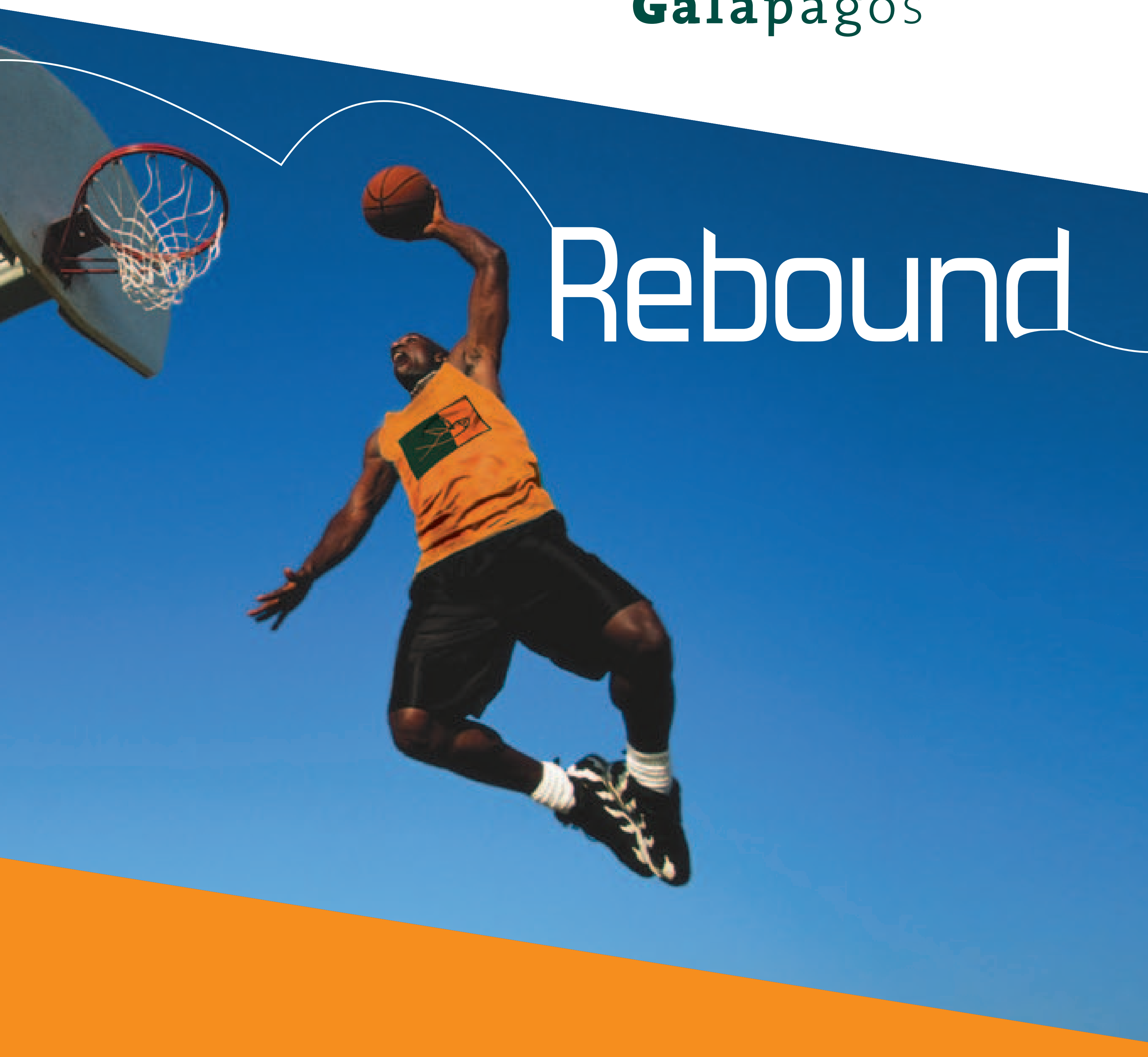
Galápagos

Rebound



Annual Report 2011

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Annual Financial Report 2011

This document, Galapagos' Annual Financial Report 2011, contains all required information as per the Belgian Code of Companies.

LANGUAGE OF THE ANNUAL FINANCIAL REPORT 2011

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 2011

This document is available to the public free of charge and upon request:
Galapagos NV
Investor Relations
Generaal De Wittelaan L11 A3
B-2800 Mechelen, Belgium
Tel: +32 15 34 29 00
ir@glpg.com

An electronic version of the Annual Financial Report 2011 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 2011 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 2011 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.

Galápagos

Report of the Board of Directors

BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2011

Ladies and gentlemen,
Dear shareholders,

We present to you our report relating to Galapagos' consolidated and non-consolidated results during the financial year ended on 31 December 2011.

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)[1]; 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 had a complex operational year as it made the natural transition into a substantial Clinical Phase 2 company and became more exposed to the ups and downs of R&D. The Company faced a number of setbacks in the first half of the year, but scored its biggest success ever with GLPG0634 in a Proof-of-Concept study in rheumatoid arthritis patients just before year end. Management then took the time necessary to conclude a partnering deal that was commensurate with the excellent clinical data obtained and with the resulting interest from big pharma. The Company's strategy was to privilege long term value of the deal over short term financial results for 2011. The service division performed very well, and BioFocus and Argenta reported their best year ever in 2011. In the Pharma alliances, a number of expected milestones were missed or delayed during the year. As a consequence, the Group's financial results for 2011 were disappointing. In February 2012, the Company's strategy was endorsed when the Abbott agreement for GLPG0634 was announced, delivering substantial shareholder value and reducing overall risks for the Company. Today Galapagos stands resolutely among the top

[1] *Compound Focus Inc. was sold to Evotec AG in 2011*

European biotechnology companies, with one of the most promising new drugs in rheumatoid arthritis in its development portfolio, and substantial financial resources to bring this and other potential breakthrough drugs further in the clinic in the coming years.

R&D division: a mixed year

The R&D division delivered both great results and experienced program attrition in 2011, reflecting the maturity of a pipeline of more than 50 programs in discovery and development. In the alliances, Galapagos achieved a number of pre-clinical candidates and other milestones for partners, in addition to completing successfully the Phase 1 Proof-of-Mechanism studies with GLPG0555 and GLPG0778 for GSK, which exercised its option to in-license these programs in February 2012. Due to a strategic change, Merck & Co. ended its alliances with Galapagos, returning all assets to the Company. The alliance franchise was expanded again in October with a new alliance with Servier being signed in oncology for a total potential value of €260 million, plus US commercial rights and royalties for Galapagos.

In its proprietary programs, the Company's first opportunity to show efficacy from its research approach did not meet expectations; GLPG0259 showed limited efficacy in rheumatoid arthritis patients at an interim analysis, and the Phase 2a study was stopped on 15 April. Resources reserved for that study were shifted to Galapagos' remaining proprietary programs.

Shareholders were rewarded in November when Galapagos reported efficacy results in rheumatoid arthritis for its selective JAK1 inhibitor GLPG0634 from a 4 week, 36 patient, single center Phase 2 Proof-of-Concept study. Efficacy measures were among the best reported by others in this class of compounds. All patients completed the study, and few reported side effects. Treated patients reported no severe adverse events, and no anemia, blood pressure, or lipid changes were reported.

On 29 February 2012, Galapagos and Abbott announced a global collaboration to develop and commercialize GLPG0634 to treat autoimmune diseases. Under the terms of the agreement, Abbott made an initial upfront payment of $150 million for rights related to the global collaboration. Revenue recognition of this upfront over 30 months will contribute to profitability of Galapagos for the coming three years. Upon successful completion of the RA Phase 2 studies, Abbott will license the program for a one-time fee of $200 million if the studies meet certain pre-agreed criteria. Abbott will assume sole responsibility for Phase 3 clinical development and global manufacturing. Pending achievement of certain developmental, regulatory, commercial and sales-based milestones, Galapagos would be eligible to receive additional milestone payments from Abbott, potentially amounting to $1.0 billion, in addition to tiered double-digit royalties on net sales upon commercialization. Galapagos retains co-promotion rights in Belgium, the Netherlands and Luxembourg.

In its other proprietary programs, Galapagos initiated a Phase 1b patient study with candidate drug GLPG0187 in metastasis, a Phase 1 Proof-of-Mechanism study with GLPG0492 for cachexia, and a First-in-Human Phase 1 study with GLPG0974 for inflammatory diseases such as inflammatory bowel disease (IBD). The Company also delivered a pre-clinical candidate as a backup to GLPG0634 in rheumatoid arthritis.

Banner year for service division

Both of our companies in our service division, BioFocus and Argenta, performed well in 2011. In a challenging market environment they were able to grow their revenues with 16% and generated a record profit and cash contribution to the Group. Looking forward, we believe the service division is well positioned to benefit from the continuing trend of pharmaceutical companies to increase their outsourcing of discovery research. Indeed, they continue to reduce their R&D teams tremendously, yet they must progress internal programs which have been lined up to replace the blockbuster drugs currently going off-patent. BioFocus and Argenta can provide the kind of scientific quality and timely execution that pharmaceutical clients need when looking to resource work on their pipelines. In 2011, the service division announced significant collaboration deals with partners such as Genentech, Almirall, Chiesi, and Pulmagen.

Personnel

At the end of 2011, the total number of employees working within the Group amounted to 835.

Environment

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

Group financial results

Revenues

Galapagos' revenues from continuing operations for the full year 2011 amounted to €112.9 million. The Service division generated €67.0 million in total revenues (+16% over 2010) and €57.1 million in external revenues, representing 15% organic growth over 2010. The R&D division reported revenues of €61.7 million, which was lower than management expectations at the start of the year. A number of expected alliance milestones were not achieved as planned, and the conclusion of a deal for GLPG0634 was moved into 2012.

Result

The Group incurred a net loss from continuing operations for the full year 2011 of €30.1 million, or €1.13 loss per share, compared to a loss of €0.9 million, or €0.04 loss per share in 2010. The R&D division incurred a segment loss of €38.4 million in 2011. R&D expenses were stable at €85 million, reflecting efficient cost control and program execution for a maturing pipeline.

The BioFocus and Argenta Service division reported a gross margin of 36% on external revenues and a positive segment result on operations of €12.3 million compared to 39% and €11.6 million last year. The service operations showed a 6% improvement in segment result relative to 2010.

General and administrative costs from continuing operations increased to €22.5 million, primarily due to the annualization of Argenta and Zagreb costs, and the implementation costs of a company-wide ERP system to achieve better cost control and purchasing efficiencies of scale.

Cash position

Galapagos' cash and cash equivalents amounted to €32.6 million on 31 December 2011. Furthermore, an amount of €16.3

million in receivables for milestones was recorded and recognized in 2011 revenues. Cash used by operating activities was reduced to €12.0 million, compared to €18.6 million in 2010. Cash flow was positively impacted by the sale of Compound Focus, Inc., resulting in €8.7 million net cash for the Group.

Excellent outlook for the Group in 2012

Management anticipates reporting topline results from the Phase 2a clinical study for GLPG0634 before end 2012, on track to delivering the full Phase 2 package to Abbott in 2014. The Company expects to make significant progress in both partnered and non-partnered R&D programs as the pipeline continues to mature across a broad range of therapeutic areas. The service operations are expected to increase further their cash and profit contribution in 2012. Management guides for at least €150 million in revenues, operational and net profitability, and a year-end cash position of at least €130 million by the end of 2012.

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.

Galapagos NV's operating income in 2011 amounted to €96.7 million compared to €115.1 million in 2010. This decrease is mainly due to decreased external revenues of €38.4 million. As a result of capitalization of intangible assets for a second consecutive year, this decrease is partly off-set by increased operating income coming from these capitalized R&D expenses. The other operating income amounts to €8.8 million, including €1.6 million in grants we recognized for our R&D projects, €5.1 million in recharges to subsidiaries and €2.4 million recognized in tax incentives for investments in intangible fixed assets.

The operating costs of 2011 amounted to €118.7 million compared to €102.9 million in 2010. Material purchases decreased to €3.9 million compared to €4.0 million in 2010. Services and other goods decreased to €69.2 million compared to €71.5 million in 2010, mainly as a result of decreased license fees and decreased outsourcing for development of our products.

Personnel costs in 2011 amounted to €9.8 million compared to €9.3 million in 2010. The number of employees with Galapagos NV at the end of 2011 amounted to 115.

Depreciation increased to €33.7 million in 2011, compared to €14.6 million in 2010. This is due to amortization booked on the internally generated intangible assets capitalized in 2010 and in 2011.

Galapagos NV's 2011 financial income decreased to €1.8 million compared to €3.8 million in 2010. Financial costs amounted to €1.6 million compared to €3.3 million in 2010. This is due to lower income and cost of unrealized translation differences on the outstanding receivables and loans in foreign currency.

Extraordinary costs were recorded in 2011 and amount to €10.7 million, of which €10.6 million relates to the extraordinary write-off of capitalized R&D costs with regard to GLPG0259, a project which was stopped in 2011.

Galapagos NV is capitalizing its incurred R&D expenses to the extent that the costs capitalized do not exceed a prudential estimate of their value in use or their future economic benefits for the entity. The ability to recover the capitalised amounts takes into account assumptions (i.e. future peak sales, market share, sales price, attrition rates regarding the successful completion of the different R&D phases) which have a highly judgmental nature and depend on the outcome of uncertain factors which are beyond the control of the entity (i.e. test results). The achievement of these assumptions is critical and may impact the recoverability of the amounts capitalised. Capitalized R&D expenses amount to €84.6 million compared to €66.0 million last year.

Investments in fixed assets in 2011 totalled €14.6 million, excluding the internally generated assets. They consisted mainly of investments in intangible assets, being intellectual property transferred from Galapagos SASU, and software for implementation of a company-wide ERP system.

Galapagos NV's cash position at the end of 2011 amounted to €6.7 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 negative result. The financial year 2011 closed with a loss of €32.5 million compared to a profit of €12.7 million in 2010. The result of Galapagos NV is largely affected by the fact that, as from financial year 2010, Galapagos NV capitalizes some of its R&D expenses 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 by €15.0 million in 2011, compared to €25.0 million in 2010.

In 2011, neither Galapagos NV nor its affiliates made direct or active use of financial instruments such as hedging.

3. ACTIVITIES IN THE AREA OF RESEARCH AND DEVELOPMENT

For a description of Galapagos' Research & Development activities in 2011, we refer to what is set forth above in section 1, topic "R&D division: a mixed year."

4. SHARES AND CAPITAL

Capital increases and issue of shares

On 1 January 2011, the share capital of Galapagos NV amounted to €142,590,770.44 represented by 26,358,984 shares. In the course of 2011 there were three capital increases resulting from the exercise of warrants, resulting in the issuance of 62,457 new shares, an increase of the share capital by €337,892.37 and an increase of the issuance premium account by €214,788.76. At the end of 2011, the total share capital of Galapagos NV amounted to €142,928,663.81 represented by 26,421,441 shares.

On 23 May 2011, the Board of Directors issued 619,000 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 2011"). These warrants have a term of eight years and an exercise price of €9.95.
On 23 May 2011, the Extraordinary General Shareholders' Meeting of Galapagos issued 129,220 warrants (after acceptances), for the benefit of directors under a new warrant plan ("Warrant Plan 2011 (B)"). These warrants have a term of five years and an exercise price of €9.95.

Shares and rights attached to the shares

Of the 26,421,441 shares of Galapagos NV outstanding at the end of 2011, 1,651,882 were shares registered in the register of shareholders, 24,757,719 shares were dematerialized shares and 11,840 shares were bearer shares. All shares are issued and fully paid up and are of the same class.

Each share (i) entitles its holder to one vote at the Shareholders' Meetings; (ii) represents an identical fraction of the capital and has the same rights and obligations and participates equally in the profit of Galapagos NV; and (iii) gives its holder a preferential subscription right to subscribe to new shares, convertible bonds or warrants in proportion to the part of the share capital represented by the shares already held. The preferential subscription right can be restricted or cancelled by a resolution approved by the Shareholders' Meeting, or by the Board of Directors subject to an authorization of the Shareholders' Meeting, in accordance with the provisions of the Belgian 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. 23 May 2011. 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 €142,590,770.44. Since the date of this renewed authorization, the Board of Directors has not yet used its authorization to increase the share capital.

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

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 23 May 2011, 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 2011, 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 Shareholders' Meeting which granted this authorization, i.e. 23 May 2011, 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 FSMA 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 FSMA. If the latter determines that a takeover violates Belgian law, it may lead to suspension of the exercise of the rights attached to any shares that were acquired in connection with the envisaged takeover. 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 General 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 2011 there were no lock-up agreements in effect between the Company and any of its shareholders.

Shareholders structure

Based on the transparency notifications received by the Company, the shareholders owning 5% or more of the Company's shares on 31 December 2011 were Gestion Deelnemingen V BV (1,184,602 shares), Abingworth Management Ltd (1,576,327 shares), Johnson & Johnson (2,350,061 shares) and Delta Lloyd Asset Management NV (2,458,000 shares).

At the end of 2011, the CEO owned 325,348 shares of Galapagos and 555,000 warrants. The other members of the Executive Team held an aggregate of 48,402 shares and 802,500 warrants. The other members of the Board held an aggregate of 16,800 shares and 163,070 warrants. Each warrant entitles to one share of the Company.

5. RISK FACTORS

Risk management is embedded in our strategy and is considered important for achieving our operational targets (see section 1, topic 'Outlook 2012').
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

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

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

- reputation

The identification and analysis of risks is an ongoing process that is naturally a critical component of internal control. On the basis of these and the Company's risk tolerance, 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.

Scientific risks

The Group operates adequate standard operating procedures to secure the integrity and protection of its research and development activities and results, and the optimum allocation of its R&D budgets. The progress of the most important research and development programs is continuously monitored by the Executive Committee; they are discussed with the Board at least once per quarter, and Board members with expertise in clinical and scientific matters occasionally attend meetings with scientific staff to discuss and assess such programs.

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 take 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, and 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. Furthermore, the Group employs quality & environmental health and safety managers who closely monitor laboratory safety and continuously seek to improve quality and safety conditions.

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 2011 (cash burn) but less negative than in 2010: the decrease in cash in 2011 was mainly due to the postponement of the receivable of the CIR (a tax credit system of the French government for certain research costs). 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, in accordance with the applicable accounting standards. The Company makes efforts to limit the exposure by closing contracts in local currencies and by matching revenues and costs in a foreign currency.

Galapagos annually establishes a detailed budget that is submitted to the Board of Directors for review and approval. The Group's performance compared to the budget is continuously monitored by the Executive Committee and is discussed with the Board at least once per quarter. For the establishment of its financial information, the Group has processes and methods in place that enable the preparation of consolidated financial statements for its annual and mid-year reporting, and more often if required. The Group's management reporting systems secure the generation of consistent financial and operational information, allowing management to follow-up the Group's performance on a daily basis. In view of continuous improvement the Group is currently implementing a new and advanced integrated ERP system.

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 constant monitoring of published patents and patent applications.
Galapagos endeavors 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 laboratory 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 warrants can significantly increase the number of shares.

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

General statement about Galapagos Group risks

According to our current assessment we consider the risks to be manageable and the going concern 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 2011:

- 25 January: Almirall and Galapagos entered into a research alliance
- 21 February: GSK exercised its option for investigational medicines GLPG0778 and GLPG0555
- 29 February: Abbott and Galapagos announced a global collaboration for GLPG0634 in Phase 2 to treat autoimmune diseases; an upfront payment of $150 million will be received in 2012 and will be recognized as revenue over the period starting from the receipt of the payment until the (estimated) end of Phase 2b
- 2 March: Galapagos received €3.5 million in milestones in the osteoarthritis alliance with Servier, which are included in 2011 revenues.

7. GOING CONCERN AND ACCOUNTING STANDARDS

The 2011 consolidated results are negative for Galapagos, and the balance sheet shows a loss carry-over. The Board has examined the statements and accounting standards. Taking into account the solid cash position, in particular after the conclusion of the GLPG0634 deal with Abbott in February 2012, and the favorable developments of Galapagos NV's 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. CORPORATE GOVERNANCE STATEMENT

8.1. General

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."

8.2. 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 Mr Onno van de Stolpe, all Board members are non-executive Directors. In 2011, 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 (until 25 May 2011), Mr Ferdinand Verdonck, Dr Werner Cautreels, Mr Howard Rowe, and Dr Vicki Sato (as from 26 April 2011); the latter four Directors were appointed as independent Directors. Dr Vicki Sato was nominated to the Board by the Annual General Shareholders' Meeting on 26 April 2011, and Dr Ronald Brus resigned effective 25 May 2011.

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. The activities exercised and offices held by each of the Directors reflect the expertise and experience of each of them.

In 2011, the Board of Directors held 4 regular meetings, 7 meetings by telephone conference to discuss specific matters and 1 meeting in the presence of a notary (the latter relating to the issuance of the Warrant Plan 2011).

The attendance rate (in person or by written proxy to a fellow Director) for the Board members in function at 31 December 2011 was as follows: Dr Parekh 92%, Mr Van de Stolpe 100%, Mr Verdonck 100%, Dr Van Barlingen 92%, Mr Rowe 92%, Dr Cautreels 75%, Dr Brus 100% and Dr Sato 89%. The overall attendace rate was 88%. In addition, certain Board members (including Dr Cautreels and Dr Sato) also attended a number of review meetings with scientific staff of the Group.

The Board of Directors acts as a collegial body. The Company does not have a formalized process in place to evaluate the Board, its Committees and its individual Directors; such evaluation occurs on an ongoing and informal basis within the framework of the meetings of the Board and its Committees.

In connection with the requirements of the Law of 28 July 2011 relating to certain changes to the Code of Companies, in particular with respect to gender diversification in the Board of Directors, the Board is pleased to be able to mention that Dr Vicki Sato has joined the Galapagos Board in 2011. The Board will continue to monitor the gender diversification requirements.

8.3. Committees

The Board of Directors has installed a Nomination and Remuneration Committee, an Audit Committee and an Executive Committee.

At the end of 2011, the Nomination- and Remuneration Committee consisted of the following three non-executive Directors: Dr Parekh (Chairman), Dr Cautreels and Mr Rowe, the majority of whom are independent Directors. The committee has the necessary expertise in the area of remuneration policy.

The Nomination and Remuneration Committee's role is twofold: providing recommendations to the Board of Directors regarding the remuneration policy of Galapagos and the remuneration of Directors and members of the Executive Committee, and selecting the appropriate candidates and making recommendations to the Board of Directors in relation to the appointment of Directors and members of the Executive Committee.

The Nomination and Remuneration Committee meets at least twice per year. In 2011, the Nomination- and Remuneration Committee made recommendations on 3 occasions, dealing with matters including grants of warrants and bonuses, new warrant plans, and salary increases. The Nomination and Remuneration Committee acts as a collegial body. The overall attendance (present or represented) at the Nominationand Remuneration Committee meetings in 2011 was 100%.

At the end of 2011, the Audit Committee consisted of the following three Directors: Mr Verdonck (Chairman), Dr Parekh and Dr 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 other members are competent in these matters as well.

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 2011, the Audit Committee held 4 meetings, in which it dealt with matters including audit review, authorities and procedures, risk management and ERP systems. The Audit Committee acts as a collegial body. The attendance rate (in person or by written proxy to a fellow member of the Audit Committee) was as follows: Mr Verdonck 100%, Dr Parekh 75%, and Dr. Cautreels 100%, resulting in an overall attendance rate of 92%.

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 2011, the Executive Committee consisted of seven people: Mr Van de Stolpe (CEO, also executive Director), Dr Graham Dixon (Senior Vice President, Drug Discovery), Dr Andre Hoekema (Senior Vice President, Corporate Development), Dr Chris Newton (Senior Vice President, Galapagos Services), Dr Piet Wigerinck (Senior Vice President, Development), Mr Guillaume Jetten (CFO) and Dr Radan Spaventi (Senior Vice President, Internal Outsourcing).

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

8.4. Remuneration report

8.4.1 Procedure for establishing remuneration policy and setting remuneration for members of the Board of Directors and of the Executive Committee

The procedure for establishing the remuneration policy and setting remuneration for members of the Board of Directors and of the Executive Committee is determined by the Board of Directors on the basis of proposals from the Nomination and Remuneration Committee, taking into account relevant benchmarks from the biotechnology industry and, for the members of the Executive Committee also the Group's performance rating system.

The remuneration of the members of the Board and the grant of warrants to members of the Board are submitted by the Board for approval to the General Shareholders' Meeting, and are only implemented after such approval.

The fixed and variable remuneration of the CEO (who is a member of the Board) is established by the Board of Directors based upon an authorization from the General Shareholders' Meeting. The fixed and variable remuneration of, and grant of warrants to the other members of the Executive Committee is established by the Board of Directors.

8.4.2 Remuneration policy

a) Principles

The objective of Galapagos' remuneration policy is to attract, motivate and retain the qualified and expert individuals that the Group needs in order to achieve its strategic and operational objectives. In the light of the remuneration policy, the structure of the remuneration package for the Executive Committee is designed to balance short-term operational performance with the long-term objective of creating sustainable value within the Group, while taking account of the interests of all stakeholders.

The remuneration of the non-executive Directors consists of a fixed annual amount, irrespective of the number of Board meetings that are held during the year, with a correction principle that in the event a Director is less than 75% present at the meetings of the Board of Directors, the annual remuneration will be proportionally decreased. The remuneration of the non-executive Directors does not contain a variable part. The Board fees are paid in quarterly instalments at the end of each calendar quarter.

The remuneration of the CEO (who is an executive Director) and of the other members of the Executive Committee consists of a fixed amount and of a variable part (bonus). Remuneration increases and bonuses are merit driven and based on the Group's performance rating system that is based on individual performance (including exceptional deliverables) in combination with the overall performance of the Group, compared to the level of achievement of individual and corporate objectives that are established annually (for one member of the Executive Committee who is an employee in Belgium statutory increases (index) need to be taken into account). The corporate objectives and the CEO's objectives are established annually by the Board of Directors, and the objectives of the other members of the Executive Committee are established annually by the CEO and are in relation to the corporate objectives. For 2011 the corporate objectives included elements of revenue, cash flow, operating profitability, clinical trials and licensing. The level of achievement of the objectives for the CEO is reviewed at the end of each year by the Remuneration Committee and discussed and finally established by the Board, and the level of achievement of the objectives of the other members of the Executive Committee is assessed by the CEO at the end of the year in connection with appraisal discussions, discussed by the Remuneration Committee and finally established by the Board of Directors.

Pursuant to the rules of the Senior Management Bonus Scheme established in 2006, 50% of the bonus is paid immediately around year end and the payment of the other 50% is deferred for three years. The deferred 50% component is dependent on the Company's share price change relative to the Next Biotech Index (which tracks the Company's peers). The Company's share price and Index at the start and end of the 3 year period is calculated by the average price over the preceding and last month of the 3 year period, respectively.

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

To be entitled to any deferred payment under the bonus scheme the beneficiary must still be a Company employee.

b) Relative importance of the various components
The CEO's bonus can be maximum 100% of the fixed part of his annual remuneration of the year for which the bonus is awarded. The aggregate bonuses of the other members of the Executive Committee's remuneration can be maximum 60% of the total amount of the fixed part of their aggregate annual remuneration of the year for which the bonus is awarded.

In addition, the CEO and/or the other members of the Executive Committee enjoy a number of benefits such as pension payments, insurances and other fringe benefits, the monetary value of which is, however, limited.

c) Performance related premiums in shares, options or other rights to acquire shares
The Company does not provide for any performance related premiums in shares, options or other rights to acquire shares. The warrants granted to members of the Board of Directors (including the CEO) are not considered as a (performance related or otherwise) variable remuneration.

d) Information on the remuneration policy for the next two financial years
The Company currently has no plans to substantially deviate from the remuneration policy used in 2011 and the years before, as described above, in the next two financial years.

8.4.3 Remuneration of non-executive Directors
Pursuant to the decision of the Annual General Shareholders' Meeting of 26 April 2011, each of the independent Directors (Mr Verdonck, Dr Cautreels, Mr Rowe and Dr Sato) received in 2011 a fixed remuneration of €20,000 per year. The Chairman of the Audit Committee (Mr Verdonck) received an additional fixed amount of €5,000 for performing his duties as chairman. The non-executive Directors who do not qualify as independent Directors and who do not represent a shareholder of the Company (Dr Van Barlingen, Dr Brus) also each received a fixed remuneration for their mandate as a Director of €20,000 per year. In the event a Director was less than 75% present at the meetings of the Board of Directors, the amounts referred to above are proportionally decreased. Directors who represent a shareholder in the Board of Directors would only receive reimbursement of the expenses incurred for participating in the Board of Directors (there were no such Directors in 2011). The Board fees of Directors who did not serve on the Board during the whole of 2011 were paid pro rata temporis for the part of 2011 during which they served on the Board (Dr Brus: €8,300; Dr. Sato: €15,000). The remuneration of the non-executive Directors does not contain a variable part; hence no performance criteria apply to the remuneration of the non-executive Directors.

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

In an Extraordinary General Shareholders' Meeting of 23 May 2011, it was resolved to issue the Warrant Plan 2011(B) for the benefit of the Directors of the Company. Following the issuance of this Warrant Plan, the following warrants were offered to the non-executive Directors: Dr Parekh 5,400 warrants; Mr Verdonck 3,780 warrants; Mr Rowe and Dr Sato: each 7,500 warrants; Dr Van Barlingen, Dr Cautreels and Dr Brus: each 2,520 warrants. Except for Dr Brus who resigned from the Board, all beneficiaries accepted the warrants. These warrants have a term of five years. The exercise price of the warrants is €9.95. The warrants vest over a period of 36 months at a rate of 1/36th per month. The warrants cannot be transferred and cannot be exercised prior to the end of the third calendar year following the year of the offer. The Board of Directors does not consider these warrants as a variable remuneration and they are not subject to any performance criteria. The Board of Directors points out that the Belgian Corporate Governance Code 2009 stipulates that non-executive Directors should not be entitled to performance-related remuneration such as stock related long-term incentive schemes. In

deviation 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 stock-related incentive schemes to their non-executive Directors. The Board of Directors is of the opinion that the granting of warrants has no negative impact on the function of the non-executive Directors.
Except as set forth above, there are no other benefits granted to the non-executive Directors.

8.4.4 Remuneration of members of the Executive Committee that are also a member of the Board of Directors
Mr Van de Stolpe is an executive member of the Board of Directors. As managing Director and CEO, he acts as Chairman of the Executive Committee. Mr Van de Stolpe does not receive any specific or additional remuneration for his work on the Board of Directors, as this is part of his total remuneration package in his capacity as member of the Executive Committee.

8.4.5 Criteria and methods to evaluate performance of the CEO and the members of the Executive Committee in connection with their performance based remuneration
The executive Director (CEO) and the members of the Executive Committee are eligible for performance based remuneration (bonus). The level of the achieved bonus is established annually by the Board of Directors on the basis of proposals from the Nomination and Remuneration Committee (whose proposals are based on recommendations by the CEO for the other members of the Executive Committee). The award of a bonus is merit driven and based on the Group's performance rating system that is based on annual individual performance (including exceptional deliverables) in combination with the overall performance of the Group, compared to the level of achievement of individual and corporate objectives that are established annually. The corporate objectives and the CEO's objectives are established annually by the Board of Directors, and the objectives of the other members of the Executive Committee are established annually by the CEO. For 2011 the corporate objectives included elements of revenue, cash flow, operating profitability, clinical trials and licensing. Each of the corporate objectives is clear and measurable so that it is easy to determine whether or not a specific objective has been achieved or not.

8.4.6 Gross remuneration of the CEO (executive Director, Chairman of the Executive Committee) (Mr Van de Stolpe) for financial year 2011
a) Base salary (fixed): €394,543
b) Variable remuneration (bonus): no bonus was awarded for performance in 2011 as 3 out of 5 criteria from the Senior Management Bonus Scheme to be entitled to a bonus (i.e. the corporate objectives for 2011) were not achieved. The value of the 50% deferred part (€152,713) of the bonus awarded in 2008 was established at the end of 2011 and resulted in a payment of €438,818 (a multiple of 2.8735 of the deferred bonus, as a result of the share price performance over the period 2008-2011, see section 8.4.2). The deferred bonus was paid in early January 2012.
c) Pension: €58,635.
d) Other components of the remuneration: company car and payments for invalidity and healthcare cover, totalling €27,606.
The CEO, together with the other members of the Executive Committee, forfeited a salary increase for 2011 compared to 2010. In its meeting of 13 December 2011 (in application of Article 523 of the Code of Companies without the CEO being

present) the Board of Directors resolved to increase the CEO's salary by 2% as from 2012. The principles applied for such increase were in line with the Remuneration Policy described above.

8.4.7 Total (aggregate) gross remuneration of the other members of the Executive Committee for financial year 2011

a) Base salaries (fixed): €1,376,120.

b) Variable remunerations (bonuses): no bonus was awarded for performance in 2011 as 3 out of 5 criteria from the Senior Management Bonus Scheme to be entitled to a bonus (i.e. the corporate objectives for 2011) were not achieved. The value of the 50% deferred part (€169,500) of the bonus awarded in 2008 was established at the end of 2011 and resulted in an aggregate payment of €487,058 (a multiple of 2.8735 of the deferred bonus, as a result of the share price performance over the period 2008-2011, see section 8.4.2). The deferred bonus was paid in early January 2012.

c) Pensions: €71,029.

d) Other components of the remunerations: company cars, payments for invalidity and healthcare cover, and other fringe benefits, totalling €121,142.

The members of the Executive Committee forfeited a salary increase for 2011 compared to 2010. In its meeting of 13 December 2011 the Board of Directors resolved to implement salary increases as from 2012 for the other members of the Executive Committee generally in line with the increases awarded in previous years and based on individual performance. The principles applied for such increases were in line with the Remuneration Policy described above.

8.4.8 Shares, warrants or other rights to acquire shares awarded to, exercised by or expired for the CEO and other members of the Executive Committee during financial year 2011

In 2011, only warrants have been offered to the members of the Executive Committee, and no shares or other rights to acquire shares have been awarded. No warrants were exercised by or have expired for members of the Executive Committee in 2011. The Board of Directors does not consider the granted warrants as a variable remuneration, and they are not subject to any performance criteria.

The following number of warrants have been offered to and accepted by members of the Executive Committee in 2011:

(i) under the Warrant Plan 2011, issued by the Board of Directors under the authorized capital, on 23 May 2011, to each of Dr Hoekema, Dr Newton, Dr Wigerinck, Mr Jetten and Dr Spaventi: 25,000 warrants with exercise price of €9.95 per warrant; the warrants have a life time of 8 years, vest only and fully at the end of the third calendar year after the year of the offer, and cannot be exercised prior to the end of the third calendar year after the year of the offer; the warrants are not transferable; each warrant gives right to subscribe to one share of the Company;

(ii) under the Warrant Plan 2011(B), issued by the Extraordinary General Shareholders' Meeting of 23 May 2011, to Mr Van de Stolpe: 100,000 warrants with exercise price of €9.95 per warrant; the warrants have a life time of 5 years, vest over a period of 36 months at a rate of 1/36th per month, and cannot be exercised prior to the end of the third calendar year after the year of the offer; the warrants are not transferable; each warrant gives right to subscribe to one share of the Company.

8.4.9 Contractual provisions regarding compensation for severance for the CEO and other members of the Executive Committee

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

8.4.10 Severance payment for departing members of the Executive Committee in 2011

Not applicable, as in 2011 no members of the Executive Committee (including the CEO) have left the Group.

8.4.11 Claim-back right of the Company relating to variable part of remuneration

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

8.5. 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 2011, two cases of conflict of interest between the Company and a Director were noted:

(i) In a meeting of the Board of Directors of 25 March 2011, it was resolved that the Board would make a recommendation to the next General Shareholders' Meeting for a grant of warrants to the CEO and the other members of the Board under a proposed Warrant Plan 2011(B) as follows: Mr Van de Stolpe 100,000 warrants; Dr Parekh 5,400 warrants; Mr Verdonck 3,780 warrants; Mr Rowe and Dr Sato: each 7,500 warrants; Dr Van Barlingen, Dr Cautreels and Dr Brus: each 2,520 warrants; and that in all existing and new warrant plans a provision be included that in case of change in control of the Company all not yet vested warrants would vest immediately and become immediately exercisable ('accelerated vesting'). In application of article 523 of the Belgian Code of Companies the following is reported in connection with the proposed warrant offer to the CEO: the Chairman declares that Mr Van de Stolpe has informed the Board of Directors of a conflict of interest, concerning the proposed award to him of 100,000 warrants (and the inclusion of an accelerated vesting mechanism in existing warrants plans). It has been explained to the Board that the said warrant offer 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 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 benefit is justified and reasonable. Mr Van de Stolpe did not take part in the deliberation and the vote concerning this decision. Furthermore, as a warrant offer is proposed to each Director, the same procedure has been followed for each Director individually.

(ii) In a meeting of the Board of Directors on 13 December 2011 the following was reported, in application of article 523 of the Belgian Code of Companies, in connection with the salary increase for the CEO: the Chairman declares that Mr Van de Stolpe has informed the Board of Directors of a conflict of interest, concerning the proposed award to him of a salary increase. The salary of Mr Van de Stolpe was increased with 2% as of 2012. As 3 out of 5 criteria from the Senior Management Bonus Scheme to be entitled to a bonus (i.e. the corporate objectives for 2011) were not achieved, no such bonus has been awarded to Mr Van de Stolpe for 2011. It has been explained to the Board that said salary increase is a justified reward for the results achieved by Mr Van de Stolpe in 2011. The salary increase will have no material impact on the financial position of the Company. The Board shares the opinion of the Remuneration Committee that the proposed salary increase is justified and reasonable. Mr Van de Stolpe did not take part in the deliberation and the vote concerning this decision.

8.6. Other matters

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 2011 were Gestion Deelnemingen V BV (1,184,602 shares), Abingworth Management Ltd (1,576,327 shares), Johnson & Johnson (2,350,061 shares) and Delta Lloyd Asset Management NV (2,458,000 shares).

At the end of 2011, the CEO owned 325,348 shares of Galapagos and 555,000 warrants. The other members of the Executive Team held an aggregate of 48,402 shares and 802,500 warrants. The other members of the Board held an aggregate of 16,800 shares and 163,070 warrants. Each warrant entitles to one share of the Company.

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.

* * *

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 2011.

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 2011, 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.

* * *

On behalf of the Management and the Board of Directors of Galapagos, we would like to thank our shareholders for their support in 2011, a complex operational and transitional year for the Company. The developments of 2011 demonstrated how important it is to stay the course and to persistently and consistently execute our strategy to create value for our shareholders. We are committed to bringing Galapagos to its next level by building on the success of GLPG0634, as we together with Abbott take this potential blockbuster drug in autoimmune diseases into Phase 2 studies and beyond.

The Board of Directors will submit to you proposals of resolutions to approve the annual accounts for the financial year 2011, and to discharge the Directors and the Statutory Auditor, for the exercise of their mandate during the financial year that ended on 31 December 2011.

Mechelen, 19 March 2012

On behalf of the Board of Directors,

(signed)	(signed)
Onno van de Stolpe	Raj Parekh
CEO	Chairman

Consolidated financial statements

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

Consolidated income statement

Thousands of €	Notes	Continuing operations Dec 2011	Continuing operations Dec 2010	Discontinued operations Dec 2011	Discontinued operations Dec 2010	Group total Dec 2011	Group total Dec 2010
Services revenue		57,147	42,590	2,418	8,267	59,565	50,857
R&D revenue		36,322	71,553			36,322	71,553
Other income		19,403	14,148			19,403	14,148
Negative goodwill			5,000				5,000
Total operating income	4	**112,872**	**133,291**	**2,418**	**8,267**	**115,290**	**141,558**
Services cost of sales	5	-38,694	-27,356	-1,832	-4,011	-40,526	-31,367
R&D Expenditure	5	-84,460	-84,649			-84,460	-84,649
General and administrative costs	5	-22,518	-20,129	-602	-1,354	-23,120	-21,483
Sales and marketing expenses	5	-2,273	-2,586			-2,273	-2,586
Restructuring and integration costs	5		-442				-442
Result on divestment	34	5,197		-3,043		2,154	
Operating profit/loss (-)	4/5	**-29,877**	**-1,870**	**-3,058**	**2,901**	**-32,935**	**1,031**
Finance income	7	831	1,109	28	5	859	1,114
Finance cost	8	-1,647	-1,551	-4	-6	-1,651	-1,557
Profit/loss (-) before tax		**-30,693**	**-2,312**	**-3,034**	**2,900**	**-33,727**	**588**
Taxes	9	630	1,432		2,350	630	3,782
NET PROFIT/LOSS (-)	10	**-30,063**	**-880**	**-3,034**	**5,250**	**-33,097**	**4,370**
NET PROFIT/LOSS (-) attributable to:							
Owners of the parent	10	-30,063	-880	-3,034	5,250	-33,097	4,370

Consolidated statement of comprehensive income

Exchange difference arising on translating of foreign operations	1,333	1,360	-956	323	377	1,683
Other comprehensive income	**1,333**	**1,360**	**-956**	**323**	**377**	**1,683**
Total comprehensive income attributable to:						
Owners of the parent	-28,730	480	-3,990	5,573	-32,720	6,053

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER

Assets

Thousands of €	Notes	2011	2010
NON-CURRENT ASSETS		**95,493**	**84,738**
Goodwill	12	38,880	42,380
Intangible assets	13	10,614	13,534
Property, plant and equipment	14	19,524	23,886
Deferred tax assets	23	2,166	3,658
Non-Current tax receivables	9	23,081	
Available for sale financial assets and other non-current assets	16	1,228	1,280
CURRENT ASSETS		**65,562**	**109,223**
Inventories	15	502	1,437
Trade and other receivables	17	30,010	54,901
Current tax receivables	9		8,583
Cash and cash equivalents	18	32,555	40,397
Other current assets	17	2,495	3,905
TOTAL ASSETS		**161,055**	**193,961**

Equity and liabilities

Thousands of €	Notes	2011	2010
TOTAL EQUITY		**118,376**	**148,507**
Share capital	19	137,460	137,122
Share premium account	20	72,021	71,806
Translation differences	21	35	-343
Accumulated losses		-91,140	-60,079
TOTAL LIABILITIES		**42,679**	**45,454**
NON-CURRENT LIABILITIES		**7,319**	**7,232**
Pension liabilities		1,426	1,129
Provisions	27	786	842
Deferred tax liabilities	23	2,403	2,693
Finance lease liabilities	24	451	867
Other non-current liabilities	26	2,253	1,701
CURRENT LIABILITIES		**35,360**	**38,223**
Provisions	27	393	
Finance lease liabilities	24	425	378
Trade and other payables	26	18,068	22,012
Current tax payable	9	616	44
Other current liabilities	26	15,857	15,789
TOTAL LIABILITIES AND EQUITY		**161,055**	**193,961**

Consolidated financials

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER

Thousands of €	Notes	2011	2010
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**40,397**	**47,391**
Result from operations		-32,935	1,031
Adjustments for:			
Depreciation of property, plant and equipment	14	7,727	7,773
Amortization of intangible fixed assets	13	4,369	3,862
Inventories write off			148
Exchange gain/loss (-) on translation of net assets of subsidiary		244	233
Share based compensation		2,040	2,418
Gain on disposal of business		-2,154	
Increase/Decrease (-) provisions		296	77
Increase/Decrease (-) pension liabilities (assets)		297	257
Negative goodwill			-5,000
Operating cash flows before movements in working capital		**-20,116**	**10,799**
Increase (-)/Decrease in inventories		942	344
Increase (-)/Decrease in receivables	17	11,032	-28,145
Increase/Decrease (-) in payables	26	-3,265	-889
Increase/Decrease (-) in provisions			-1
Cash generated/used (-) in operations		**-11,407**	**-17,892**
Interest paid and other financial costs	8	-603	-797
Taxes		19	115
NET CASH FLOWS GENERATED/USED (-) IN OPERATING ACTIVITIES		**-11,991**	**-18,573**

Thousands of €	Notes	2011	2010
Purchase of property, plant and equipment	14	-4,396	-4,244
Purchase of and expenditure in intangible fixed assets	13	-1,437	-9
Proceeds from disposal of intangible assets	13		
Proceeds from disposal of property, plant and equipment	14	44	35
Acquisitions (-), disposables of subsidiaries (+), associates or joint ventures, net of cash acquired	34	8,710	-15,958
NET CASH USED IN INVESTING ACTIVITIES		**2,921**	**-20,176**
Repayment of obligations under finance leases and other debts		-343	-255
Proceeds of Capital and Share premium increases, net of issue costs		553	31,157
Interest received and other financial income	7	423	257
NET CASH GENERATED/USED (-) IN FINANCING ACTIVITIES		**633**	**31,159**
EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS		**594**	**597**
INCREASE/DECREASE (-) IN CASH AND CASH EQUIVALENTS		**-7,842**	**-6,994**
CASH AND CASH EQUIVALENTS AT END OF YEAR		**32,555**	**40,397**

CONSOLIDATED CASH FLOW STATEMENT FROM DISCONTINUED OPERATIONS

Thousands of €	2011	2010
Net cash flows generated/used (-) in operating activities	-1,582	2,086
Net cash generated/used (-) in investing activities	9,291	-38
Net cash generated/used (-) in financing activities	2	-1
Net change in cash and cash equivalents	**7,711**	**2,047**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Thousands of €	Share capital	Share premium account	Translation differences	Accumulated losses	Total
Balance at 1 January 2010	**122,870**	**54,901**	**-2,026**	**-66,868**	**108,877**
Net result				4,370	4,370
Other comprehensive income			1,683		1,683
Total comprehensive income			**1,683**	**4,370**	**6,053**
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**
Net result				-33,097	-33,097
Other comprehensive income			378		378
Total comprehensive income			**378**	**-33,097**	**-32,719**
Share based compensation				2,040	2,040
Issue of share capital					
Exercise warrants	338	215			553
Other				-4	-4
Balance at 31 December 2011	**137,460**	**72,021**	**35**	**-91,140**	**118,376**

The consolidated financial statements of Galapagos were approved by the Board of Directors and authorized for issue on 19 March 2012. They were signed on its behalf by:

(signed)

Onno van de Stolpe
Executive Director
19 March 2012

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

Galapagos NV ("the Company" or "Galapagos") is a limited liability company incorporated in Belgium and has its registered office at Generaal De Wittelaan L11/A3, 2800 Mechelen, Belgium. In this document references to "the Group" include Galapagos together with its subsidiaries.

Galapagos NV was founded in 1999 as a joint venture between Crucell BV and Tibotec NV. Galapagos is an integrated drug discovery company with capabilities from target discovery to clinical proof of concept.

R&D

Galapagos' R&D operations are specialized in the discovery and development of small molecules. Galapagos funds these programs through alliance payments from its pharma partners, cash generated by its profitable service operations, licensing agreements, 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.

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 NV 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. 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 cancelled its quotation on AIM. 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 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.

On 1 June 2011, Galapagos announced the sale of Compound Focus, Inc. to Evotec for €10.25M cash and an additional €2.25M in potential earn-out payments upon performance of the business in 2012/2013 depending on revenues and certain corporate milestones.

On 29 February 2012, Galapagos and Abbott announced a global collaboration to develop and commercialize GLPG0634 to treat autoimmune diseases. Under the terms of the agreement, Abbott made an initial upfront payment of $150 million for rights related to the global collaboration. Revenue recognition of this upfront over 30 months will contribute to profitability of Galapagos for the coming three years. Upon successful completion of the rheumatoid arthritis Phase 2 studies, Abbott will license the program for a one-time fee of $200 million if the studies meet certain pre-agreed criteria. Abbott will assume sole responsibility for Phase 3 clinical development and global manufacturing. Pending achievement of certain developmental, regulatory, commercial and sales-based milestones, Galapagos would be eligible to receive additional milestone payments from Abbott, potentially amounting to $1.0 billion, in addition to tiered double-digit royalties on net sales upon commercialization. Galapagos retains co-promotion rights in Belgium, the Netherlands and Luxembourg.

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

The following standards amended by the IASB and interpretations issued by the IFRIC became effective for the current financial year:

- Amendment to IAS 32 – Financial Instruments: Presentation - Classification of Rights Issues
- Revision of IAS 24 – Related Party Disclosures
- Amendment to IAS 19 and IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction - Prepayments of a Minimum Funding Requirement
- Amendment to IFRS 1 – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- Amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13 due to the Annual Improvements Project (May 2010)
- IFRIC 19 – Extinguishing Liabilities with Equity Instruments.

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

Standards and Interpretations issued but not yet adopted

The amendments to IFRS 7 Financial instruments: Disclosures – Transfers of Financial Assets are not expected to have an impact on the financial statements of the Group.

All other publications of the IASB listed below are not yet endorsed for application in the European Union:

- Amendment IFRS 1 - Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (1/7/2011)
- Amendment to IAS 12 – Recovery of Underlying Assets (1/1/2012)
- IAS 1 – Presentation of Items of Other Comprehensive Income (1/7/2012)
- IFRS 10 – Consolidated Financial Statements (1/1/2013)
- IFRS 11 – Joint Arrangements (1/1/2013)
- IFRS 12 – Disclosures of Involvement with Other Entities (1/1/2013)
- IAS 27 – Separate Financial Statements (1/1/2013)
- IAS 28 – Investments in Associates and Joint Ventures (1/1/2013)
- IFRS 13 – Fair Value Measurement (1/1/2013)
- Amendment IAS 19 – Employee Benefits (1/1/2013)
- IFRIC 20 – Stripping costs in the production phase of a surface mine (1/1/2013)
- Amendment IFRS 7 – Disclosures – Offsetting financial assets and financial liabilities (1/1/2013)
- Amendment IAS 32 – Offsetting financial assets and financial liabilities (1/1/2014)
- IFRS 9 – Financial instruments (1/1/2015).

Management is currently investigating the impact of the initial application of these new and amended standards and interpretations on the Group's financial statements.

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 reporting

The consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries) established at 31 December each year. Together they constitute 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 ensure consistency with the Group's accounting policies.

All intra-group transactions, balances, income and expenses are eliminated when preparing the consolidated financial statements.

Business combinations

The acquisition of subsidiaries is accounted for using the 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. For each business combination, it is determined whether the non-controlling interest in the acquiree is measured at fair value or at the proportionate share of the acquiree's identifiable net assets.

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 less the value of the non-controlling interests 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 less the value of the non-controlling interests exceeds cost, all fair values and cost calculations are reassessed. In the event that an excess still exists, it is immediately recognized in the profit or loss statement.

Intangible assets

Expenditure on research activities is recognized as an expense in the period in which it is incurred.
An internally generated intangible asset arising from 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.

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

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

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

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

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

Property, plant and equipment

Property, plant and equipment 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 recognized in profit or loss.

Leasehold improvements

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

Assets held under finance lease

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

Inventories

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

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

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 measured 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 measured at historical 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 of the impairment loss.

Cash and cash equivalents

Cash and cash equivalents are measured at nominal value. For the purposes of the cash flow statements, cash and cash equivalents comprise cash on hand, deposits held on call with banks, other short term deposits, highly liquid investments and bank overdrafts. Bank overdrafts are presented on the balance sheet 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 current tax and deferred tax.

Current tax is the expected tax payable on the taxable profit of the year. The taxable profit of the year differs from the profit as reported in the financial statements as it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability-method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. As such, a deferred tax asset for the carry forward of unused tax losses will be recognized to the extent that is probable that future taxable profits will be available.

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 Euro are translated as follows:
  - Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
  - Income and expenses for each income statement are translated at average exchange rates;
  - All resulting 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 policies 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. Milestone payments 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 reasonable 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 considered to be ended 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 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 further restrictions.

Equity instruments

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

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;

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

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 recognized in the income statement, unless it is directly attributable to the corresponding asset, in which case they are capitalized.

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

Impairment of tangible and intangible assets

At each balance sheet date, 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.

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

Net 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.

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.

Discontinued Operations

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

Segment reporting

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of revenue and expenses that can be allocated on a reasonable basis to a segment.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. 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.
The Executive Committee 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 Executive Committee.

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 molecules. Galapagos funds these programs through alliance payments from its pharma partners, cash generated by its profitable service operations, licensing agreement from its proprietary pipeline, 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.

Segment information about these businesses for the years ended 31 December 2011 and 2010 is presented below.

2011 SEGMENT INFORMATION

	Continuing operations			Discontinued operations	Unallocated costs	Galapagos Group total
Thousands of €	**R&D**	**Services**	**Intersegment eleminations**			
External revenues	36,322	57,148		2,418		95,887
Other income	20,184		-781			19,403
Intersegment sales	5,211	9,868	-15,079			
Total operating income	**61,717**	**67,016**	**-15,860**	**2,418**		**115,290**
Gross margin	**61,717**	**23,319**	**-10,860**	**587**		**74,764**
R&D Expenditure	**-94,826**		**10,366**			**-84,460**
General and administrative costs	-4,916	-14,258	493	-602		-19,283
Unallocated G&A costs					-3,837	-3,837
Sales and marketing expenses	-329	-1,944				-2,273
Result on divestment		5,197		-3,043		2,154
Operating results	**-38,354**	**12,314**		**-3,058**	**-3,837**	**-32,935**

Unallocated G&A costs relate to corporate costs which mainly consist of management services (i.e. corporate personnel such as CEO, CFO, investor relations, business development), IT services, legal services, finance services, HR services and IP costs (legal/patent protection).

The discontinued operation relates to the service division.

2010 SEGMENT INFORMATION

Thousands of €	Continuing operations			Discontinued operations	Unallocated costs	Galapagos Group total
	R&D	**Services**	**Intersegment eleminations**			
External revenues	71,553	42,590		8,267		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**	**57,564**	**-19,216**	**8,267**		**141,558**
Gross margin	**94,943**	**26,808**	**-15,816**	**4,255**		**110,190**
R&D Expenditure	**-99,937**		**15,288**			**-84,649**
General and administrative costs	-4,863	-12,465	431	-1,354		-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	**-10,239**	**11,600**		**2,901**	**-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 €14.5 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.

Geographical information

In 2011 the Group's operations were located in Belgium, Croatia, France, Switzerland, The Netherlands, United Kingdom and USA (5 months). 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 2011 the Group's top 10 customers represent 76% of the revenues. Our Group's client base includes 4 of the top 12 pharmaceutical companies in the world.

4. TOTAL OPERATING INCOME

Thousands of €	2011	2010
Sales of goods	12,548	2,869
Services (selling FTE)	51,762	50,192
Milestone payments	29,663	54,210
License fees	75	1,452
Recognition of up-front non refundable	1,839	13,687
Other operating income	19,403	14,148
Negative goodwill		5,000
Total	**115,290**	**141,558**

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 (for 5 months in 2011, until the sale of Compound Focus Inc. to Evotec).

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 and Belgian 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 was estimated at €5.0 million which lead to the recognition of a €5.0 million negative goodwill gain in previous year that was not subject to taxation. Special market conditions have lead to this low acquisition price.

Galapagos was able to make a gain on the purchase of the Zagreb research center, because the seller no longer had to dismiss its research personel and pay significant termination benefits. The amount of the termination benefits that would have been paid without the business combination exceeds the negative goodwill recognized by Galapagos. Before recognition of the gain on the bargain purchase, Galapagos reassessed whether it had correctly identified and measured all assets and liabilities recognized as a result of the business combination.

5. OPERATING COSTS

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

Services cost of sales

Thousands of €	2011	2010
Personnel costs	-19,891	-15,641
Disposables and lab fees	-6,137	-3,724
Depreciation	-5,942	-6,094
Other operating expenses	-8,556	-5,908
Total	**-40,526**	**-31,367**

Compared to 2010, cost of sales increased significantly due to due to the annualization of Argenta costs and due to increased personnel costs because of increased laboratory staff. Also the fact that services performed less work for the R&D segment contributes to increased cost of sales, as less costs have been shifted to R&D expenditure as compared to last year. Other operational costs mainly contain travel expenses, consultancy costs and fees.

R&D expenditure

Thousands of €	2011	2010
Personnel costs	-29,716	-27,569
Disposables and lab fees	-22,450	-25,352
Subcontracting	-20,481	-23,451
Premises costs	-7,573	-5,197
Depreciation	-3,002	-3,029
Impairment	-576	-57
Provisions	85	6
Other operating expenses	-747	
Total	**-84,460**	**-84,649**

R&D expenses decreased from €84.7 million to €84.5 million, reflecting stringent cost control on disposables and lab fees and external outsourcing.

General and administrative costs

Thousands of €	2011	2010
Personnel costs	-6,569	-6,341
Premises costs	-5,218	-4,651
Professional fees	-2,527	-2,092
Director fees	-1,493	-1,363
Depreciation	-2,577	-2,455
Provisions	-397	-85
Other operating expenses	-4,339	-4,496
Total	**-23,120**	**-21,483**

General and administrative costs increased to €23.1 million, primarily due to the annualization of Argenta and Zagreb costs, and the implementation of a company-wide ERP system to achieve better cost control and purchasing efficiencies of scale. 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 €	2011	2010
Personnel costs	-1,460	-1,705
Other operating expenses	-813	-881
Total	**-2,273**	**-2,586**

Restructuring and integration costs and impairment

Thousands of €	2011	2010
Other operating expenses		-442
Total		**-442**

The other operating expenses recorded last year, amounting to €442K, concerned mainly integration costs for Argenta Discovery 2009 Ltd.

6. PERSONNEL COSTS

The number of employees on 31 December was:

	2011	2010
	835	815
Total	**835**	**815**

The average number of employees during the year was:

	2011	2010
Key Management	7	7
Laboratory staff	698	597
Administrative staff	96	96
Total	**801**	**700**

Their aggregate remuneration comprised:

Thousands of €	2011	2010
Wages and salaries	-42,520	-36,653
Social security costs	-7,379	-6,268
Pension costs	-3,767	-3,768
Other costs	-3,970	-4,567
Total	**-57,636**	**-51,256**

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 €2,040K (2010: €2,418K). For the costs of warrants granted, we refer to note 30.

7. FINANCE INCOME

Thousands of €	2011	2010
Interest on bank deposits	297	230
Interest on short term deposits	21	8
Other financial income	541	876
Total	**859**	**1,114**

The other financial income in 2011 mainly relates to translation differences coming from USD. For 2010 this relates to translation differences coming from GBP and USD.

8. FINANCE COSTS

Thousands of €	2011	2010
Interest on obligations under finance lease	-138	-129
Other financial costs	-1,514	-1,428
Total	**-1,651**	**-1,557**

The other financial costs in 2011 mainly relate to exchange rate losses and translation differences arising from GBP. For 2010 the other financial costs mainly relate to exchange rate losses and translation differences arising from CHF.

9. TAXES

Tax assets and liabilities

Thousands of €	2011	2010
Tax assets		
Non Current tax receivables	23,081	
Current tax receivable		8,583
Total	**23,081**	**8,583**

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

Thousands of €	2011	2010
Tax liabilities		
Income tax payable	616	44
Total	**616**	**44**

Taxes recognized in profit or loss

Thousands of €	2011	2010
Current tax	-553	-538
Deferred tax (note 23)	1,182	4,321
Total	**629**	**3,782**

Corporation tax is calculated at 34% (2010: 34%) of the estimated assessable profit for the year. However, current group result before tax is a loss before tax as compared to a profit before tax last 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 €	2011	%	2010	%
Profit/loss (-) before tax	-33,727	34	588	34
Income tax credit, calculated using the Belgian statutory tax rate on the accounting profit/loss (-) before tax (theoretical)	-11,464		200	
Tax expenses in income statement (effective)	-629		-3,782	
Difference in tax expense to explain	10,835		-3,982	
Effect of tax rates in other jurisdictions	27		-840	
Effect of non taxable revenues	-8,245		-6,144	
Effect of consolidation correction without tax impact	2,247			
Effect of non tax deductible expenses	787		592	
Effect of recognition of previous non recognized deferred tax assets	-671			
Effect of change in tax rates	-49		-2	
Effect of tax losses (utilized) reversed	-4,438		-1,958	
Effect from under or over provisions in prior periods	314			
Effect of non recognition of deferred tax assets	20,863		4,369	
Total Explanations	**10,835**		**-3,982**	

The main difference between the theoretical tax and the effective tax is explained by the unrecognized deferred tax assets on tax losses carried forward for which the Company conservatively assesses that it is equally likely that these will be realized in the foreseeable future, except for BioFocus DPI Ltd. and Zagreb research center; the notional interest deduction and the investment allowances for research and development (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 the financial year 2011.

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.

Thousands of €	2011	2010
Result for the purpose of basic result per share		
- from continuing operations	-30,063	-880
- from discontinued operations	-3,034	5,250
Group result for the purpose of basic result per share	**-33,097**	**4,370**
Number of shares (thousands)		
- Weighted average number of shares for the purpose of result per share	26,403	24,284
Basic result per share (Euros)	**-1.25**	**0.18**
- Basic result from continuing operations per share (Euros)	-1.14	-0.04
- Basic result from discontinued operations per share (Euros)	-0.11	0.22

Thousands of €	2011	2010
Result for the purpose of diluted result per share, being net profit/loss		
- from continuing operations	-30,063	-880
- from discontinued operations	-3,034	5,250
Group result for the purpose of diluted result per share	**-33,097**	**4,370**
Number of shares (thousands)		
- Weighted average number of shares for the purpose of basic result per share	26,403	24,284
Number of dilutive potential ordinary shares		**1,408**
Diluted result * per share (Euros)	**-1.25**	**0.17**
- Diluted result * from continuing operations per share (Euros)	-1.14	-0.03
- Diluted result * from discontinued operations per share (Euros)	-0.11	0.20

(*) 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.

As the Group is reporting a net loss, the outstanding warrants have an anti-dilutive effect rather than a dilutive effect. Consequently, basic and diluted loss per share are the same.

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 2010	**33,751**
Acquisitions of subsidiaries	8,629
On 31 December 2010	**42,380**
Disposal of subsidiaries	-3,500
On 31 December 2011	**38,880**

As a result of the sale of Compound Focus Inc. in 2011, the goodwill decreased to €38,880K.

Thousands of €	2011	2010
Services - BioFocus	29,660	33,160
Services - Argenta	8,627	8,627
R&D	593	593
Total	**38,880**	**42,380**

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 7% for Argenta, decreasing to 5% for both by 2020 with a perpetual growth of 2%. The EBIT-margin evolves to 15% for BioFocus and Argenta. The applied discount rate scenarios (after taxes) used were 12.5% and 15%. Only when the following assumptions are applied the recoverable amounts would fall below the current book values. For Argenta, revenue growth of less than 3.5%, with perpetual growth at 2% or less, and a discount rate of more than 15%. For BioFocus, revenue growth of 3.5% or less, perpetual growth at 2% or less, and a discount rate of more than 15%. The cash flows 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% (2010: 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.

13. INTANGIBLE ASSETS

Thousands of €	Customer relationships	In process technology	Software & databases	Brands, licenses, patents & know-how	Total
Acquisition value					
At 1 January 2010	**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**
Additions			1,431	6	1,437
Sales and disposals				-1,500	-1,500
Transfer					
Translation differences	77	15	53	40	185
Balance at 31 December 2011	**4,167**	**6,066**	**6,629**	**15,131**	**31,991**
Amortization and impairment					
At 1 January 2010	**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**
Charge for the year	267		585	2,942	3,794
Impairment		143	12	421	575
Sales and disposals				-1,500	-1,500
Transfer					
Translation differences	66	15	53	38	172
Balance at 31 December 2011	**2,403**	**6,066**	**5,571**	**7,336**	**21,377**
Carrying amount					
At 31 December 2010	2,021	143	222	11,149	13,534
At 31 December 2011	**1,764**		**1,057**	**7,795**	**10,614**

The in process technology contains programs for research and development which are fully impaired in 2011 (2010: €143K). 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. The impairment and disposal recorded in current year on licenses relate to the write-off with regard to the Enceladus assets, which were returned to Enceladus. The additions in software and databases relate to the implementation of a company-wide ERP system.

14. PROPERTY, PLANT AND EQUIPMENT

Thousands of €	Land & building improvements	Installation & machinery	Furniture, fix-tures & vehicles	Other tangible assets	Total
Acquisition value					
At 1 January 2010	**11,873**	**38,671**	**621**	**5,875**	**57,040**
Additions	297	3,623	229	95	4,244
Sales and disposals	-12	-1,338			-1,351
Variations in scope	1,083	7,713	620	672	10,088
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**
Additions	231	3,820	272	72	4,396
Sales and disposals	-4	-544	-174	-9	-730
Variations in scope	-147	-2,622	-23		-2,792
Transfer		-340		340	
Translation differences	122	490	2	34	648
Balance at 31 December 2011	**13,675**	**52,514**	**1,547**	**6,998**	**74,735**
Depreciations and impairment					
At 1 January 2010	**6,573**	**27,199**	**473**	**3,511**	**37,755**
Charge for the year	1,966	4,947	226	634	7,773
Sales and disposals	-9	-1,306			-1,315
Variations in scope		2,487			2,487
Transfer					
Translation differences	130	2,462	6	30	2,629
Balance at 31 December 2010	**8,660**	**35,789**	**705**	**4,175**	**49,328**
Charge for the year	1,932	4,935	162	697	7,727
Sales and disposals		-512	-174		-686
Variations in scope	-93	-1,682	-23		-1,798
Transfer		-170		170	
Translation differences	96	517	4	23	640
Balance at 31 December 2011	**10,594**	**38,877**	**674**	**5,066**	**55,211**
Carrying amount					
At 31 December 2010	4,814	15,922	765	2,386	23,886
At 31 December 2011	**3,082**	**13,637**	**873**	**1,932**	**19,524**

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 €	2011	2010
Raw materials and supplies (net)	389	794
Work in progress (net)	113	236
Finished goods		408
Total	**502**	**1,437**

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 relate to completed molecule collections that are available for sale and that are valued at the lowest of the cost price and the net realizable value. At year-end 2011 all finished goods have been recharged towards customers. In 2011 there were no write-offs on stock (2010: €148K).

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

Available for sale financial assets of €805K (2010: €781K) 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 2011 remained at a fair value of €0.

	Measurement at cost		Measurement at fair value	
Thousands of €	2011	2010	2011	2010
Available for sale financial assets	1,037	1,096	805	781
Other non current assets	191	184		
Total	**1,228**	**1,280**	**805**	**781**

17. TRADE AND OTHER RECEIVABLES

Thousands of €	2011	2010
Trade receivables	25,048	49,279
Prepayments	2,769	2,272
Other receivables	2,194	3,350
Other current receivables	2,495	3,905
Accrued income	1,616	2,334
Deferred charges	879	1,571
Total	**32,505**	**58,806**

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 €	2011	2010
Bank balances	32,543	40,072
Short term deposits		232
Other cash equivalents		46
Cash at hand	12	47
Total	**32,555**	**40,397**

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 €	2011	2010
Share capital Galapagos NV	142,928	142,590
Costs of capital increases (accumulated)	-5,468	-5,468
Capital	**137,460**	**137,122**

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 €)
1 January 2010				**23,610,820**	**127,723,203**
31 December 2010				**26,358,984**	**142,590,770**
30 March 2011		284,003	52,496	26,411,480	142,874,773
30 June 2011		45,368	8,386	26,419,866	142,920,142
19 December 2011		8,521	1,575	26,421,441	142,928,662
31 December 2011				**26,421,441**	**142,928,662**

As of 1 January 2010, 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 2011 no warrants were exercised under this plan and 491,350 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 2011 no warrants were exercised under this plan and 190,248 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 2011 no warrants were exercised under this plan and all warrants were still outstanding.

On 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.

On 30 March 2011, warrants were exercised at various exercise prices under Warrant Plan 2005, Warrant Plan 2006 Belgium/The Netherlands, Warrant Plan 2006 UK, Warrant Plan 2007 and Warrant Plan 2007 RMV. The exercise resulted in a share capital increase of €284,003.36 (plus €185,260.31 in issuance premium) and the issuance of 52,496 new shares.

On 23 May 2011, the Board of Galapagos decided, within the framework of the authorized capital, to create a maximum of 802,500 warrants, for the benefit of certain employees and independent consultants of Galapagos and its subsidiaries under a new warrant plan ("Warrant Plan 2011"). After acceptances, the total number of warrants de facto created and granted under this plan is 619,000. These warrants have a term of eight years. The exercise price of the warrants is €9.95. As of 31 December 2011 no warrants were exercised under this plan and all warrants were still outstanding.

On 23 May 2011, the Extraordinary General Shareholders' Meeting of Galapagos decided to create a maximum of 131,740 warrants, for the benefit of the directors of Galapagos under a new warrant plan ("Warrant Plan 2011 (B)"). After acceptances, the total number of warrants de facto created and granted under this plan is 129,220. These warrants have a term of five years. The exercise price of the warrants is €9.95. As of 31 December 2011 no warrants were exercised under this plan and all warrants were still outstanding.

On 30 June 2011, 8,386 warrants were exercised under Warrant Plan 2006 Belgium/The Netherlands. The exercise resulted in a share capital increase of €45,368.26 (plus €26,835.20 in issuance premium) and the issuance of 8,386 new shares.

On 19 December 2011, 1,575 warrants were exercised under Warrant Plan 2006 Belgium/The Netherlands. The exercise resulted in a share capital increase of €8,520.75 (plus €2,693.25 in issuance premium) and the issuance of 1,575 new shares.

On 31 December 2011, the Company's share capital amounted to €142,928,662.81, represented by 26,421,441 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 23 May 2011, 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 FSMA (Financial Services and Markets Authority) 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 23 May 2011 amounted to €142,590,770.44. As of 31 December 2011, this renewed authorized capital had not yet been used, so that on the balance sheet date an amount of €142,590,770.44 still remained available under the authorized capital.

20. SHARE PREMIUM

Thousands of €	2011	2010
On 1 January	71,806	54,901
Increase as a result of capital increase in cash	215	16,905
On 31 December	**72,021**	**71,806**

21. TRANSLATION DIFFERENCE

Thousands of €	2011	2010
On 1 January	-343	-2,026
Translation differences, arisen from translating foreign activities	378	1,683
On 31 December	**35**	**-343**

The increase in translation differences is mainly related to the translation of foreign operations in CHF.

22. DERIVATIVE FINANCIAL INSTRUMENTS

Currency derivatives

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

On 31 December 2011 the fair value of the Group's currency derivatives is estimated to be nil (2010: 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 Group manages financial risks.

23. DEFERRED TAX

	Thousands of €	2011	2010
I	**Recognized deferred tax assets and liabilities**		
	Assets	2,165	3,658
	Liabilities	-2,403	-2,693
II	**Deferred tax assets unrecognized**	**105,642**	**91,191**
III	**Deferred taxe income**	**1,182**	**4,321**
	Deferred tax expenses net relating to origination and reversal of temporary differences	511	1,902
	Tax benefit arising from previously unrecognized tax assets used to reduce deferred tax expense (+)	671	2,419

| Notes

The notional interest deduction for an amount of €7,169K (2010: €4,397K) and the investment deduction of €1,916K (2010: €1,629K) could give rise to deferred tax assets. The notional interest deduction can be carried forward for maximum 7 years; there is no limit in time for the investment deduction.

The unused tax losses carried forward at 31 December 2011 amount to €350,650K (2010: €297,926K). €75,127K relates to unrecognized tax losses with expiry date between 2012 and 2024.

The tax losses carried forward can be compensated with future profits of the Group for an indefinite period except for Switzerland, the US and Croatia. Because BioFocus DPI Ltd. was profitable in 2010 and 2011 and management expects that this situation is sustainable, a deferred tax asset was set up for an amount of €1,493K (2010: €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 which is limited in time (5 years), was set up for the Zagreb research centre for an amount of €663K. This relates to the use of tax losses carried forward.
The deferred tax liabilities relate to corrections on the value of fixed assets of BioFocus DPI Holdings and Argenta.

24. FINANCE LEASE LIABILITIES

	Minimum lease payments		Present value of minimum lease payments	
Thousands of €	2011	2010	2011	2010
Amounts payable under finance lease				
Within one year	531	509	425	378
In the second to fifth years inclusive	667	1,194	451	867
After five years				
	1,198	**1,702**	**876**	**1,245**
Less future finance charges	322	456		
Present value of lease obligation	**876**	**1,246**		
Less amount due for settlement within 12 months			425	378
Amount due for settlement after 12 months			**451**	**867**

	Net book value		Acquisition cost	
Thousands of €	2011	2010	2011	2010
Leased assets				
Land & buildings		810		1,155
Installation & machinery	1,227	1,232	4,679	3,626
Furniture, fixtures & vehicles		9		184
Total	**1,227**	**2,051**	**4,679**	**4,965**

The Group leases certain of its installation and machinery under finance leases. For the year ended 31 December 2011, the average borrowing rate was 13.11% (2010: 12.34%). 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. Leased assets decreased because some assets were erroneously classified as leased assets in 2010.

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 €	2011	2010
Minimum lease payments under operating leases recognized in the income statement for the year	7,065	5,885
Total	**7,065**	**5,885**

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

Thousands of €	2011	2010
Within one year	6,927	7,413
In the second to fifth years inclusive	24,517	16,984
After five years	17,717	13,210
Total	**49,161**	**37,608**

26. TRADE AND OTHER PAYABLES

Thousands of €	2011	2010
Trade payables	18,068	22,012
Other creditors	2,253	1,701
Other current liabilities	15,857	15,789
Accrued charges	2,837	2,624
Deferred income	13,020	13,165
Total	**36,178**	**39,502**
Included in current liabilities	33,925	37,801
Included in non-current liabilities	2,253	1,701
Total	**36,178**	**39,502**

Deferred income relates for 35% to upfront payments and maintenance fee on R&D projects and 65% to advanced payments received by the service division. During 2011, upfront payments, a maintenance fee from Janssen, and grants were taken into revenues. A new upfront payment from Servier was added to deferred income.

27. PROVISIONS

Thousands of €	Post-employment benefits	Restructuring provision	Other provisions	Total
Balance per 1 January 2011	**4**		**838**	**842**
Additional provisions		388	9	397
Provisions utilized amounts			-51	-51
Reversed			-34	-34
Variations in scope				
Translation differences		5	21	26
Balance at 31 December 2011	**4**	**393**	**783**	**1,180**

Additional provisions contain a restructuring provision of €388K for a subdivision of the Swiss operations.

28. CONTINGENT LIABILITIES AND ASSETS

As a result of the acquisition of ProSkelia SASU (now: Galapagos SASU) from ProStrakan in 2006, 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 cash flow 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 in 2010, Galapagos Research Center is entitled to subsidy payments of €10.75 million over a period of three years from the acquisition until May 2013. In return, Galapagos Research Center is obliged to perform research services for GSK should such work be requested by GSK.

As a result of the sale of Compound Focus, Inc. to an affiliate of Evotec AG on 1 June 2011, the seller BioFocus, Inc. (an affiliate of Galapagos) may still receive additional earn-out payments of maximum €2,250,000 in the period between the sale and the end of 2013, based on certain parameters that could be achieved by Compound Focus, Inc. under its new shareholder. The achievement of these parameters will generate a net positive cash flow for the Group, but this is still too uncertain. Due to this uncertainty a contingent asset has not been recorded yet.

29. RETIREMENT BENEFIT SCHEME

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 2011 was €2,543,460 (2010: €2,427,436) and no amounts were outstanding as of 31 December 2011 (2010: €107,096). 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 2011 Galapagos SASU paid for this purpose €554,398 (2010: €632,844).
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 €728,641 for 2011 (2010: €517,421).

Additionally, there are also seniority premiums paid in France. The provisions for these premiums amounted to €697,322 in 2011 (2010: €612,293).

Obligations included in the balance sheet

In €	12/31/2011	12/31/2010
Present value of funded defined benefit obligation	728,641	517,421
Fair value of plan assets		
Shortage	728,641	517,421
Actuarial gains or losses (-) not recognized	-179,464	-73,485
Liability included in the balance sheet	**549,177**	**443,936**

The present value of the gross obligation developed as follow

In €	12/31/2011	12/31/2010
Opening balance	517,421	421,351
Acquired through business combination		
Current service cost	75,568	47,898
Interest cost	29,673	21,700
Benefits paid		
Impact modification rights	107,274	
Actuarial gains (-) or losses	-1,295	26,472
Closing balance	**728,641**	**517,421**

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

In €	12/31/2011	12/31/2010
Current service cost	75,568	47,898
Interest cost	29,673	21,700
Actuarial gains or losses (-)		250
Total expense	**105,241**	**69,848**

Obligation included in the balance sheet reconciles as follows

In €	12/31/2011	12/31/2010
Opening balance	443,936	374,088
Total expense	105,241	69,848
Paid allowances and contributions by the employer		
Closing balance	**549,177**	**443,936**

The most important actuarial assumptions are

In €	12/31/2011	12/31/2010
Discount rate	4.75%	4.75%
Expected salary increase	2.50%	2.50%

Adjustments resulting from experience amount to

In €	12/31/2011	12/31/2010
Present value of the gross obligation	728,641	517,421
Experience adjustments	-2,887	-1,529

30. WARRANT PLANS

Presented below is a summary of stock warrant plans activity for the reported periods. Various Warrant Plans were approved in favour of directors and independent consultants of Galapagos NV, and of employees of the Group. The warrants offered to employees and independent consultants vest according to the following schema: 10% of the number of warrants granted vest upon the date of the grant; an additional 10% vest at the first anniversary of the grant; an additional 20% vest at the second anniversary of the grant; an additional 20% vest at the third anniversary of the grant; and an additional 40% vest at the end of the third calendar year following the grant. This vesting mechanism does not apply to the warrants granted under the Warrant Plan 2011, for which all warrants vest only at the end of the third calendar year following the year of the grant, with no intermediate vesting. The warrants offered to directors vest after 36 months at a rate of 1/36th per month. Warrants cannot be exercised before the end of the third calendar year following the year of the grant. Pursuant to a resolution of the Extraordinary General Shareholders' Meeting of 23 May 2011 an in principle provision has been incorporated in the Warrant Plans that in the event of a change of control of the Company all outstanding warrants vest immediately and will be immediately exercisable.

After the reverse 4:1 share 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 2011, per Warrant Plan:

Warrants	Allocation date	End term	Exercise Price	Outstand-ing at 1 January	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstand-ing at 31 December	Exercis-able at 31 December
2002 B	15/06/04	14/06/17	4	2,000					2,000	2,000
2002 B	09/07/04	08/07/17	4	31,250					31,250	31,250
2002 B	31/01/05	30/01/17	6.76	105,000					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	60,000					60,000	60,000
2005	15/12/05	14/12/18	8.60	12,500					12,500	12,500
2005	22/11/06	21/11/19	8.65	25,681		4,236			21,445	21,445
2006 BNL	13/02/06	12/02/19	8.61	67,507		8,386			59,121	59,121
2006 BNL	22/11/06	21/11/19	8.65	7,000					7,000	7,000
2006 BNL	14/02/07	13/02/15	9.57	14,542		5,600		8,942		
2006 BNL	14/02/07	13/02/20	9.57	21,245		3,570		17,675		
2006 BNL	04/05/07	03/05/20	9.22	17,500		10,000			7,500	7,500
2006 BNL	28/06/07	27/06/20	8.65	735					735	735
2006 BNL	21/12/07	20/12/15	7.12	1,047		430		617		
2006 BNL	21/12/07	20/12/20	7.12	13,896		1,701		840	11,355	11,355
2006 UK	01/06/06	31/05/14	8.70	57,828		1,799		1,312	54,717	54,717
2006 UK	22/11/06	21/11/14	8.65	6,728		1,323			5,405	5,405
2006 UK	19/12/06	18/12/14	9.18	14,875		5,250			9,625	9,625
2006 UK	28/06/07	27/06/15	8.43	22,069		1,575		1,039	19,455	19,455
2006 UK	21/12/07	20/12/15	7.25	945		441			504	504

2007	28/06/07	27/06/15	8.65	119,390		6,987			112,403	112,403
2007	28/06/07	27/06/20	8.65	197,015		8,709		5,138	183,168	183,168
2007 RMV	25/10/07	24/10/20	8.65	104,195		2,450		245	101,500	101,500
2008	26/06/08	25/06/16	5.60	925			126		799	
2008	26/06/08	25/06/21	5.60	193,320					193,320	
2008 B	26/06/08	25/06/13	5.60	55,000					55,000	
2009	01/04/09	31/03/17	5.87	521,000			15,000		506,000	
2009 B	02/06/09	01/06/14	7.09	56,670					56,670	
2009 B	02/06/09	01/06/17	7.09	75,000					75,000	
2010	27/04/10	26/04/18	11.55	499,750			8,400		491,350	
2010 B	27/04/10	26/04/15	11.55	195,040			4,792		190,248	
2010 C	23/12/10	22/12/18	11.74	75,000					75,000	
2011	23/05/11	22/05/19	9.95		619,000				619,000	
2011 B	23/05/11	22/05/16	9.95		129,220				129,220	
Total				**2,719,653**	**748,220**	**62,457**	**28,318**	**35,808**	**3,341,290**	**949,683**

	Warrants	Weighted average exercise price
Outstanding on 1 January 2010	**2,388,394**	**7.34**
Exercisable on 31 December 2009	761,703	
Granted during the period	776,540	
Forfeited during the year	-57,045	
Exercised during the period	-358,817	
Expired during the year	-29,419	
Outstanding on 31 December 2010	**2,719,653**	**8.37**
Exercisable on 31 December 2010	542,484	
Granted during the period	748,220	
Forfeited during the year	-28,318	
Exercised during the period	-62,457	
Expired during the year	-35,808	
Outstanding on 31 December 2011	**3,341,290**	**8.70**
Exercisable on 31 December 2011	949,683	

The table below sets forth the valuation of the warrants.

Belgian Plans	2011		2010		
	23 May	23 May	27 Apr	27 Apr	23 Dec
Exercise Price	9.95	9.95	11.55	11.55	11.74
Current share price	9.54	9.54	11.10	11.10	12.07
Fair value on the grant date	4.70	3.68	4.02	5.30	6.24
Estimated volatility (%)	39.49	39.49	39.23	39.23	39.38
Time to expiration (years)	8.00	5.00	5.00	8.00	8.00
Risk free rate (%)	3.50	3.50	2.18	2.92	3.76
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 2011 amounted to €2,040K (2010: €2,418K).

The following table provides an overview of the outstanding warrants per category of warrant holders at 31 December 2011.

	Number of warrants	
Category	2011	2010
Non-executive Directors	163,070	141,350
Executive Team	1,357,500	1,132,500
Other	1,820,720	1,445,803
Total Warrants outstanding	**3,341,290**	**2,719,653**

The outstanding warrants at the end of the accounting period have an average exercise price of €10.52 (2010: €8.37) and a weighted average remaining useful life of 2,103 days (2010: 2,442 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 2011 and 2010, 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 2011 and 2010 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).

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 2011 (as in 2010), 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 2011, a total of 129,220 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 23 May 2011. In 2010, the total number of warrants issued to Directors was 195,040 (of which 100,000 for the CEO) by decision of the Extraordinary General Shareholders' Meeting of 27 April 2010.

32. REMUNERATION OF KEY MANAGEMENT PERSONNEL

On 31 December 2011, 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 2011 comprises:

Thousands of € (except for the number of warrants)	12/31/2011	12/31/2010
Short-term employee benefits(*)	3,044	2,757
Post-employment benefits	88	70
Total benefits excluding warrants	**3,132**	**2,827**
Number of warrants offered in the year	225,000	280,000

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

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 2011 to the members of the Executive Committee were offered under the Warrant Plan 2011 and the Warrant Plan 2011 (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 eligible to receive bonuses under the Senior Management Bonus Scheme established in 2006. Pursuant to the rules of the Senior Management Bonus Scheme 50% of the bonus is paid immediately around year end and the payment of the other 50% is deferred for three years. The deferred 50% component is dependent on the Company's share price change relative to the Next Biotech Index (which tracks the Company's peers). The Company's share price and Index at the start and end of the 3 year period is calculated by the average price over the preceding and last month of the 3 year period, respectively.

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

To be entitled to any deferred payment under the bonus scheme the beneficiary must still be in the Company's employ.

The seven members of the Executive Committee (including the CEO) who were in function on 31 December 2011 were paid an aggregate amount of €1,770,663 in remunerations and received an aggregate amount of €925,876 in bonuses (paid in early January 2012), the latter being the 50% deferred part of the bonus of 2008. This deferred part was established at the end of 2011 using a multiple of 2.8735 of said deferred part (€322,213) of the 2008 bonus, as a result of the share price performance over the period 2008-2011. They did not receive a bonus for performances in 2011 as 3 out of 5 criteria from the Senior Management Bonus Scheme to be entitled to a bonus (i.e. the corporate objectives for 2011) were not achieved. Over 2010, the members of the then Executive Committee (comprising 7 members including the CEO) were paid an aggregate amount of €1,594,249 in remunerations and an aggregate amount of €342,269 in bonuses (with another amount of €342,269 in bonuses for 2010 being deferred for three years).

Other components of their remuneration included contributions to the Group's pension and health insurance schemes, company cars 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 26 April 2011 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 2011, a total amount of €80,000 was paid to the independent Directors as Board fees (including for chairing the Audit Committee) (2010: €63,333) and €3,798 as expenses (2010: €4,053).

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 2011 an aggregate amount of €28,333 was paid to these Directors (2010: €35,000); they did not claim reimbursement of expenses.

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. This rule did not require implementation in 2011.

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 2011 or 2010.

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.

In 2011, 29,220 warrants were granted to non-executive Directors (2010: 95,040 warrants).

33. CONSOLIDATED COMPANIES AS OF 31 DECEMBER 2011

Name of the subsidiary	Country	% voting right Galapagos NV (directly or indirectly through subsidiaries)	Change in % voting right previous period (2011 vs 2010)
Argenta Discovery 2009 Ltd.***	United Kingdom	100%	
Biofocus DPI (Holdings) Ltd.	United Kingdom	100%	
Biofocus DPI AG	Switzerland	100%	
Biofocus DPI Ltd.	United Kingdom	100%	
BioFocus DPI, LLC.	United States	100%	
BioFocus, Inc.	United States	100%	
Cambridge Discovery Ltd.**	United Kingdom	100%	
Cambridge Drug Discovery Holding Ltd.**	United Kingdom	100%	
Cambridge Genetics Ltd.**	United Kingdom	100%	
Compound Focus, Inc.*	United States	0%	(100%)
Discovery Partners International GmbH	Germany	100%	
Galapagos BV	The Netherlands	100%	
Galapagos istraživački centar d.o.o.***	Croatia	100%	
Galapagos SASU	France	100%	
Inpharmatica Ltd.	United Kingdom	100%	
Xenometrics, Inc.	United States	100%	

** On 1 June 2011, BioFocus, Inc. sold the 100% of the shares of Compound Focus, Inc. to an affliate of Evotec AG. In this report, discontinued operations include the compound management business of BioFocus (Compound Focus Inc., based in South San Francisco, CA, USA) until 31 May 2011 and the result of the sale.*
*** Dormant legacy companies (acquired with the acquisition of BioFocus) in the process of being dissolved.*
**** Acquired in 2010.*

| Notes

34. COMPANY ACQUISITIONS AND SALES

Sale Compound Focus, Inc.

Thousands of €	31/5/2011
Transfer of fully consolidated company	
Fixed assets	993
Financial assets	41
Trade & other receivables	761
Prepayments	2,544
Cash	57
Total assets	**4,396**
Equity	3,469
Trade payables	64
Accrued charges	175
Deferred income	688
Total equity and liabilities	**4,396**
Total assets	4,396
Total liabilities	927
Translation differences	355
Net assets	3,114
Goodwill at acquisition	3,500
Costs associated to sale	1,482
Sell price	**10,249**
Gain/loss on sale	**2,154**
Net cash from divestment	**8,710**

During the year 2011, one company was sold.

On 1 June 2011 Galapagos sold its facility in South San Francisco (Compound Focus Inc.), the compound management business of BioFocus, to a subsidiary of Evotec AG. This facility has been part of BioFocus, the service division of the Galapagos Group, since the acquisition of the Discovery Partners International assets by Galapagos in July 2006. For the sale of all shares in Compound Focus, Galapagos received a cash upfront of €10.25M with an additional €2.25M in potential earn out payments. These earn out payments are considered to be contingent assets and have consequently not yet been recognized in accordance with IAS 37. The realized gain on the sale of Compound Focus amounts to €2.2M.
Due to debt restructuring resulting from the sale of Compound Focus, Inc., the R&D division reported a gain of €5.2M, whereas Compound Focus, Inc. realized a €3.0M loss as discontinued operation.

Acquisition Argenta and Zagreb

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 profi t 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 fi gures 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 profi tability 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 fi nalised, 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 profi t 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.

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 JUDGEMENTS

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 cash flow 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 €38,880 (2010: €42,380K). No impairment loss was recognized during 2011 or 2010.

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.

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 2010.

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 €	2011	2010
Financial assets		
Cash at bank and in hand	32,555	40,397
Trade receivables	25,048	49,279
Other amounts receivable	2,194	3,350
Tax receivables	23,081	8,583
Financial liabilities		
Trade debtors	18,068	22,012
Other amounts payable	2,253	1,701
Leasing debts	876	1,245
Tax payable	616	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.

Three clients represented 77% of the trade receivables at the end of 2011. The large percentage at year-end was caused by important milestone payments that will be paid in 2012. Other clients with outstanding payables represented less than 10% of the total balance sheet of the Group at the end of 2011. 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 €	2011
60 - 90 days	72
90 - 120 days	1

Liquidity risk

The Group's consolidated balance sheet shows an amount of €91,140K as incurred losses. Based on its projections, management expects the Company to be profitable in 2012. 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 and upfront 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 its current operations for at least the next 3 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 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. As from November 2011 Galapagos no longer receives interests on the CDO.

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 Croatian Kuna. To limit this risk, the Group attempts to align incoming and outgoing cash flows 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-11	31-Dec-10
Euros - US Dollars	682	4
Euros - GB Pounds	371	3,211
Euros - CH Francs	503	6
Euros - HR Kunas	977	59
CH Francs - GB Pounds	4	14
HR Kunas - GB Pounds	21	31

The magnitude of the amounts on 31 December 2011 has increased mainly in the conversion Euros – US dollars, CH Francs and HR Kunas, despite a decrease in the conversion Euros – GB Pounds.

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 €80,250 in 2011. The fees for exceptional services or special missions executed by the statutory auditor, in particular other control missions, amounted to €5,510 in 2011. 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 €119,750 in 2011. The fees paid in 2011 for exceptional services or special missions executed in this Group by persons related to the statutory auditor for tax consultancy amounted to €76,328. 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.

38. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Galapagos announced the following significant events after 31 December 2011:

- 25 January: Almirall and Galapagos entered into a research alliance
- 21 February: GSK exercised its option for investigational medicines GLPG0778 and GLPG0555
- 29 February: Abbott and Galapagos announced a global collaboration for GLPG0634 in Phase 2 to treat autoimmune diseases; an upfront payment of $150 million will be received in 2012 and will be recognized as revenue over the period starting from the receipt of the payment until the (estimated) end of Phase 2b
- 2 March: Galapagos received €3.5 million in milestones in the osteoarthritis alliance with Servier, which are included in 2011 revenues.

Report of the statutory auditor

Galapagos NV
Statutory auditor's report on the consolidated financial statements
for the year ended 31 December 2011 to the shareholders' meeting

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 comment.

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") for the year ended, 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 2011, the consolidated statement of comprehensive income, 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 161.055 (000) EUR and the consolidated income statement shows a consolidated loss for the year then ended of 33.097 (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.

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, together with the reports of other auditors on which we have relied, provides a reasonable basis for our opinion.

In our opinion, and based upon the reports of other auditors, the consolidated financial statements give a true and fair view of the group's financial position as of 31 December 2011, 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 comment

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 comment which does 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, 20 March 2012

(signed)

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

GALAPAGOS NV STATEMENT OF PROFIT AND LOSS

Thousands of € on 31 December	2011	2010
Turnover	26,509	25,777
Internally generated intangible assets	61,380	79,153
Other operating income	8,818	10,187
Operating income	**96,707**	**115,117**
Raw materials, consumables and goods for resale	-3,852	-3,963
Services and other goods	-69,205	-71,548
Remuneration, social security costs and pensions	-9,809	-9,299
Depreciation, impairment and other amounts written off on constitution costs, intangible and tangible assets	-33,710	-14,631
Other operating charges	-2,093	-3,496
Operating profit/loss (-)	**-21,962**	**12,180**
Finance income	1,760	3,820
Finance cost	-1,558	-3,265
Result on ordinary activities before taxes	**-21,760**	**12,735**
Extraordinary income	3	7
Extraordinary cost	-10,728	-1
Result before taxes	**-32,485**	**12,741**
Taxes		
Result for the year	**-32,485**	**12,741**
Loss brought forward	-55,570	-68,311
Result to be carried forward	**-88,055**	**-55,570**

GALAPAGOS NV BALANCE SHEET ON DECEMBER 31

Assets

Thousands of € on 31 December	2011	2010
Non-current assets	**185,966**	**142,998**
Intangible assets	98,314	66,900
Property, plant and equipment	3,306	3,108
Financial Fixed Assets	84,346	72,990
Current assets	**62,055**	**101,056**
Inventories	206	208
Trade and other receivables	55,162	72,321
Cash and cash equivalents	6,687	28,527
Total assets	**248,021**	**244,054**

Equity and liabilities

Thousands of € on 31 December	2011	2010
Equity	**122,627**	**153,558**
Share capital and reserves	142,929	142,591
Share premium account	66,061	65,846
Accumulated losses	-88,055	-55,570
Investment grants	1,693	691
Liabilities	**125,394**	**90,496**
Non-current liabilities	**855**	**917**
Obligations under finance lease (non-current)	495	650
Other liabilities	360	267
Current liabilities	**124,539**	**89,579**
Trade and other payables	68,551	72,196
Obligations under finance lease (current)	188	173
Tax, payroll and social security liabilities	1,920	1,909
Other liabilities	53,880	15,301
Total equity and liabilities	**248,021**	**244,054**

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 3 study. Most new drug R&D programs are discontinued before reaching Phase 3 because they are not successful enough to be approved

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, COPD 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

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

Clinical Proof of Concept (PoC)
Point in the drug development process where the 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

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 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

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 service provider is paid a specific amount for each procedure or service performed

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

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

FTE
Full-time equivalent; a way to measure 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; currently in a Phase 1b patient study

GLPG0492
Candidate cachexia drug derived from Galapagos' selective androgen receptor modulator (SARM) program; currently in a Phase 1 Proof-of-Mechanism study

GLPG0555
First candidate drug from Galapagos' arthritis alliance with GlaxoSmithKline; inlicensed by GSK in 2012

GLPG0634
Small molecule selective JAK1 inhibitor which showed excellent efficacy and safety in rheumatoid arthritis patients in a Phase 2 Proof-of-Concept trial in November 2011, partnered with Abbott in 2012

GLPG0778
Second candidate drug from Galapagos' arthritis alliance with GlaxoSmithKline, inlicensed by GSK in 2012

GLPG0974
Galapagos candidate drug targeting GPR43, which plays a key role in Inflammatory Bowel Disease: currently in a First-in-Human Phase 1 study in healthy volunteers

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

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

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 under ticker symbol GLPYY 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 1
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 2
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 3
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
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

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

Rheumatoid arthritis (RA)
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 to play a role in a disease process

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

Galapagos NV
Generaal De Wittelaan L11 A3
2800 Mechelen
Belgium
Tel: +32 15 34 29 00
Fax: +32 15 34 29 01
E-mail: ir@glpg.com

Careers
E-mail: jobs@glpg.com
www.glpg.com/careers/jobs.htm

www.glpg.com

Our offices