company has a present obligation as a result of a past event; 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.

The Group as lessee

Leases are classified as finance leases whenever the terms of the lease substantially transfers 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 assets of the Group 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 charged directly against the income statement, unless it is directly attributable to the corresponding asset, in which case they are capitalized.

Rentals payable under 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, the Group reviews the carrying amount of its 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, the Group estimates 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.

Where 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 is recognized as income, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment is treated as a revaluation increase.

Net earnings/loss per share

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

Notes

Share-based payments

The Group uses equity-settled share-based payments as an incentive to certain employees, directors and consultants. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the warrants is expensed over the vesting period, based on the Group's estimate of shares that will vest eventually.

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.

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. Segment assets and liabilities do not include income tax items. For further information, we refer to note 35 "Critical accounting estimates and judgments" and note 36 "Financial risk management."

3. SEGMENT REPORTING

Segment reporting is represented in line with information presented to the CODM (Chief Operating Decision Maker). The CODM within Galapagos has been identified as the Executive Committee (ExCom).

The ExCom assesses the performance of the operating segments by reviewing revenue, adjusted EBIT and gross margins by segment. Adjusted EBIT excludes the effects of share option compensation charges, impact of the impairment test of goodwill and restructuring costs from the operating segments. Interest income and charges and tax are not included in the results for the operating segments that are reviewed by the ExCom.

Operating segments

For management purposes, the Group is divided into two operating divisions: R&D and Services. These divisions form the basis upon which the Group reports its primary segment information.

Principal activities are as follows:

R&D operations

Galapagos' R&D operations are specialized in the discovery and development of small molecule and antibody therapies with novel modes-of-action. Galapagos funds these programs through alliance payments from its pharma partners, cash generated by its profitable service operations and its cash reserves. Many of these programs are based on proprietary disease-modifying drug targets in disease areas for which there is a need for safe and effective medicines.

Service operations

Galapagos' service operations offer target-to-drug discovery products and services to pharmaceutical and biotech companies and to patient foundations, encompassing target discovery and validation, screening and drug discovery through to delivery of pre-clinical candidates. The service division has two operating units: BioFocus, which Galapagos has operated since 2005, and Argenta, which Galapagos acquired in February 2010. Galapagos operates these units in parallel, with both providing additional capacity and drug discovery capabilities to the Galapagos Group.

The operational results of these segments are evaluated monthly at the ExCom meetings for resource allocation and performance measurement. Intersegment sales are charged at prevailing rates based on a tax transfer pricing study for 2010 and prevailing market rates for 2009.

All of the Group's operations are continuing.
Segment information about these businesses for the years ended 31 December 2010 and 2009 is presented below.

2010 SEGMENT INFORMATION

Thousands of €	R&D	Services	Intersegment eleminations	Unallocated costs	Galapagos Group
External revenues	71,553	50,857			122,410
Other income	14,778		-630		14,148
Intersegment sales	3,612	14,974	-18,586		
Negative goodwill	5,000				5,000
Total operating income	**94,943**	**65,830**	**-19,216**		**141,558**
Gross margin	**94,943**	**21,365**	**-6,118**		**110,191**
R&D expenditure	**-90,239**		**5,590**		**-84,649**
General and administrative costs	**-4,863**	**-13,819**	**431**		**-18,251**
Unallocated G&A costs				-3,232	-3,232
Sales and marketing expenses	-248	-2,342	4		-2,586
Restructuring and integration costs	-134	-401	93		-442
Operating results	**-540**	**4,803**		**-3,232**	**1,031**

The 2010 segment report was impacted by a transfer pricing study, changing the distribution of the operating result between the two divisions. Consequently, the R&D result improved to almost break even. The BioFocus and Argenta service operations reported a gross margin of 33% and a positive segment result of €4.8 million using the new transfer pricing. The service operations showed improved results in the second half of 2010; this was attributable to the acquisition of Argenta, better capacity utilization, and the initiation of work on the two largest service deals to date.

2009 SEGMENT INFORMATION

Thousands of €	R&D	Services	Intersegment eleminations	Unallocated costs	Galapagos Group
External revenues	51,774	41,315			93,089
Other income	12,026	1,872	-948		12,951
Intersegment sales	16	13,301	-13,317		
Total operating income	**63,817**	**56,488**	**-14,265**		**106,041**
Gross margin	**63,817**	**21,815**	**-4,673**		**80,959**
R&D expenditure	**-63,718**		**3,703**		**-60,015**
General and administrative costs	**-2,488**	**-11,871**	**942**		**-13,416**
Unallocated G&A costs				-3,518	-3,518
Sales and marketing expenses	-98	-2,004	28		-2,075
Restructuring and integration costs	-277				-277
Operating results	**-2,763**	**7,940**		**-3,518**	**1,659**

Geographical information

In 2010 the Group's operations were located in Belgium, Croatia, France, Switzerland, The Netherlands, United Kingdom and USA. The Group's R&D division is located in Belgium, Croatia, France and The Netherlands, with its service division operating in the remaining countries.

In 2010 the Group's top 10 customers represent 51% of the revenues. Our Group's client base includes most of the top 10 pharmaceutical companies in the world. The major customers are related to the R&D segment.

4. TOTAL OPERATING INCOME

Thousands of €	2010	2009
Sales of goods	2,869	4,027
Services (selling FTE)	50,192	35,003
Milestone payments	54,210	45,588
License fees	1,452	256
Recognition of up-front non refundable	13,687	8,214
Other operating income	14,148	12,951
Negative goodwill	5,000	
Total	**141,558**	**106,041**

Sales of goods consist of the sale of chemical compound libraries on a non-exclusive basis.

Service revenues include the sale of biology and chemistry FTEs (full time equivalents) and related access fees under external contracts for the provision of target discovery and drug discovery services. It also includes the management of compound stores and the procurement of such compounds.

Milestone payments are mainly earned in the R&D business, as well as the recognition of up-front fees. The up-front fees are deferred and taken in revenue according to the accounting policies.

License fees cover the provision of chemistry based software and research tools under license agreements, which can also involve ongoing maintenance obligations.

Other income includes government grants received towards the cost of internal research and development programs. In many cases these carry clauses which require the Company to maintain a presence in the same region for a number of years. Failure to do so may result in the repayment of all or part of the grants received. In addition, other income also includes other incentives received from government agencies, and consists mainly of the French tax credit for research companies and the Dutch and Belgian credit for salaries of research personnel.

Based on management projections and parameter estimates, the market value of the acquired Zagreb research center share capital has been estimated at €5.0 million. The €5.0 million negative goodwill gain was not subject to taxation. Special market conditions have lead to this low acquisition price.

5. OPERATING COSTS

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

Services cost of sales

Thousands of €	2010	2009
Personnel costs	-15,641	-10,893
Disposables and lab fees	-3,724	-7,212
Depreciation	-6,094	-2,854
Other operating expenses	-5,908	-4,124
Total	**-31,367**	**-25,082**

R&D expenditure

Thousands of €	2010	2009
Personnel costs	-27,569	-20,357
Disposables and lab fees	-25,352	-16,539
Subcontracting	-23,451	-15,924
Premises costs	-5,197	-4,026
Depreciation	-3,029	-3,169
Impairment	-57	
Provisions	6	
Total	**-84,649**	**-60,015**

Compared to 2009, all costs of research and development increased. The biggest increase is due to an increase in clinical development activities, which resulted in increased personnel charges and external outsourcing.

General and administrative costs

Thousands of €	2010	2009
Personnel costs	-6,341	-6,383
Premises costs	-4,651	-5,078
Professional fees	-2,092	-1,498
Director fees	-1,363	-1,122
Depreciation	-2,455	-932
Other operating expenses	-4,496	-2,657
Provisions	-85	736
Total	**-21,483**	**-16,934**

Premises costs include rent, service charges, property taxes and utility costs such as light, heat and water.

Other operational costs mainly contain travel expenses, telephone, consultancy costs and fees.

Sales and marketing expenses

Thousands of €	2010	2009
Personnel costs	-1,705	-1,418
Other operating expenses	-881	-657
Total	**-2,586**	**-2,075**

Restructuring and integration costs and impairment

Thousands of €	2010	2009
Other operating expenses	-442	-277
Deconsolidation losses		
Total	**-442**	**-277**

The other operating expenses, amounting to €442K, concern mainly integration costs for Argenta Discovery 2009 Ltd.

6. PERSONNEL COSTS

The number of employees at 31 December was:

	2010	2009
	815	516
Total	**815**	**516**

The average number of employees during the year was:

	2010	2009
Key management	7	6
Laboratory staff	597	429
Administrative staff	96	60
Total	**700**	**495**

Their aggregate remuneration comprised:

Thousands of €	2010	2009
Wages and salaries	-36,653	-27,390
Social security costs	-6,268	-4,055
Pension costs	-3,768	-3,473
Other costs	-4,567	-4,134
Total	**-51,256**	**-39,051**

The other personnel costs mainly relate to costs for meal tickets, canteen costs, travel expenses, costs for temporary personnel and costs for warrants granted of €2,418K (2009: €2,642K). For the costs of warrants granted, we refer to note 30.

7. FINANCE INCOME

Thousands of €	2010	2009
Interest on bank deposits	230	284
Interest on short term deposits	8	169
Other financial income	876	284
Total	**1,114**	**738**

The other financial income in 2010 mainly relates to translation differences coming from GBP and USD. For 2009 this relates to translation differences coming from GBP.

8. FINANCE COSTS

Thousands of €	2010	2009
Interest on obligations under finance lease	-129	-195
Other financial costs	-1,428	-516
Total	**-1,557**	**-711**

The other financial costs in 2010 mainly relate to exchange rate losses and translation differences coming from CHF (€670K). For 2009 the other financial costs mainly relate to interests and bank charges in the different entities of the Group.

9. TAXES

Tax assets and liabilities

Thousands of €	2010	2009
Tax assets		
Current tax receivable	8,583	7,679
Total	**8,583**	**7,679**

The tax receivables mainly relate to refunds resulting from tax credits on research expenses in France.

Thousands of €	2010	2009
Tax liabilities		
Income tax payable	44	44
Total	**44**	**44**

Taxes recognized in profit or loss

Thousands of €	2010	2009
Current tax	-538	-26
Deferred tax (note 23)	4,321	1,351
Total	**3,782**	**1,324**

Corporation tax is calculated at 34% (2009: 34%) of the estimated assessable profit for the year. The applied tax rate for other territorial jurisdictions is the tax rate that is applicable in these respective territorial jurisdictions on the estimated taxable result of the accounting year.

The tax of the year can be reconciled to the accounting profit/loss as follows:

Thousands of €	2010	%	2009	%
Profit/loss (-) before tax	588	34	1,685	34
Income tax credit, calculated using the Belgian statutory tax rate on the accounting profit/loss (-) before tax (theoretical)	200		573	
Tax expenses in income statement (effective)	-3,782		-1,324	
Difference in tax expense to explain	-3,982		-1,897	
Effect of tax rates in other jurisdictions	-840		-398	
Effect of non taxable revenues	-6,144		-1,426	
Effect of non tax deductible expenses	592		1,021	
Effect of change in tax rates	-2			
Effect of tax losses (utilized) reversed	-1,958		-1,700	
Effect from under or over provisions in prior periods	4,369		606	
Total explanations	**-3,982**		**-1,897**	

The main difference between the theoretical tax and the effective tax is explained by the deferred tax assets on tax losses carried forward for which the Company does not think that it is probable that these will be realized in the foreseeable future, except for BioFocus DPI Ltd. and the notional interest deduction and the investment allowances into research and development for tax credit (see note 23). The non taxable revenues, comprehending tax incentives like CIR, IWT, etc. in the different sites are also an important factor for FY2010.

10. EARNINGS PER SHARE

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

Continuing operations

Thousands of €	2010	2009
Result for the purpose of basic earnings per share	4,370	3,010
Number of shares (thousands)		
Weighted average number of shares for the purpose of basic earnings per share	24,284	21,656
Basic earnings per share (Euros)	**0.18**	**0.14**

Continuing operations

Thousands of €	2010	2009
Result for the purpose of diluted earnings per share, being net profit/loss	4,370	3,010
Number of shares (thousands)		
Weighted average number of shares for the purpose of basic earnings per share	24,284	21,656
Number of dilutive potential ordinary shares	**1,408**	**1,053**
Diluted earnings * per share (Euros)	0.17	0.13

(*) The difference between the weighted average of shares (diluted) is due to exercisable warrants. For more detailed information concerning the exercisable warrants, we refer to note 30.

11. RIGHTS AND COMMITMENTS NOT REFLECTED IN THE BALANCE SHEET

For this subject matter we refer to note 28 "Contingent liabilities and assets".

12. GOODWILL

Thousands of €	
On 1 January 2009	**33,751**
On 31 December 2009	33,751
Acquisitions of subsidiaries	**8,629**
On 31 December 2010	**42,380**

As a result of the acquisition of Argenta Discovery 2009 Ltd., the goodwill increased to €42,380K.

Thousands of €	2010	2009
Services	41,787	33,158
R&D	593	593
Total	**42,380**	**33,751**

The recoverable amounts for the CGU's (Cash-generating unit) were determined based on a value in use calculation. The most important assumptions for these calculations are the discount percentage, the growth rate and the expected changes in sales price and direct cost during the period. Management estimates the discount rate based on percentages that are applicable in the current market (before taxes) and that take into account the time value of money and the specific risks of the CGU's. The growth increase is based on the growth predictions for the industry. Changes in sales prices and direct costs are based on historical experience and expectations of future changes in the market.

The Company cannot predict whether events that trigger goodwill impairment will occur, when they will occur or how they will affect any asset values reported. Galapagos believes that all of its estimates are reasonable: they are consistent with the internal reporting and external market data, and reflect management's best estimates. However, inherent uncertainties exist that management may not be able to control. While a change in the estimates used could have a material impact on the calculation of the fair values and trigger an impairment charge, the Company is not aware of any reasonably possible change in a key assumption used that would cause a business unit's carrying amount to exceed its recoverable amount.

Services

The recoverable value for this CGU was determined based on a value in use calculation which uses input values from an annual budget and as projected until 2020 as approved by the Audit Committee. Management used growth assumptions of 6% for the first year for BioFocus and 15% for Argenta, decreasing to 5% for both by 2020 with a perpetual growth of 2%. The EBIT-margin evolves to 16% for BioFocus, 15% for Argenta. The applied discount rate scenarios (after taxes) used were 12.5% and 15%. Only when the following assumptions are applied would the recoverable amounts fall below the current book values. For Argenta, revenue growth of 4% or less, with perpetual growth at 2% or less, and a discount rate of more than 15%. For BioFocus, revenue growth of 4% or less during the first 3 years and reducing to 2% by 2019, perpetual growth at 2% or less, and a discount rate of more than 19%. The cashflows for the following years were extrapolated on the basis of a prudent estimation of the growth of this segment. However, management and the Audit Committee consider such assumptions to be unrealistic and decided not to retain them for the present analysis.

R&D

The recoverable value for this CGU was determined based on a value in use calculation which uses input values from a three year plan and as projected until 2020 as approved by the Audit Committee. The applied discount rate scenarios (after taxes) used were 12.5% and 15.0% (2009: 12.5% and 15.0%). Additional key assumptions were made related to the assessment of the timing and the amounts of the milestone payments under the different research collaboration contracts, which management decided upon based on the current status of the research project and standard industrial benchmarks. Management assumptions include an attrition rate* of 12 to 1 from targets identified to the product on the market and exclude future royalty payments. Management believes that a possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU, even in a most conservative case assuming only half of the projected milestone payments would be achieved.

* See glossary

13. INTANGIBLE ASSETS

Thousands of €	Customer relationships	In process technology	Software & databases	Brands, licenses, patents & know-how	Total
Acquisition value					
At 1 January 2009	**2,265**	**6,003**	**6,510**	**1,970**	**16,748**
Additions			905	153	1,058
Sales and disposals			-418		-418
Transfer			-2,040	2,094	54
Translation differences	140	33	38	48	259
Balance at 31 December 2009	**2,405**	**6,036**	**4,994**	**4,265**	**17,700**
Additions			9		9
Variations in scope	1,544		31	12,279	13,854
Transfer					
Translation differences	141	15	110	41	306
Balance at 31 December 2010	**4,090**	**6,051**	**5,144**	**16,585**	**31,869**
Amortization and impairment					
At 1 January 2009	**1,345**	**5,431**	**4,223**	**1,589**	**12,589**
Charge for the year	250	280	959	158	1,648
Impairment					
Sales and disposals			-202		-202
Transfer			-971	1,024	54
Translation differences	73	26	14	20	132
Balance at 31 December 2009	**1,668**	**5,736**	**4,024**	**2,791**	**14,220**
Charge for the year	284	100	807	2,614	3,805
Impairment		57			57
Transfer					
Translation differences	117	15	91	30	253
Balance at 31 December 2010	**2,069**	**5,908**	**4,922**	**5,435**	**18,335**
Carrying amount					
At 31 December 2009	736	300	970	1,474	3,480
At 31 December 2010	**2,021**	**143**	**222**	**11,149**	**13,534**

The in process technology contains programs for research and development for an amount of €143K (2009: €300K). These assets came into our possession through the business combinations in 2006 and require further R&D for some years before they will be ready for use. These assets are included at fair value. The variations in scope are related to the Argenta acquisition and include a trade name with a useful life of 15 years; customer relations, which are depreciated over 8 years and customer contracts depreciated over 2.2 years.

14. PROPERTY, PLANT AND EQUIPMENT

Thousands of €	Land & building improvements	Installation & machinery	Furniture, fixtures & vehicles	Other tangible assets	Total
Acquisition value					
At 1 January 2009	**11,072**	**34,873**	**477**	**5,451**	**51,873**
Additions	365	3,111	42	609	4,128
Sales and disposals	-41	-693	-6		-740
Disposals of subsidiaries					
Transfer	370	901	101	-252	1,121
Other increase/decrease (-)					
Translation differences	107	479	7	66	658
Balance at 31 December 2009	**11,873**	**38,671**	**621**	**5,875**	**57,040**
Additions	297	3,623	229	95	4,244
Variations in scope	1,083	7,713	620	672	10,088
Sales and disposals	-12	-1,338		-1	-1,351
Transfer		161		-161	
Translation differences	232	2,881		81	3,194
Balance at 31 December 2010	**13,473**	**51,710**	**1,470**	**6,561**	**73,215**
Depreciations and impairment					
At 1 January 2009	**5,069**	**23,209**	**311**	**2,991**	**31,580**
Charge for the year	1,656	3,006	142	503	5,308
Impairment					
Sales and disposals		-513			-513
Disposals of subsidiaries					
Transfer	-184	1,305	16	-16	1,121
Other increase/decrease (-)					
Translation differences	31	191	4	33	260
Balance at 31 December 2009	**6,573**	**27,199**	**473**	**3,511**	**37,755**
Charge for the year	1,966	4,947	226	634	7,773
Variations in scope		2,487			2,487
Sales and disposals	-9	-1,306			-1,315
Transfer					
Translation differences	130	2,462	6	30	2,629
Balance at 31 December 2010	**8,660**	**35,789**	**705**	**4,175**	**49,328**
Carrying amount					
At 31 December 2009	5,301	11,472	148	2,364	19,285
At 31 December 2010	**4,814**	**15,922**	**765**	**2,386**	**23,886**

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

15. INVENTORY

Thousands of €	2010	2009
Raw materials and supplies (net)	794	820
Work in progress (net)	236	117
Finished goods	408	879
Total	**1,437**	**1,816**

The work in progress consists of incomplete molecule collections and is valued at the lowest of the cost price and the net realizable value. Finished goods contain completed molecule collections that are available for sale and that are valued at the lowest of the cost price and the net realizable value. In 2010 there were write-offs on stock of €148K (2009: €674K).

16. AVAILABLE FOR SALE FINANCIAL ASSETS AND OTHER NON CURRRENT ASSETS

Available for sale financial assets of €781K (2009: €757K) represent an investment in common stock in an unlisted biotechnology company incorporated in the USA. The shares are not traded on the open market; however, the fair value is based on purchases of the same class of stock during the year. The change is only due to translation differences.

In 2008 a reclassification was done from cash and cash equivalents to available for sale financial assets. This reclassification relates to the CDO (for an amount of €2,000K), that was impaired fully in 2008, and as of 31 December 2010 remained at a fair value of €0.

	Measurement at cost		Measurement at fair value	
Thousands of €	2010	2009	2010	2009
Available for sale financial assets	1,096	808	781	757
Other non current assets	184			
Total	**1,280**	**808**	**781**	**757**

17. TRADE AND OTHER RECEIVABLES

Thousands of €	2010	2009
Trade receivables	49,279	19,111
Prepayments	2,272	1,543
Other receivables	3,350	3,651
Other current receivables	3,905	3,495
Accrued income	2,334	2,048
Deferred charges	1,571	1,447
Total	**58,806**	**27,800**

The Group considers that the carrying amount of trade and other receivables approximates their fair value. The other current assets mainly include accrued income from subsidy projects and deferred charges.

18. CASH AND CASH EQUIVALENTS

Thousands of €	2010	2009
Bank balances	40,072	41,594
Short term deposits	232	5,790
Other cash equivalents	46	
Cash at hand	47	7
Total	**40,397**	**47,391**

The bank balances and cash held by the Group and short-term bank deposits have an original maturity of maximum three months. The carrying amount of these assets approximates their fair value. The cash and cash equivalents have no restrictions upon them.

19. SHARE CAPITAL

The share capital of Galapagos NV, as included in the bylaws, reconciles to the 'Capital' on the balance sheet as follows:

Thousands of €	2010	2009
Share capital Galapagos NV	142,590	127,723
Costs of capital increases (accumulated)	-5,468	-4,853
Capital	**137,122**	**122,870**

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 overview below represents the evolution of the share capital as included in the bylaws of Galapagos NV.

Date	Share Capital Increase New Shares (in €)	Share Capital Increase Warrants (in €)	Number of shares issued	Aggregate Number of shares after transaction	Aggregate Share Capital after transaction (in €)
Thursday 1 January 2009				**21,188,829**	**114,995,166**
Thursday 31 December 2009				**23,610,820**	**127,723,203**
Wednesday 7 April 2010		1,293,304	239,058	23,849,878	129,016,507
Monday 28 June 2010		217,266	40,160	23,890,038	129,233,773
Tuesday 7 September 2010		18,621	3,442	23,893,480	129,252,394
Friday 22 October 2010	12,926,367		2,389,347	26,282,827	142,178,761
Tuesday 7 December 2010		412,009	76,157	26,358,984	142,590,770
Friday 31 December 2010				**26,358,984**	**142,590,770**

Notes

As of 1 January 2009, the Company's share capital amounted to €114,995,166.45, represented by 21,188,829 shares. All shares were issued, fully paid up and of the same class.

On 1 April 2009, the Board of Galapagos decided, within the framework of the authorized capital, to create a maximum of 560,000 warrants, for the benefit of employees and an independent consultant of Galapagos and its subsidiaries under a new warrant plan ("Warrant Plan 2009"). After acceptances, the total number of warrants de facto created and granted under this plan is 555,000. These warrants have a term of eight years. The exercise price of the warrants is €5.87. As of 31 December 2010 no warrants were exercised under this plan and 521,000 warrants were still outstanding.

On 1 April 2009, 73,500 warrants under the Warrant Plan 2002 Belgium were exercised at an exercise price of €1.00 per warrant. Four warrants entitled to one share. The exercise resulted in a capital increase of €73,500 and the issuance of 18,375 new shares.

On 2 June 2009, the Extraordinary General Shareholders' Meeting of Galapagos decided to create a maximum of 135,100 warrants, for the benefit of the directors and an independent consultant of Galapagos under a new warrant plan ("Warrant Plan 2009 (B)"). After acceptances, the total number of warrants de facto created and granted under this plan is 135,100. These warrants have a term of five years. The exercise price of the warrants is €7.09. As of 31 December 2009 no warrants were exercised under this plan and 131,670 warrants were still outstanding.

On 8 June 2009, 108,500 warrants under the Warrant Plan 2002 Belgium were exercised at an exercise price of €1.00 per warrant. Four warrants entitled to one share. The exercise resulted in a capital increase of €108,500 and the issuance of 27,125 new shares.

On 4 September 2009, 99,700 warrants under the Warrant Plan 2002 Belgium were exercised at an exercise price of €1.00 per warrant. Four warrants entitled to one share. The exercise resulted in a capital increase of €99,700 and the issuance of 24,925 new shares.

On 21 October 2009, within the framework of the authorized capital and with cancellation of the preferential subscription rights, the Board of Directors of Galapagos NV decided to increase the share capital of the Company by €11,543,772.75 (plus €6,632,886.00 in issuance premium) by means of a private placement, wholly subscribed by Fortis Bank (Nederland) N.V., resulting in the issuance of 2,125,925 new shares.

On 4 December 2009, 902,564 warrants under the Warrant Plan 2002 Belgium were exercised at an exercise price of €1.00 per warrant. Four warrants entitled to one share. The exercise resulted in a capital increase of €902,564 and the issuance of 225,641 new shares.

On 31 December 2009, the Company's share capital amounted to €127,723,203.20, represented by 23,610,820 shares. All shares were issued, fully paid up and of the same class.

On 7 April 2010, warrants were exercised at various exercise prices under Warrant Plan 2002 Belgium, Warrant Plan 2005, Warrant Plan 2006 Belgium/The Netherlands and Warrant Plan 2006 UK. The exercise resulted in a share capital increase of €1,293,303.78 (plus €764,162.13 in issuance premium) and the issuance of 239,058 new shares.

On 27 April 2010, the Board of Galapagos decided, within the framework of the authorized capital, to create a maximum of 616,000 warrants, for the benefit of certain employees and independent consultants of Galapagos and its subsidiaries under a new warrant plan ("Warrant Plan 2010"). After acceptances, the total number of warrants de facto created and granted under this plan is 506,500. These warrants have a term of eight years. The exercise price of the warrants is €11.55. As of 31 December 2010 no warrants were exercised under this plan and 499,750 warrants were still outstanding.

On 27 April 2010, the Extraordinary General Shareholders' Meeting of Galapagos decided to create a maximum of 197,560 warrants, for the benefit of the directors of Galapagos under a new warrant plan ("Warrant Plan 2010 (B)"). After acceptances, the total number of warrants de facto created and granted under this plan is 195,040. These warrants have a term of five years. The exercise price of the warrants is €11.55. As of 31 December 2010 no warrants were exercised under this plan and all warrants were still outstanding.

On 28 June 2010, warrants were exercised at various exercise prices under Warrant Plan 2005, Warrant Plan 2006 Belgium/The Netherlands and Warrant Plan 2006 UK. The exercise resulted in a share capital increase of €217,265.60 (plus €132,565.51 in issuance premium) and the issuance of 40,160 new shares.

On 7 September 2010, warrants were exercised at various exercise prices under Warrant Plan 2006 Belgium/The Netherlands and Warrant Plan 2006 UK. The exercise resulted in a share capital increase of €18,621.22 (plus €11,292.68 in issuance premium) and the issuance of 3,442 new shares.

On 22 October 2010, within the framework of the authorized capital and with cancellation of the preferential subscription rights, the Board of Directors of Galapagos NV decided to increase the share capital of the Company by €12,926,367.27 (plus €15,745,796.73 in issuance premium) by means of a private placement, wholly subscribed by ABN AMRO Bank N.V. and KBC Securities NV, resulting in the issuance of 2,389,347 new shares.

On 7 December 2010, warrants were exercised at various exercise prices under Warrant Plan 2005, Warrant Plan 2006 Belgium/The Netherlands and Warrant Plan 2006 UK. The exercise resulted in a share capital increase of €412,009.37 (plus €251,247.93 in issuance premium) and the issuance of 76,157 new shares.

On 23 December 2010, the Board of Galapagos decided, within the framework of the authorized capital, to create a maximum of 75,000 warrants for the benefit of a senior executive of a subsidiary of Galapagos under a new warrant plan ("Warrant Plan 2010 (C)"). After acceptances, the total number of warrants de facto created and granted under this plan is 75,000. These warrants have a term of eight years. The exercise price of the warrants is €11.74. As of 31 December 2010 no warrants were exercised under this plan and all warrants were still outstanding.

As of 31 December 2010, the Company's share capital amounted to €142,590,770.44, represented by 26,358,984 shares. All shares were issued, fully paid up and of the same class.

Other information	**Ordinary shares**	**Total**
Per value of shares	5.41	5.41

The Board of Directors is authorized for a period of 3 years starting from the date of the General Shareholders' Meeting that granted the renewed authorization, being 2 June 2009, to increase the share capital of the Company within the framework of the authorized capital through contributions in kind or in cash, with limitation or cancellation of the shareholders' preferential rights, even after the BFIC (Banking, Finance and Insurance Commission) has given notice of a public takeover bid on the Company's shares, provided that the relevant provisions of the Code of Companies are complied with, including that the number of issued shares cannot be more than one tenth of the number of shares issued prior to the capital increase and representing the share capital of the Company. Said authorization can be renewed.

The authorized capital as approved by the Extraordinary General Shareholders' Meeting of 2 June 2009 amounted to €115,068,666.45. As of 31 December 2010, €27,616,055.02 of the authorized capital was used, so that on the balance sheet date an amount of €87,452,611.43 still remained available under the authorized capital.

20. SHARE PREMIUM

Thousands of €	2010	2009
On 1 January	54,901	48,268
Increase as a result of capital increase in cash	16,905	6,633
On 31 December	**71,806**	**54,901**

21. TRANSLATION DIFFERENCES

Thousands of €	2010	2009
On 1 January	-2,026	-2,307
Translation differences, arisen from translating foreign activities	1,683	281
On 31 December	**-343**	**-2,026**

The decrease in translation differences is mainly related to the translation operations in CHF.

22. DERIVATIVE FINANCIAL INSTRUMENTS

Currency derivatives

The Group does not actively use currency derivatives to hedge planned future cashflows. On the balance sheet date, total notional amount of outstanding forward foreign exchange contracts that the Group has committed are nil (2010: nil).

On 31 December 2010 the fair value of the Group's currency derivatives is estimated to be nil (2009: nil).

The Group does not designate its foreign currency denominated debt as a hedge instrument for the purpose of hedging the translation of its foreign operations.

See note 36 for further information on how the company manages financial risks.

23. DEFERRED TAX

Thousands of €	2010	2009
I Recognized deferred tax assets and liabilities		
Assets	3,658	1,700
Liabilities	-2,693	-564
II Deferred tax assets unrecognized	**81,803**	**69,333**
III Deferred taxes	**4,321**	**1,351**
Deferred tax expenses net relating to origination and reversal of temporary differences	1,902	-349
Tax benefit arising from previously unrecognized tax assets used to reduce deferred tax expense (+)	2,419	1,700

Other temporary differences, that could give rise to deferred taxes, relate to the notional interest deduction for an amount of €4,397K (2009: €2,882K) and deduction from investments €1,629K (2009: €1,547K). The notional interest deduction can be carried forward for maximum 7 years; there is no limit in time for the deduction from investments.

The unused tax losses carried forward at 31 December 2010 amount to €249,067K (2009: €217,318K).

The tax losses carried forward can be compensated with future profits of the Group for an indefinite period except for Switzerland and the US. Because BioFocus DPI Ltd. became profitable in 2009 and management expects that this situation is sustainable, a deferred tax asset was set up for an amount of €1,700K. This amount was based on a conservative estimate of net profits for the next 3 years. For the same reasons a deferred tax asset was set up for Compound Focus Inc. for an amount of €2,419K.

24. FINANCE LEASE LIABILITIES

	Minimum lease payments		Present value of minimum lease payments	
Thousands of €	2010	2009	2010	2009
Amounts payable under finance lease				
Within one year	509	678	378	520
In the second to fifth years inclusive	1,194	1,402	867	964
After five years		305		
	1,702	**2,385**	**1,245**	**1,484**
Less future finance charges	456	900		
Present value of lease obligation	**1,246**	**1,485**		
Less amount due for settlement within 12 months			378	520
Amount due for settlement after 12 months			**867**	**964**

	Net book value		Acquisition cost	
Thousands of €	2010	2009	2010	2009
Leased assets				
Land & buildings	810	281	1,155	502
Installation & machinery	1,232	1,580	3,626	3,557
Furniture, fixtures & vehicles	9	46	184	184
Total	**2,051**	**1,907**	**4,965**	**4,243**

The Group leases certain of its installation and machinery under finance leases. For the year ended 31 December 2010, the average borrowing rate was 12.34% (2009: 12.15%). 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 the Group's lease obligations approximates their carrying value.

25. OPERATING LEASE OBLIGATIONS

The Group as lessee

The Group has rental contracts for office and laboratories which qualify as operating leases as follows:

Thousands of €	2010	2009
Minimum lease payments under operating leases recognized in the income statement for the year	5,885	4,394
Total	**5,885**	**4,394**

On the balance sheet date, the Group had outstanding commitments for future minimum rent payments, which become due as follows:

Thousands of €	2010	2009
Within one year	7,413	4,050
In the second to fifth years inclusive	16,984	10,252
After five years	13,210	13,591
Total	**37,608**	**27,893**

26. TRADE AND OTHER PAYABLES

Thousands of €	2010	2009
Trade payables	22,012	15,130
Other creditors	1,701	961
Other current liabilities	15,789	15,650
Accrued charges	2,624	2,270
Deferred income	13,165	13,380
Total	**39,502**	**31,742**
Included in current liabilities	37,801	30,780
Included in non-current liabilities	1,701	961
Total	**39,502**	**31,742**

Deferred income relates for 37% to upfront payments and maintenance fee on R&D projects and 63% to advanced payments received by the service division. During 2009, upfront payments from Janssen, GSK and Roche were taken into revenues and a new upfront payment from Roche was added to deferred income.

27. PROVISIONS

Thousands of €	Post-employ-ment benefits	Restructuring provision	Other provisions	Total
Balance per 1 January 2010		**1**	**126**	**127**
Additional provisions			85	85
Provisions utilized amounts			-12	-12
Reversed		-1	-6	-7
Variations in scope	4		615	619
Translation differences			30	30
Balance at 31 December 2010	**4**		**838**	**842**

The variation in scope contains a dilapidation provision of €583K for Argenta.

28. CONTINGENT LIABILITIES AND ASSETS

As a result of the acquisition of ProSkelia SASU (now: Galapagos SASU) from ProStrakan, ProStrakan is entitled to earn-outs for a maximum amount of €14.5 million, in case of achievement of predetermined milestones in the research programs that were taken over by Galapagos. The achievement of these milestones will generate a net positive cashflow for the Group, but this is still too uncertain. Due to this uncertainty a contingent liability has not been recorded yet.

As a result of the acquisition of GlaxoSmithKline Research Centre Zagreb d.o.o. (now: Galapagos Research Centre d.o.o) from Glaxo Group Limited, Galapagos Research Center is entitled to subsidy payments of €10.75 million over the next three years (until May 2013). In return, Galapagos Research Center is obliged to perform research services for GSK should such work be requested by GSK.

29. RETIREMENT BENEFIT SCHEMES

Defined contribution plans

The Group operates defined contribution systems for all of its qualifying employees. The assets of the schemes are held separately from those of the Group in designated pension plans. For defined contribution systems, the Group pays contributions to publicly or privately administered pension- or insurance funds. Once the contribution is paid, the Group does not have any remaining obligation.

The personnel of the Group in Belgium participate in a defined contribution plan (extra-legal pension). These arrangements are subject to a minimum guaranteed return in accordance with the Belgian legislation. These plans are financed through a group insurance policy for which the insurance company also guarantees a minimum return. Similar pension schemes apply to the Group entities in other countries, except for France.

The amounts paid by the Group to these pension schemes in 2010 was €2,427,436 (2009: €1,766,341) and €107,096 was outstanding as of 31 December 2010 (2009: nil). These amounts do not include the pension contributions of Galapagos SASU (see below).

Defined benefit plans

The Group uses two defined benefit plans for Galapagos SASU France. The defined benefit plans are not supported by funds.

The first defined benefit plan is an addition to the French Social Security and requires Galapagos SASU to pay certain pension contributions, as under the French Social Security. In 2010 Galapagos SASU paid €632,844 for this purpose (2009: €588,702).

In addition, the Chemical and Pharmaceutical Industry's collective bargaining agreements require that Galapagos SASU pays a retirement allowance depending on the seniority of the employees at the moment they retire. The provisions for these retirement allowances amounted to €517,421 for 2010 (2009: €377,210).

Additionally, there are also seniority premiums paid in France. The provisions for these premiums amounted to €612,293 in 2010 (2009: €495,121).

Obligations included in the balance sheet

In €	31/12/2010	31/12/2009
Present value of funded defined benefit obligation	517,421	421,351
Fair value of plan assets		
Shortage	517,421	421,351
Actuarial gains or losses (-) not recognized	-73,485	-47,263
Liability included in the balance sheet	**443,936**	**374,088**

The present value of the gross obligation developed as follows

In €	31/12/2010	31/12/2009
Opening balance	421,351	398,135
Acquired through business combination		
Current service cost	47,898	38,142
Interest cost	21,700	19,145
Benefits paid		-69,960
Actuarial gains (-) or losses	26,472	35,889
Closing balance	**517,421**	**421,351**

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

In €	31/12/2010	31/12/2009
Current service cost	47,898	38,142
Interest cost	21,700	19,145
Actuarial gains or losses (-)	250	
Total expense	**69,848**	**57,287**

Obligation included in the balance sheet reconciles as follows

In €	31/12/2010	31/12/2009
Opening balance	374,088	386,761
Total expense	69,848	57,287
Paid allowances and contributions by the employer		-69,960
Closing balance	**443,936**	**374,088**

The most important actuarial assumptions are

In €	31/12/2010	31/12/2009
Discount rate	4.75%	5.15%
Expected salary increase	2.50%	2.50%

Adjustments resulting from experience amount to

In €	31/12/2010	31/12/2009
Present value of the gross obligation	517,421	421,351
Experience adjustments	-1,529	24,983

Notes

30. WARRANT PLANS

Presented below is a summary of stock warrant plans activity for the reported periods. Various Warrant Plans were approved in favor of directors, personnel and independent consultants of Galapagos NV. The warrants offered to employees and independent consultants vested according to the following schema: 10% of the number of warrants granted vested upon the date of the grant; 10% vested at the first anniversary of the grant; 20% vested at the second anniversary of the grant; 20% vested at the third anniversary; 40% vested at the end of the third calendar year following the grant. The warrants offered to directors are vested after 36 months at a rate of 1/36th per month.

After the reverse 4:1 split decided by the Shareholders' Meeting of 29 March 2005, 4 warrants of the Warrant Plans 2002 plans entitle the warrant holder to subscribe to one share. For the Warrant Plans created as of 2005 onwards, one warrant entitles the warrant holder to subscribe to one share. In the summaries and tables below, the numbers of the Warrant Plan 2002 are divided by 4 to avoid a mixture of rights.

The table below sets forth a summary of warrants outstanding and exercisable at 31 December 2010, per Warrant Plan:

Warrants	Allocation date	End term	Exercise Price	Outstanding at 1 January	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding at 31 December	Exercisable at 31 December
2002 B	15/06/04	14/07/17	4.00	2,000					2,000	2,000
2002 B	09/07/04	08/07/17	4.00	31,250					31,250	31,250
2002 B	31/01/05	30/01/17	6.76	115,000		10,000			105,000	105,000
2005	04/07/05	03/07/18	6.91	145,000					145,000	145,000
2005	23/11/05	22/11/18	8.35	75,000		15,000			60,000	60,000
2005	15/12/05	14/12/18	8.60	12,500					12,500	12,500
2005	13/02/06	12/02/11	8.73	50,972		50,972				
2005	13/02/06	12/02/14	8.61	8,000		8,000				
2005	22/11/06	21/11/14	8.65	4,538		2,240		2,298		
2005	22/11/06	21/11/19	8.65	59,045		33,364			25,681	25,681
2006 BNL	13/02/06	12/02/19	8.61	97,967		30,460			67,507	67,507
2006 BNL	13/02/06	13/02/14	8.61	3,409		2,695		714		
2006 BNL	22/11/06	21/11/19	8.65	15,400		8,400			7,000	7,000
2006 BNL	22/11/06	21/11/14	8.65	12,500		1,050		11,450		
2006 BNL	14/02/07	13/02/15	9.57	14,542					14,542	
2006 BNL	14/02/07	13/02/20	9.57	22,225			980		21,245	
2006 BNL	04/05/07	03/05/20	9.22	17,500					17,500	7,500
2006 BNL	28/06/07	27/06/20	8.65	735					735	
2006 BNL	21/12/07	20/12/15	7.12	1,047					1,047	
2006 BNL	21/12/07	20/12/20	7.12	15,345			1,449		13,896	
2006 UK	01/06/06	31/05/14	8.70	242,742		174,447	630	9,837	57,828	57,828
2006 UK	22/11/06	21/11/14	8.65	12,127		5,179		220	6,728	6,728
2006 UK	19/12/06	18/12/14	9.18	36,785		17,010		4,900	14,875	14,490

2006 UK	28/06/07	27/06/15	8.43	22,069					22,069	
2006 UK	21/12/07	20/12/15	7.25	945					945	
2007	28/06/07	27/06/15	8.65	119,390					119,390	
2007	28/06/07	27/06/20	8.65	197,519			504		197,015	
2007 RMV	25/10/07	24/10/20	8.65	107,870			3,675		104,195	
2008	26/06/08	25/06/16	5.60	452			-473		925	
2008	26/06/08	25/06/21	5.60	196,920			3,600		193,320	
2008 B	26/06/08	25/06/16	5.60	57,500			2,500		55,000	
2009	01/04/09	31/03/17	5.87	555,000			34,000		521,000	
2009 B	02/06/09	01/06/17	7.09	135,100			3,430		131,670	
2010	27/04/10	26/04/18	11.55		506,500		6,750		499,750	
2010 B	27/04/10	26/04/18	11.55		195,040				195,040	
2010 c	23/12/10	22/12/18	11.74		75,000				75,000	
	Total			**2,388,394**	**776,540**	**358,817**	**57,045**	**29,419**	**2,719,653**	**542,484**

	Warrants	Weighted average exercise price
Outstanding on 1 January 2009	**2,060,419**	**7.34**
Exercisable on 31 December 2008	329,316	4.00
Granted during the period	690,100	
Forfeited during the year	-29,324	
Exercised during the period	-296,066	
Expired during the year	-31,312	
Forfeited during previous periods (correction)	-5,423	
Outstanding on 31 December 2009	**2,388,394**	**7.34**
Exercisable on 31 December 2009	761,703	4.00
Granted during the period	776,540	
Forfeited during the year	-57,045	
Exercised during the period	-358,817	
Expired during the year	-29,419	
Forfeited during previous periods (correction)		
Outstanding on 31 December 2010	**2,719,653**	**7.34**
Exercisable on 31 December 2010	542,484	4.00

The table below sets forth the valuation of the warrants.

Belgian Plans	2010			2009	
	27 Apr	**27 Apr**	**23 Dec**	**2 Apr**	**2 Jun**
Exercise price	11.55	11.55	11.75	5.87	7.09
Current share price	11.10	11.10	12.07	6.14	8.05
Fair value on the grant date	4.02	5.30	6.24	3.02	3.18
Estimated volatility (%)	39.23	39.23	39.38	41.64	41.64
Time to expiration (years)	5.00	8.00	8.00	7.00	4.00
Risk free rate (%)	2.18	2.92	3.76	3.00	2.00
Expected dividends	None	None	None	None	None

The method of determining the exercise share price is set up by the Board of Directors.

The estimated volatility is calculated on the basis of the historical volatility of the share price over the useful 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 have been 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.

Warrants expense for warrants that vested in 2010 amounted to €2,418K (2009: €2,642K).

The following table provides an overview of the outstanding warrants per category of warrant holders at 31 December 2010.

	Number of warrants	
Category	**2010**	**2009**
Non-executive Directors	141,350	78,850
Executive Team	1,132,500	852,500
Other	1,445,803	1,457,044
Total warrants outstanding	**2,719,653**	**2,388,394**

Note: The above numbers for the non-executive directors and members of the executive team, for the years 2010 and 2009, relate only to those individuals who were (still) in such capacity per 31 December 2010.

The outstanding warrants at the end of the accounting period have an average exercise price of €8.37 (2009: €7.34) and a weighted average remaining useful life of 2,442 days (2009: 2,454 days).

31. RELATED PARTIES

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.

Trading transactions

In 2010 and 2009, Galapagos and its affiliates had no trading transactions with parties that are considered as related parties as defined in IAS24.

Potential conflicts of interest between the Company and its Directors

In 2010 and 2009 the Directors received an annual fee of €20,000 plus expenses. The chairman of the Audit Committee received an additional payment of €5,000 per year. Dr Parekh, the Chairman of the Board, is compensated through a consultancy agreement only (see note 32).

In May 2008 a consultancy contract was entered into between the Company and Valetusan Ltd., a company controlled by Dr Pauwels, a member of the Board of the Company. Under this contract, Valetusan provides strategic scientific advice and advice relating to the selection of candidate drugs. This contract was entered into in compliance with the procedure of article 523 of the Belgian Code of Companies. Dr Pauwels resigned from the Board effective 27 April 2010. No payments were made to Valetusan in 2010.

There are no loans between Galapagos NV and its members of the Board of Directors or its Executive Team.

The remuneration of key management (including the CEO) is set out in note 32.

In 2010 (as in 2009), there were no arrangements or understandings with major shareholders pursuant to which a representative of such shareholder became a Board Member or Executive Committee member of the Company.

In 2010, a total of 195,040 warrants were issued to the Directors, of which 100,000 for the CEO; this issue of warrants was decided by the Extraordinary General Shareholders' Meeting of 27 April 2010. In 2009, the total number of warrants issued to Directors was 60,100 (of which 40,000 for the CEO) by decision of the Extraordinary General Shareholders' Meeting of 2 June 2009.

Notes

32. REMUNERATION OF KEY MANAGEMENT PERSONNEL

On 31 December 2010, the ExCom comprised seven members: Mr Onno van de Stolpe, Dr Graham Dixon, Dr Andre Hoekema, Dr Chris Newton, Dr Piet Wigerinck, Mr Guillaume Jetten and Dr Radan Spaventi. The remuneration package of the members of the Executive Committee who were in function in the course of 2010 comprises:

Thousands of € (except for the number of warrants)	31/12/2010	31/12/2009
Short-term employee benefits(*)	2,757	2,278
Post-employment benefits	70	72
Total benefits excluding warrants	**2,827**	**2,350**
Number of warrants offered in the year	280,000	215,000

(*) includes: salaries, employer social security contributions, other short term benefits.

The amounts in the above table include the remuneration paid to the members of the Executive Committee who were in function in the course of the relevant year.

The members of the Executive Committee provide their services full time for the Group. Their remuneration includes all costs for the Group, including retirement contributions.

The warrants offered in 2010 to the members of the Executive Committee were offered under the Warrant Plan 2010 and the Warrant Plan 2010 (B).

The retirement benefits to the Executive Committee are part of the retirement benefit scheme to which all qualified personnel are entitled; the contributions are paid as a percentage of the gross annual salary. This does not apply to the members of the Executive Committee who render their services as an independent consultant and who make their own pension contributions.

The Executive Committee members, together with other senior managers, are part of a Group bonus scheme established in 2006 where half of the bonus is paid immediately around year end and half is deferred for three years. The deferred component is only payable in full provided that the growth in the Company share price has exceeded the growth in the Next Biotech Index over the same three year period. Where the Company share price underperforms against the index, then the payout is reduced, with no payment made if the Company underperforms by more than 10%. The value of the deferred pay varies by the percentage change in the Company's share price. To be eligible for any payment due the beneficiary must still be in the Company's employ.

The seven members of the Executive Committee (including the CEO) who were in function on 31 December 2010 were paid an aggregate amount of €1,594,249 in remunerations and an aggregate amount of €342,269 in bonuses for their performance in 2010 (the payment of another amount of €342,269 in bonuses for 2010 is deferred for 3 years and is subject to the conditions of Group bonus scheme); they also received the 50% deferred part of the bonus of 2007, which amounted in the aggregate to €538,163. On 31

December 2009, the members of the then Executive Committee (comprising 6 members including the CEO) were paid an aggregate amount of €1,534,974 in remunerations and an aggregate amount of €471,750 in bonuses (with another amount of €471,750 in bonuses for 2009 being deferred for three years).

Other components of their remuneration included contributions to the Company's pension and health insurance schemes, and certain fringe benefits of non-material value.

Only the CEO is a member of both the Executive Committee and the Board of Directors. The CEO does not receive any special 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.

No loans, quasi-loans or other guarantees were given to members of the Board and of the Executive Committee.

Transactions with non-executive directors

In connection with the compensation of independent Directors, the Annual Shareholders' Meeting (AGM) of 27 April 2010 fixed the annual remuneration for independent Directors for the exercise of their mandate as a Director of the Company at €20,000 plus expenses and resolved to pay an additional compensation of €5,000 to the chairman of the Audit Committee of the Board of Directors for his activities as chairman of the Audit Committee. These amounts remain unchanged compared to the previous years. In 2010, a total amount of €63,333 was paid to the independent Directors as Board fees (including for chairing the Audit Committee) (2009: €76,667) and €4,053 as expenses (2009: €1,144).

The aforementioned AGM fixed the annual remuneration for non-executive Directors who are not independent Directors and who do not represent a shareholder at €20,000 plus expenses. In 2010 an aggregate amount of €35,000 was paid to these Directors (2009: €30,000).

The aforementioned AGM resolved that in case a Director attends less than 75% of the meetings of the Board of Directors, the annual amounts mentioned in the two paragraphs here above shall be reduced pro rata the absence score of such Director.

The aforementioned AGM resolved that the Directors who represent a shareholder on the Board of Directors will only receive reimbursement for the expenses they incur for attending meetings of the Board of Directors and no other compensation or fees for their Board membership. There were no such Directors in 2010 or 2009.

As of 1 August 2005, the Chairman of the Board Dr Parekh receives an annual consulting fee of £50,000 as compensation for his specific assignment to assist the Company in strategic positioning, financing and acquisitions, including, amongst others, the evaluation of several alternative corporate transactions, including potential company and compound acquisitions, as well as strategic alliance opportunities. Dr Parekh does not receive other cash compensation from the Company.

Notes

In 2010, 95,040 warrants were granted to non-executive Directors (2009: 17,580 warrants).

33. CONSOLIDATED COMPANIES AS OF 31 DECEMBER 2010

Name of the subsidiary	Country	% voting right Galapagos NV (directly or indirectly through subsidiaries)	Change in % voting right previous period (2010 vs 2009)
Galapagos BV	The Netherlands	100%	
Biofocus DPI (Holdings) Ltd.	United Kingdom	100%	
Biofocus DPI Ltd.	United Kingdom	100%	
Cambridge Drug Discovery Holding Ltd..	United Kingdom	100%	
Cambridge Discovery Ltd.	United Kingdom	100%	
Cambridge Genetics Ltd.	United Kingdom	100%	
BioFocus, Inc.	United States	100%	
Compound Focus, Inc.	United States	100%	
BioFocus DPI, LLC	United States	100%	
Xenometrics, Inc.	United States	100%	
Biofocus DPI AG	Switzerland	100%	
Discovery Partners International GmbH	Germany	100%	
Inpharmatica Ltd.	United Kingdom	100%	
Galapagos SASU	France	100%	
Argenta Discovery 2009 Ltd.*	United Kingdom	100%	100%
Galapagos istraživački centar d.o.o. **	Croatia	100%	100%

* On 1 February 2010, BioFocus DPI (Holdings) Ltd. acquired Argenta Discovery 2009 Ltd.
** On 9 September 2010 Galapagos N.V. acquired the GSK Research Center Zagreb (thereafter renamed into Galapagos Research Center d.o.o.)

34. ACQUISITION OF SUBSIDIARIES

During the year 2010, two companies were acquired.

ARGENTA

On 1 February 2010 Galapagos completed the acquisition of 100% of the shares of the UK-based company Argenta Discovery 2009 Ltd., a privately held contract research drug discovery company. The total consideration paid at closing amounts to €19.7 million, including €2.8 million of cash and cash equivalents acquired. This transaction has been accounted for using the purchase method of accounting and conform IFRS 3. The accounting for this acquisition has been finalised.

Through the acquisition, Galapagos solidified its position as the number 1 western drug discovery services company. Furthermore, the acquisition brought Galapagos additional capacity and adds specific expertise in respiratory models.

Argenta Discovery 2009 Ltd. contributed €12.9 million revenue and €1.7 million operating profit to the Group for the period between the date of acquisition and 31 December 2010. As the R&D business of Argenta was de-merged just before the acquisition, no comparable figures for the full year can be provided. For all receivables acquired, the fair value equalled the book value and net uncollectable amounts were registered.

The goodwill arising on the acquisition of Argenta Discovery 2009 Ltd. is related to the strong profitability that will contribute to the Group profit and cash flow and to anticipated operating synergies between BioFocus and Argenta Discovery 2009 Ltd.

The acquisition costs paid for Argenta in the course of 2010 amounted to €235K.

ZAGREB

On 9 September 2010, Galapagos completed the acquisition of GlaxoSmithKline's research centre in Zagreb, Croatia. The total consideration paid amounts to €0.6 million, including €0.6 million of working capital. This transaction has been accounted for using the purchase method of accounting and conform IFRS 3. The accounting for the acquisition of Zagreb has not yet been finalised, IFRS 3 allows a 12 month period after the acquisition to adjust the initial exercise.

The centre will provide additional capacity for Galapagos' growing R&D requirements, and it comes with a strong heritage in the area of antibacterial research. This expansion will enable the Company to bring a majority of outsourced programs back in-house, which should result in significant cost savings in R&D.

Galapagos Zagreb contributed €2.2 million revenue and €1.3 million operating profit to the Group for the period between the date of acquisition and 31 December 2010. As the business model of the Galapagos Zagreb business changed considerably after the takeover by Galapagos, no comparable figures for the full year can be provided. For all receivables acquired, the fair value equalled the book value and net uncollectable amounts were registered.

Notes

ARGENTA

Thousands of €	2/2/2010
CONDENSED BALANCE SHEET ARGENTA AT ACQUISITION DATE	
Non-current assets	16,028
Intangible assets (trade name, customer relations & contracts)	13,809
Tangible assets and other non current financial assets	2,219
Current assets	1,223
Trade and other receivables	1,223
Non-current liabilities	-5,009
Current liabilities	-4,031
Cash	2,863
Net assets	11,074
Goodwill	8,629
TOTAL CONSIDERATION	**19,703**
NET CASH OUTFLOW ARISING ON ACQUISITION	**16,839**
Cash consideration	19,703
Cash and cash equivalents acquired	-2,863

ZAGREB

Thousands of €	9/9/2010
CONDENSED BALANCE SHEET ZAGREB AT ACQUISITION DATE	
Non-current assets	5,686
Intangible assets (trade name, customer relations & contracts)	44
Tangible assets and other non current financial assets	5,642
Current assets	1,165
Trade and other receivables	1,165
Non-current liabilities	-46
Current liabilities	-2,685
Cash	1,463
Net assets	5,584
Negative goodwill	-5,000
TOTAL CONSIDERATION	**584**
NET CASH OUTFLOW ARISING ON ACQUISITION	**-879**
Cash consideration	584
Cash and cash equivalents acquired	-1,463

35. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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 most important assumptions concerning future developments and the most important sources of uncertainty for estimates on the balance sheet date are presented below.

Share based payments plans

The Group determines the costs of the share based payments 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 useful life of the warrant and the volatility. The judgments made and the model used are specified further 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. We refer to note 29 for additional details.

Impairment of goodwill

Changes in management assumptions on profit margin and growth rates used for cashflow predictions, could have an important impact on the results of the Group. Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which the goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill on the balance sheet date was €42,380K (2009: €33,751K). No impairment loss was recognized during 2010 or 2009.

Details of the assumptions used in testing goodwill for impairment are given in note 2.

Fair valuation of net assets of subsidiary on acquisition

In determining the fair values of the net assets at the date of acquisition, certain estimates had to be made by management. Independent professional valuation specialists were employed to ensure that management estimates were reasonable and would not give rise to material misstatement of fair values.

Notes

36. FINANCIAL RISK MANAGEMENT

We refer to note 5 'Risk factors' of the Report of the Board of Directors for additional details on general risk factors.

Capital management

The Group manages its capital to ensure that the Group will be able to continue as a going concern. At the same time, the Group wants to ensure the return to its shareholders through the results from its research activities. This strategy has not changed compared to 2009.

The capital structure of the Group consists of financial debt (which currently the Group barely has), cash at bank and in hand and cash equivalents, as mentioned in note 18, and equity attributed to the holders of equity instruments of the Company, such as capital, reserves and results carried forward, as mentioned in the consolidated statement of changes in equity.

The Group manages its capital structure and makes 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 activities. The most important parameters used in assessing the capital structure are the current cash situation and the expected cash generation rate: the cash generation is defined as the net result, corrected for depreciations and reduced by investments in fixed assets.

The Group wishes to maintain a capital structure that is sufficient to finance research activities for at least 12 months. For this, cash receipts from possible collaboration or other cash generating contracts, as well as the cash receipts from the services division BioFocus, are taken into account. To keep the capital structure at a certain level, the Group can issue new shares or enter into financing agreements.

The Group is not subject to any externally imposed capital requirements.

Financial risk management

The financial department of the Company 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 and the currency risk. There are no other important risks, such as liquidity risk or interest rate risk because the group has nearly no financial debt and has a good cash position. The Group does not buy or trade financial instruments for speculative purposes. The Group primarily attempts to manage the currency risk by closing contracts in local currencies with the other party. These clients are for the most part large pharma groups that typically are better equipped to hedge against a possible exchange rate risk. For the remainder, the Group attempts to manage the currency risk for debt and receivables by matching the gains and costs in a foreign currency.

Categories of material financial assets and liabilities:

Thousands of €	2010	2009
Financial assets		
Cash at bank and in hand	40,397	47,391
Trade receivables	49,279	19,111
Other amounts receivable	3,350	3,651
Tax receivables	8,583	7,679
Financial liabilities		
Trade debtors	22,012	15,130
Other amounts payable	1,701	961
Leasing debts	1,245	1,484
Tax payable	44	44

Credit risk on receivables

The term "credit risk" refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. To limit the risk of financial losses, the Group has developed a policy of only dealing with creditworthy counterparties.

Galapagos grants credit to its clients in the framework of its normal business activities. Usually, the Group requires 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.

The trade receivables consist of a limited amount of creditworthy customers, many of which are large pharmaceutical companies, spread over different geographical areas.

One client represented 26 % of the trade receivables at the end of 2010. The large percentage at year-end was caused by important milestone payments that will be paid in 2011. Other clients with outstanding payables represented less than 20 % of the total balance sheet of the Group at the end of 2010. The concentration of the credit risk within the group is influenced strongly by the size of the amounts in the partnering agreements.

The net book value of the financial assets in the financial statements represents the maximum credit risk.

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

Thousands of €	2010
60 - 90 days	540
90 - 120 days	93

Liquidity risk

The Group's consolidated balance sheet shows an amount of €60,079K as incurred losses. Based on its projections, management expects the Company to remain profitable in 2011. Cash needs are projected on a 3 year rolling forecast basis and are compared with expected available cash balances at the end of each period. These projections are based on realistic assumptions with regard to milestone payments to be received, taking into account the Company's past track record, including the assumption that not all new projects that are being planned will be realized. On the basis of these projections and sensitivity analysis the Company expects no need for additional external funding for at least the next 2 years. The Company could also decide to disinvest from some of its present activities as a means of generating additional cash.

Market risk: interest rate risk

The Group's financial performance is not subject to any significant interest rate risk. The Company has in its portfolio a CDO for which the "mark to model" value is close to zero, and which consequently has been fully impaired. Based on the latest information, the tranche in our portfolio of the CDO has not been impacted by settled credit events. Until now, the coupon has been fully paid out, and the interest rate is not material.

Market risk: exchange rate risk

The Group's financial performance is subject to exchange rate risk, because part of its purchases is done in US dollars, Swiss Francs, GB Pounds and Kuna. To limit this risk, the Group attempts to align incoming and outgoing cashflows in currencies other than EUR. In addition, contracts closed by the different entities of the Group are mainly in the functional currencies of that entity. The exchange rate risk within the Group is therefore almost exclusively caused by the intra-group transactions between entities with a different functional currency.

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

Net book value - Thousands of €	31-Dec-10	31-Dec-09
Euros - US Dollars	4	
Euros - GB Pounds	3,211	998
Euros - CH Francs	6	260
Euros - HR Kunas	59	
CH Francs - GB Pounds	14	11
HR Kunas - GB Pounds	31	

The magnitude of the amounts on 31 December 2010 has increased mainly in the conversion Euros – GB Pounds, relating to the acquisition of Argenta.

37. AUDIT FEES

The statutory auditor's fees for carrying out the statutory auditor's mandate on the level of the group headed by Galapagos NV amounted to €121,000 in 2010. The fees for exceptional services or special missions executed by the statutory auditor, in particular other control missions, amounted to €19,225 in 2010. Fees for persons related to the statutory auditor for carrying out an auditor's mandate on the level of the group headed by Galapagos NV amounted to €144,350 in 2010. The fees paid in 2010 for exceptional services or special missions executed in this group by persons related to the statutory auditor for tax consultancy and/or due diligence work in connection with the acquisition of Argenta Discovery 2009 Limited amounted to €268,515. The Audit Committee and the Board of Directors are of the opinion that these ad hoc activities do not affect the independence of the statutory auditor in the performance of his statutory duties. The majority of the abovementioned additional fees were approved in advance by the Audit Committee. The one to one rule was complied with.

Notes

38. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Galapagos announced the following after 31 December 2010:

- 11 January: Galapagos initiated Phase I clinical trials for candidate drug GLPG0778, which triggered a milestone payment of €7.4 million from GlaxoSmithKline as part of the companies' arthritis alliance. Furthermore, Galapagos completed first-in-human trials for the first candidate drug in the arthritis alliance, GLPG0555.
- 4 February: Galapagos and Merck & Co. concluded their alliances in metabolic and inflammatory diseases. Galapagos regained worldwide rights for all assets developed under its strategic alliances with Merck. For work completed by Galapagos in 2010, Merck made a payment of €12 million to Galapagos.
- 7 February: Galapagos was awarded a €2.7 million grant from the Flemish agency for Innovation by Science and Technology (IWT) over a two-year period to progress two proprietary antiviral drug discovery research programs.
- 7 February: Galapagos created a new Warrant Plan 2010 (C) on 23 December 2010, under which 75,000 new warrants were offered and accepted by Dr Radan Spaventi, who joined Galapagos' Executive Committee as Senior Vice President in September 2010. The acceptance and issuance of these warrants was established by notary deed of 24 January 2011.
- 8 February: Galapagos achieved milestones in its osteoarthritis alliance with Servier, resulting in a payment of €4 million from Servier, which was included in 2010 revenues.
- 2 March: Galapagos delivered a fourth candidate drug in its arthritis alliance with GlaxoSmithKline (GSK) in December 2010. This achievement triggered a €6.7 million milestone payment to Galapagos, which was included in 2010 revenues.
- 4 March: Galapagos reports revenues of €137 million and a net profit of €4.4 million for 2010. Management reiterates guidance for Group revenues of at least €150 million, positive operating result and cash flow, and net profitability.
- 14 March: Galapagos starts Phase Ib clinical study in cancer patients.

Report of the statutory auditor

GALAPAGOS NV

Statutory auditor's report to the shareholders' meeting on the consolidated financial statements for the year ended 31 December 2010

To the shareholders

As required by law and the company's articles of association, we are pleased to report to you on the audit assignment which you have entrusted to us. This report includes our opinion on the consolidated financial statements together with the required additional comments and information.

Unqualified audit opinion on the consolidated financial statements

We have audited the accompanying 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. Those consolidated financial statements comprise the consolidated balance sheet as at 31 December 2010, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated balance sheet shows total assets of 193.961 (000) EUR and the consolidated income statement shows a consolidated gain for the year then ended of 4.370 (000) EUR.

The board of directors of the company is responsible for the preparation of the consolidated financial statements. This responsibility includes among other things: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with legal requirements and auditing standards applicable in Belgium, as issued by the "Institut des Réviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren". Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

Report of the statutory auditor

In accordance with these standards, we have performed procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we have considered internal control relevant to the group's preparation and fair presentation of the 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. We have assessed the basis of the accounting policies used, the reasonableness of accounting estimates made by the company and the presentation of the consolidated financial statements, taken as a whole. Finally, the board of directors and responsible officers of the company have replied to all our requests for explanations and information. We believe that the audit evidence we have obtained, provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the group's financial position as of 31 December 2010, and of its results and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU and with the legal and regulatory requirements applicable in Belgium

Additional comments and information

The preparation and the assessment of the information that should be included in the directors' report on the consolidated financial statements are the responsibility of the board of directors.
Our responsibility is to include in our report the following additional comments and information which do not change the scope of our audit opinion on the consolidated financial statements:

- The directors' report on the consolidated financial statements includes the information required by law and is in agreement with the consolidated financial statements. However, we are unable to express an opinion on the description of the principal risks and uncertainties confronting the group, or on the status, future evolution, or significant influence of certain factors on its future development. We can, nevertheless, confirm that the information given is not in obvious contradiction with any information obtained in the context of our appointment.

Diegem, 28 March 2011
The statutory auditor

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

Non-consolidated financial statements

STATUTORY ACCOUNTS

The next pages are an abbreviated version of the statutory accounts of Galapagos NV, which were made according to Belgian GAAP. The statutory accounts will be filed in accordance with the applicable laws.

The Statutory Auditor has signed an unqualified opinion relating to the statutory accounts of Galapagos NV for the year ended 31 December 2010.

GALAPAGOS NV STATEMENT OF PROFIT AND LOSS

Thousands of € on 31 December	2010	2009
Turnover	25,777	51,942
Internally generated intangible assets	79,153	
Other operating income	10,187	7,056
Operating income	**115,117**	**58,998**
Raw materials, consumables and goods for resale	-3,963	-3,404
Services and other goods	-71,548	-50,111
Remuneration, social security costs and pensions	-9,299	-8,225
Depreciation, impairment and other amounts written off on constitution costs, intangible and tangible assets	-14,631	-1,397
Other operating charges	-3,496	-3,409
Operating profit/loss (-)	**12,180**	**-7,548**
Finance income	3,820	484
Finance cost	-3,265	-319
Result on ordinary activities before taxes	**12,735**	**-7,383**
Extraordinary income	7	
Extraordinary cost	-1	-21
Result before taxes	**12,741**	**-7,404**
Taxes		
Result for the year	**12,741**	**-7,404**
Loss brought forward	-68,311	-60,907
Result to be carried forward	**-55,570**	**-68,311**

GALAPAGOS NV BALANCE SHEET ON DECEMBER 31

Assets

Thousands of € on 31 December	2010	2009
Non-current assets	**142,998**	**77,294**
Intangible assets	66,900	1,556
Property, plant and equipment	3,108	3,331
Financial Fixed Assets	72,990	72,406
Current assets	**101,056**	**64,465**
Inventories	208	207
Trade and other receivables	72,321	27,489
Cash and cash equivalents	28,527	36,769
Total assets	**244,054**	**141,759**

Equity and liabilities

Thousands of € on 31 December	2010	2009
Equity	**153,558**	**108,353**
Share capital and reserves	142,591	127,723
Share premium account	65,846	48,941
Accumulated losses	-55,570	-68,311
Investment grants	691	
Liabilities	**90,496**	**33,406**
Non-current liabilities	**917**	**863**
Obligations under finance lease (non-current)	650	780
Other liabilities	267	83
Current liabilities	**89,579**	**32,542**
Trade and other payables	72,196	24,708
Obligations under finance lease (current)	173	160
Tax, payroll and social security liabilities	1,909	1,405
Other liabilities	15,301	6,270
Total equity and liabilities	**244,054**	**141,759**

Glossary

ADR
American Depositary Receipt; Galapagos has a Level 1 ADR with ticker symbol GLPYY and CUSIP number 36315X101, which is traded over the counter on the Pink Sheets. One ADR is equivalent to one ordinary share in Galapagos NV

Antibody therapeutic
A biological therapeutic based on a protein produced by the immune system that protects the body in response to the presence of a foreign substance but specifically developed/engineered to have a disease-modifying effect

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 III study. Most new drug R&D programs are discontinued before reaching Phase III because they are not successful enough to be approved

BFIC
Banking, Finance and Insurance Commission (Belgium); in Dutch this is called the CBFA (Commissie voor het Bank-, Financie- en Assurantiewezen

Bioavailability
Assessment of the amount of (candidate) drug that reaches a body's systemic circulation after administration

Biomarker
Substance used as an indicator of a biological state, particularly to monitor a biological response to a candidate drug

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

Break-through drug
A medicine that significantly improves the treatment and management of patients with a disease by intervening in the disease process in a new or improved way over pre-existing medicines for patients with that disease

Cachexia
Loss of appetite, weight and muscle mass in persons who are not actively trying to lose weight; it can be a symptom of underlying illnesses such as cancer, AIDS and age-related disorders

Candidate drug
Substance that has satisfied the requirements of pre-clinical testing and has been selected for clinical testing for the treatment of a certain disorder in humans

CDO
Collateralized debt obligation; a type of structured asset-backed security (ABS) whose value and payments are derived from a portfolio of fixed-income underlying assets

CGU
Cash-generating unit; the smallest recognizable group of assets which generates entries of finance largely independent from entries of finance generated with the other assets or group of assets

Clinical Proof of Concept (PoC)
Point in the drug development process where the candidate drug shows efficacy in a therapeutic setting

CODM (Chief Operating Decision Maker)
Within Galapagos it has been identified as the Executive Committee

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

Glossary

Compound repository services
The selection, formatting, storage, processing and delivery of compounds, which are owned by government, academic and commercial organizations

Contract research organization
Organization which provides drug discovery and development services

COPD
Chronic obstructive pulmonary disease; chronic lung disease characterized by difficulty breathing and persistent coughing; includes the diseases commonly referred to as chronic bronchitis and emphysema

Cystic fibrosis
A life-threatening genetic disease that affects approximately 70,000 people worldwide. Although the disease affects the entire body, difficulty breathing is the most serious symptom as a result of frequent lung infections

Development
Process of bringing a new drug to the market. At Galapagos, this is the department which performs pre-clinical and clinical development research, clinical batch scale-up, and regulatory filings of Galapagos' 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

Downstream milestones
The downstream milestones are for successes at key decision-s making points in the alliance, i.e. selection of a pre-clinical candidate, start of a clinical research study, regulatory filings and approvals, and achievement of commercial sales goals. As of the date of this report, Galapagos is eligible to receive in excess of €2.5 billion in downstream milestones from its alliance partners. This amount was calculated based on the negotiated milestones with each partner, also taking into account that at least 12 target-based programs will be pursued and that industry average attrition rates will be achieved

Drug development
Process of bringing a new drug to the market; includes both pre-clinical development and human clinical trials

Drug discovery
Process by which a (potential) therapeutic is either discovered or designed

Efficacy
Effectiveness for intended use

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

FIH
First-in-human clinical trail, usually conducted in healthy volunteers with the aim to assess the safety, tolerability and bioavailabity of the candidate drug

Flare
A period of increased severity of disease symptoms, particularly for inflammatory diseases such rheumatoid arthritis and multiple sclerosis

FTE

Full-time 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

GLPG0187

Galapagos candidate drug being developed for treatment of cancer metastasis

GLPG0259

Galapagos candidate drug being developed for treatment of rheumatoid arthritis. This compound is in Galapagos' internal RA program, which is part of an option agreement with Janssen Pharmaceutica

GLPG0492

Candidate cachexia drug derived from Galapagos' selective androgen receptor modulator (SARM) program; completed

GLPG0555

First candidate drug from Galapagos' arthritis alliance with GlaxoSmithKline; entered clinical development in December 2009

GLPG0634

Small molecule JAK inhibitor previously part of the Galapagos' arthritis alliance with GlaxoSmithKline. Galapagos acquired the full rights to this candidate drug and inititated a Phase I trial in August 2010

GLPG0778

Second candidate drug from Galapagos' arthritis alliance with GlaxoSmithKline

Infectious diseases

Diseases that are caused by pathogenic micro-organisms such as bacteria, viruses, parasites or fungi

Inflammatory diseases

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

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 or royalty

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

MAPKAPK5

Using its target discovery platform, Galapagos showed that this kinase plays a key role in inflammation and in the breakdown of collagen in human cartilage. The candidate drug GLPG0259 inhibits MAPKAPK5 in human cells, and demonstrates excellent bone protection and reduced inflammation in a standard arthritis animal model

Metastasis

Transmission of cancerous cells from a primary site (usually a tumor) to one or more sites elsewhere in the body

Milestone

Major achievement in a project or program; in Galapagos' alliances, this usually associated with a payment

Mode-of-action

The specific way a (candidate) drug works in the body

Molecule collections

Chemical libraries, usually consisting of drug-like small molecules that are designed to interact with to specific target

Glossary

classes. These collections can be screened against a target to generate initial "hits" in a drug discovery program

Multiple sclerosis (MS)
An autoimmune disease where the body's immune system mistakenly attacks the nervous system. MS affects the ability of nerve cells in the brain and spinal cord to communicate with each other

Nanocort®
Novel candidate drug composed of prednisolone, a widely used corticosteroid, enclosed in a small lipid vesicle (liposome), being developed for treatment of inflammatory flares such as rheumatoid arthritis and MS

Oral dosing
Administration of medicine by the mouth, either as a solution or solid (capsule, pill) form

Orphan disease
Health disorder which affects a relatively small number of people and for which no drug therapy has been developed due to the smaller market size

Osteoarthritis
Degenerative joint disease where the normal cartilage lining is gradually worn away, exposing the underlying bone and causing chronic pain Osteoporosis

Osteoporosis
Disorder characterized by a loss in bone mass that leads to decreased bone strength and an increased risk of fracture

OTC
"Over the Counter" which means trading directly between two parties. In the U.S., over the counter trading in stocks is carried out via market makers who use quotation services such as the OTC Bulletin Board (OTCBB) and the Pink Sheets. The US over-the-counter market is monitored by the NASD. Galapagos' Level 1 ADR is traded over the counter on the Pink Sheets in the US, www.pinksheets.com

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

Phase I
First stage of clinical testing of a potential new treatment designed to assess the safety and tolerability of a drug, usually performed in a small number of healthy human volunteers

Phase II
Second stage of clinical testing, usually performed in 20-300 patients, in order to determine efficacy, tolerability and the most effective dose to use

Phase III
Large clinical trials, usually conducted in 300-3000 patients to gain a definitive understanding of the efficacy and tolerability of the candidate treatment by comparing it to the "gold standard" treatment; serves as the principle basis for regulatory approval

Pre-clinical candidate
A potential drug that meets chemical and biological criteria to begin the development process

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, pharmaco- kinetics, toxicology, and chemical upscaling

Galápagos

Pre-clinical candidate
A potential drug that meets chemical and biological criteria to begin the development process

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

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

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

Service operations
Business unit primarily focused on delivering products and conducting fee-for-service work for clients. Since February 2010, Galapagos' service operations include the BioFocus and Argenta business units

SilenceSelect®
Galapagos' proprietary collection of arrayed adenoviruses, effective in knock-down human genes in primary cells to identify novel drug targets. This technology forms the basis of Galapagos' target discovery engine

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 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)

Galápagos

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