



Annual Report 2013

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Annual Financial Report 2013

This document, Galapagos' Annual Financial Report 2013, contains all required information as per the Belgian Code of Companies.

LANGUAGE OF THE ANNUAL FINANCIAL REPORT 2013

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 2013

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

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An electronic version of the Annual Financial Report 2013 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 2013 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 2013 may contain forward-looking statements, including, without limitation, statements containing the words "believes," "anticipates," "expects," "intends," "plans," "seeks," "estimates," "may," "will," "could," "stands to," and "continues," as well as similar expressions. Such forward-looking statements may involve known and unknown risks, uncertainties and other factors which might cause the actual results, financial condition, performance or achievements of Galapagos, or industry results, to be materially different from any historic or future results, financial conditions, performance or achievements expressed or implied by such forward-looking statements. Given these uncertainties, the reader is advised not to place any undue reliance on such forward-looking statements. These forward-looking statements speak only as of the date of publication of this document. Galapagos expressly disclaims any obligation to update any such forward-looking statements in this document to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based, unless required by law or regulation.



Report of the Board of Directors

BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2013

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 2013.

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. (Saffron Walden, UK); BioFocus, Inc. and its subsidiaries, BioFocus DPI LLC, and Xenometrix Inc.; BioFocus DPI AG (Basel, Switzerland) and its subsidiary Discovery Partners International GmbH (Heidelberg, Germany); Inpharmatica Ltd. (Saffron Walden, UK); Galapagos SASU (Romainville, France), Argenta Discovery 2009 Ltd. (Harlow, UK), Cangenix Ltd. (Canterbury, UK) and Fidelta d.o.o. (Zagreb, Croatia).

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

In 2013, Galapagos delivered further validation of its strategy and scientific approach, both in the clinic and on the deal-making front. Galapagos' pipeline has matured further and is supported by the strongest balance sheet ever. The Company expects readouts from four patient studies between now and the end of 2015, with additional novel target based programs moving into pre-clinical and clinical stages in that period as well. Galapagos is well-positioned to capitalize on its considerable R&D assets.

Financially, 2013 was a very good year for the Company. The Company grew Group revenues 4% to €160 million, in line with management guidance. The Company limited its operating and net loss, notwithstanding the planned substantial increase in spending on Phase 2 clinical programs. The service division improved its performance in the second half of the year, delivering 5% external revenues growth in H2 2013 compared to H2 2012, normalized for the discontinuation of BioFocus' Basel operations. Despite the weak first half of 2013, the service division ended the full year with 2% external

sales growth on a normalized basis¹. Galapagos' liquid assets position is solid with cash reserves of €141.5 million on 31 December 2013 plus €6.0 million in 2013 milestone receivables. With the subsequent divestiture of the service operations in March 2014, Galapagos has strengthened its balance sheet to unlock more shareholder value in the pipeline.

R&D division delivers strong Phase 2 pipeline, with substantial progress in earlier stage programs

Galapagos invested substantially in its R&D programs, reflecting the progression of multiple programs into Phase 2 clinical development. More than half of the investment made was on Phase 2 studies in rheumatoid arthritis and Crohn's disease with selective JAK1 inhibitor GLPG0634, putting Galapagos into position to earn a \$200 million licensing fee and a \$50 million Crohn's success payment in 2015. Galapagos ended 2013 with three Phase 2 drugs, one Phase 1, six pre-clinical, and more than 20 discovery programs.

In the field of inflammation, Galapagos made good progress in, and expanded, the GLPG0634 franchise with AbbVie. The Company announced an agreement with AbbVie to enlarge the Phase 2B program in rheumatoid arthritis, receiving an additional \$20 million from AbbVie to compensate for the cost of inclusion of more patients. The study was enlarged to bring the number of patients per cohort in line with cohort sizes of competitor studies. Later in the year, Galapagos announced an agreement to include Crohn's disease in the alliance; Galapagos will fund and run a Phase 2 study in Crohn's disease, potentially enabling an immediate subsequent entry in Phase 3 in this indication and winning 2 years' time in the development path to registration. In return for this, Galapagos is eligible to receive an additional \$50 million fee upon successful achievement of pre-agreed criteria in the Phase 2 study in Crohn's disease.

Galapagos started the global Phase 2B program with GLPG0634 in patients with moderate to severe RA who do not respond to methotrexate (MTX). DARWIN 1 is a dose-range finding study in up to 595 patients on background treatment of MTX. DARWIN 2 is a dose-range finding study in up to 280 patients without MTX. Both studies are placebo-controlled for the first 12 weeks, with 12 more weeks of treatment after that to collect further safety data. DARWIN 3 is a long-term extension study to gather additional safety data. On 7 March 2014, Galapagos reported that DARWIN 1 remains on track to deliver topline 12 week safety and efficacy data by end 2014.

Galapagos completed preparations in 2013 to start the Phase 2 study in Crohn's disease with GLPG0634 in January 2014. This innovative study is designed to enroll up to 180 patients with Crohn's disease, evaluating the induction of disease remission and exploring the early maintenance of its beneficial effects with up to 20 weeks of treatment. Patients will be recruited from 49 centers in Eastern and Western Europe.

Furthermore, Galapagos initiated a Phase 2 Proof-of-Concept study with FFA2 inhibitor GLPG0974 in ulcerative colitis. Target FFA2 was identified by Galapagos as playing a key role in inflammation, and GLPG0974 has shown up to 90% inhibition of a relevant biomarker for FFA2 in Phase 1 studies. FFA2 is important for the migration of neutrophils, the first line of the body's defense system. Neutrophils are overactive in ulcerative colitis patients, leading to inflammation and painful ulcers in the colon. GLPG0974 is aimed at reducing neutrophil migration. The placebo-controlled Proof-of-Concept study with GLPG0974 explores 200 mg BID dosing in 45 ulcerative colitis patients for 4 weeks in 16 centers in Belgium and Eastern

¹ '13 Group revenues comprise R&D revenues of €96.4 M and Services revenues of €63.2 M. '12 Group revenues comprise R&D revenues of €87.3 M, normalized Services revenues of €61.9 M and Basel revenues of €3.8 M. The Basel operations of BioFocus were discontinued in 2012.



Europe. Galapagos recently announced the completion of recruitment for the study, with topline efficacy and safety results expected in June 2014.

The Company reported positive results with GLPG1205, a novel mode of action in Inflammatory Bowel Disease (IBD) in the inflammation alliance with Janssen Pharmaceuticals NV (J&J). GLPG1205 demonstrated target engagement, a clean safety profile, and favorable drug-like properties. Galapagos is preparing plans for a Phase 2 study in IBD, to be filed by end 2014.

In the course of 2013, GlaxoSmithKline (GSK) initiated three patients studies with selective JAK1 inhibitor GSK2586184, formerly known as GLPG0778 and inlicensed from Galapagos in 2012. In February 2014, GSK disclosed to Galapagos that the dose-range finding Phase 2 study with up to 64 psoriasis patients on 12 weeks of treatment was completed and that topline results are expected in H1 2014. GSK further notified Galapagos that the Phase 2 study in lupus was stopped after a first planned interim analysis, due to a lack of effect, and that the exploratory Phase 1/2 study with up to 15 ulcerative colitis patients was put on hold.

In cystic fibrosis (CF), Galapagos and AbbVie announced a global agreement to co-develop novel oral therapies to treat the main mutation affecting 70% of CF patients. Both companies contribute funding and science to the collaboration. Galapagos will lead the research up until completion of Phase 2, when AbbVie will lead the Phase 3 development and commercialization. Galapagos received a \$45 million upfront payment and is eligible to receive up to \$360 million in success-based milestones, plus tiered double-digit royalties on global sales of approved drugs. Galapagos retains commercial rights in China and South Korea and co-promotion rights in the Benelux countries.

Patients with CF have a genetic mutation affecting the flow of fluid through the lung and other organ membranes. The resulting build-up of mucus on the lining of the lungs creates an ideal environment for bacteria and other pathogens to thrive, resulting in severe lung infections and gradual decline in lung function, ultimately leading to death. CF patients have a life expectancy of 37 years. In order to treat CF patients with the most common mutation, the hypothesis is that both a corrector and potentiator are needed in combination to correct the defect. Galapagos selected GLPG1837 as pre-clinical candidate potentiator drug late in 2013 and is working toward selecting a pre-clinical candidate corrector drug by end 2014. Galapagos plans to enter Phase 1 with GLPG1837 by year end 2014, triggering a milestone payment from AbbVie.

In the field of oncology, Galapagos announced the selection of GLPG1790, a pre-clinical candidate drug showing good activity against triple-negative breast cancer tumors in pre-clinical models. This compound is the first to target the ephrin tyrosine kinase receptor, which plays a key role in a number of cancers including melanoma, pancreatic, ovarian, prostatic, and colorectal cancers.

In the field of osteoarthritis, Galapagos delivered novel molecules in the alliance with Servier, but, due to toxicity findings also stopped work on a pre-clinical candidate which had been slated to enter the clinic in 2013.

The Flemish agency for Innovation by Science and Technology (IWT) awarded Galapagos grants in 2013 for innovative research in anti-bacterials (€2.7 million) and IBD (€2.5 million). These grants facilitate investment in important programs and allow Galapagos to expand its research efforts in Mechelen, Belgium.

Galapagos progressed 23 discovery programs in 2013, most of which are based on novel proprietary targets discovered by the Company.

Good performance of the service division

The service division reported disappointing financial numbers for the first half in 2013, then improved its performance in the second half of the year. David Smith was appointed CEO Services in September. BioFocus announced an extension of the collaboration with the Michael J. Fox Foundation, and signed agreements with Biogen Idec and Boehringer Ingelheim. Argenta signed a collaboration with Boehringer Ingelheim and extended its drug discovery collaboration with Genentech for the fourth time.

On 13 March 2014, Galapagos announced that Charles River Laboratories International, Inc. is to acquire the BioFocus and Argenta service division. Upon closing, Galapagos is to receive €129 million cash and is eligible to receive €5 million in earn-out payments when certain sales milestones are achieved after one year. Galapagos was approached by Charles River for the transaction and agreed to sell to strengthen the balance sheet for further investment in the Company's promising pipeline.

Personnel

At the end of 2013, the total number of employees working within the Group amounted to 810. With the sale of the BioFocus and Argenta services division, the total number of employees within the Group will be reduced by half.

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 for 2013 amounted to €159.5 million, an increase of 4% compared to 2012 and equal to management guidance. The R&D division reported total revenues of €96.4 million, reflecting milestone achievements in the R&D alliances, €45 million in revenue recognition from the \$150 million upfront and the \$20 million extension AbbVie payments for GLPG0634, and €6.8 million in revenue recognition from the \$45 million upfront from AbbVie for cystic fibrosis. The service division reported total external revenues of €63.2 million, an increase of 2% compared to €61.9 million last year on a normalized basis.

Result

The Group incurred a net loss in 2013 of €8.1 million, or €0.28 loss per share, compared to a net loss of €5.7 million, or €0.22 loss per share in 2012.

The R&D division incurred a segment loss of €12.9 million in 2013, compared to a segment loss of €3.5 million last year. R&D expenses were €99.4 million, compared to €80.3 million last year. This planned increase was driven by the Phase 2B RA program and Phase 2 Crohn's disease study for GLPG0634, together with other clinical studies to support the pipeline.



The Service division reported a gross margin of 35.4% compared to 35.9% in 2012 on a normalized basis and a segment profit of €8.9 million, compared to €9.1 million on a normalized basis in 2012.

General and administrative costs for the Group increased to €26.4 million, compared to €24.5 million in 2012. General and administrative expenses as a share of group revenues increased to 16.6% compared to 16.0% in 2012.

Liquid assets position

Cash balance was €141.5 million on 31 December 2013, the highest year end cash balance the Company has ever had. Including €6.0 million in alliance related receivables for which revenues were recorded in 2013 and for which payment is expected in Q1 2014, the Company's liquid asset position was €147.5 million at year end 2013, compared to €115.4 million at year end 2012. In addition, Galapagos' balance sheet holds a receivable from the French government (Crédit d'Impôt Recherche)² amounting to €33 million, payable in four yearly tranches starting mid-2014. Payment of €8.6 million of this is expected in 2014, with equal tranches expected annually subsequent to that for three more years.

Outlook for 2014

The Phase 2B clinical program for GLPG0634 in RA is on track to deliver the 12 week topline efficacy and safety data for DARWIN 1 in late 2014. Further topline results are expected from GSK's Phase 2 psoriasis study with GSK2586184 as well as Galapagos' Phase 2 Proof-of-Concept study with GLPG0974 in ulcerative colitis. 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, resulting in multiple additional clinical and pre-clinical stage programs by end 2014. Following the announced transaction with Charles River for the sale of the BioFocus and Argenta service operations, Galapagos management guided for €125 million in Group revenues in 2014 and a cash balance of €170 million at year end 2014.

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

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 2013 amounted to €152.0 million compared to €133.7 million in 2012. This increase is mainly due to increased internally generated intangible assets – being capitalized R&D expenses – which contributed €16.0 million more to operating income than in previous year. The other operating income amounts to €13.2 million, including €2.0 million in grants recognized for R&D projects, €5.0 million in recharges to subsidiaries and €4.1 million recognized in tax incentives for investments in intangible fixed assets.

The operating costs of 2013 amounted to €167.7 million compared to €133.7 million in 2012. Material purchases remained flat at €3.4 million. Services and other goods increased to €78.8 million compared to €71.3 million in 2012, mainly as a result of increased outsourcing for development of our products.

Personnel costs in 2013 amounted to €12.1 million compared to €11.8 million in 2012. The number of employees at Galapagos NV at the end of 2013 amounted to 128.

² *Crédit d'Impôt Recherche refers to an innovation incentive system underwritten by the French government*

Depreciation increased to €66.8 million in 2013, compared to €45.5 million in 2012. This is due to amortization booked on the internally generated intangible assets capitalized in 2010, 2011, 2012 and 2013.

Galapagos NV's 2013 financial income decreased to €1.9 million compared to €3.1 million in 2012. The high balance in previous year can mainly be explained by realized exchange rate gains on the \$150 million upfront payment received from AbbVie in 2012. Financial costs amounted to €1.6 million compared to €0.9 million in 2012. This is mainly due to realized exchange rate losses on the AbbVie payments received in 2013 (\$20 million for GLPG0634 RA and \$45 million for cystic fibrosis).

Extraordinary costs amount to €1.0 million in 2013, compared to €29.5 million in 2012, of which €28.4 million was related to the extraordinary write-off of capitalized R&D costs with regard to alliances which ended or programs which were placed on hold.

Galapagos NV capitalizes its incurred R&D expenses to the extent that the costs capitalized do not exceed a prudent estimate of their value in use or their future economic benefits for the entity. The ability to recover the capitalized amounts takes into account assumptions (i.e. future peak sales, market share, sales price, attrition rates regarding the successful completion of the different R&D phases) which have a highly judgmental nature and depend on the outcome of uncertain factors which are beyond the control of the entity (i.e. test results). The achievement of these assumptions is critical and may impact the recoverability of the amounts capitalized. Capitalized R&D expenses amount to €119.8 million compared to €90.4 million last year.

Investments in fixed assets in 2013 totaled €2.2 million, excluding the internally generated assets. They consist mainly of new lab equipment, as well as investments in intangible assets, being software development for compound inventory.

Galapagos NV's cash position at the end of 2013 amounted to €127.1 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 2013 closed with a loss of €16.4 million compared to a loss of €27.2 million in 2012. The result of Galapagos NV is largely affected by the fact that, as from financial year 2010, Galapagos NV capitalizes some of its R&D expenses and revenues that are eligible for such capitalization under Belgian GAAP. This capitalization positively impacted the net result of Galapagos NV by €5.4 million in 2013, compared to a negative impact of €10.4 million in 2012.

In 2013, 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 2013, we refer to what is set forth above in section 1, topic "R&D division delivers strong Phase 2 pipeline, with substantial progress in earlier stage programs."



4. SHARES AND CAPITAL

Capital increases and issue of shares

On 1 January 2013, the share capital of Galapagos NV amounted to €144,815,588.27 represented by 26,770,747 shares. In the course of 2013 there were four capital increases resulting from the exercise of warrants, resulting in the issuance of 326,468 new shares, an increase of the share capital by €1,766,191.88 and an increase of the issuance premium account by €262,025.36. On 29 April 2013, Galapagos NV issued 2,696,831 new shares through a private placement with institutional investors, resulting in an increase of the share capital by €14,589,855.71 and an increase of the issuance premium account by €39,346,764.29. At the end of 2013, the total share capital of Galapagos NV amounted to €161,171,635.86 represented by 29,794,046 shares.

On 15 May 2013, the Board of Directors issued 602,790 warrants (after acceptances) within the framework of the authorized capital, for the benefit of the Directors and certain independent consultants of Galapagos NV, and of employees of the Group under a new warrant plan ("Warrant Plan 2013"). The offer of warrants to the Company's Directors under Warrant Plan 2013 was approved by the Annual General Shareholders' Meeting of 30 April 2013. The warrants issued under Warrant Plan 2013 have a term of eight years and an exercise price of €19.38.

On 18 September 2013, the Board of Directors issued 75,000 warrants (after acceptances) within the framework of the authorized capital, under a new warrant plan ("Warrant Plan 2013 (B)"), for the benefit of Mr David Smith, who joined Galapagos' Executive Committee as CEO of the service division. The warrants issued under Warrant Plan 2013 (B) have a term of eight years and an exercise price of €15.18.

Shares and rights attached to the shares

Of the 29,794,046 shares of Galapagos NV outstanding at the end of 2013, 538,696 were registered shares, 29,254,590 shares were dematerialized shares and 760 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 Companies Code and Galapagos NV's articles of association.

Authorized capital

In accordance with 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. In 2013, Galapagos

NV's Board of Directors made use of the right to increase the capital in the framework of the authorized capital on three occasions: (1) on 29 April 2013, in connection with a private placement in the framework of which 2,696,831 new shares were issued for a share capital increase of €14,589,855.71 (plus issuance premium of €39,346,764.29); (2) on 15 May 2013, in connection with the issuance of Warrant Plan 2013 under which a maximum of 602,790 new shares can be issued for a total maximum capital increase of €3,261,093.90 (plus issuance premium); and (3) on 18 September 2013, in connection with the issuance of Warrant Plan 2013 (B) under which a maximum of 75,000 new shares can be issued for a total maximum capital increase of €405,750.00 (plus issuance premium). On 31 December 2013, an amount of €121,731,103.43 still remained available under the authorized capital.

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

Changes in share capital

In accordance with the Belgian Companies Code, Galapagos NV may increase or decrease its capital by decision of the Extraordinary General 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 General Shareholders' Meeting must be convened at which the shareholders may decide on the agenda items, irrespective of the percentage of share capital present or represented at such meeting. In this respect, there are no conditions imposed by the Company's articles of association that are more stringent than those required by law.

Within the framework of the powers granted to it under the authorized capital, the Board of Directors may also increase Galapagos NV's capital as specified in its articles of association.

Purchase and sale of 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 Companies Code, of Galapagos NV's own shares or profit sharing certificates or certificates and to dispose thereof in accordance with the provisions of the Belgian Companies Code, should such acquisition be necessary to avoid a serious and imminent harm to Galapagos NV. This authorization was granted for a period of three years from the publication of the aforementioned resolution in the Annexes to the Belgian State Gazette (i.e. 10 June 2011). This 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 2013, 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 Companies Code are complied with, including that the number of shares issued under such capital increase does not exceed 10% of the shares issued by Galapagos NV 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 shares of Galapagos NV, without prior approval by the Shareholders' Meeting, if this is necessary to avoid a serious and imminent harm to the Company. This authorization was granted for a period of three years from the publication of such decision in the Annexes to the Belgian State Gazette (i.e. 10 June 2011). 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. Pursuant to the Belgian law of 1 April 2007 on public takeovers, a mandatory takeover bid must be made when, as a result of its own acquisition or the acquisition by persons acting in concert with it, a person owns, directly or indirectly, more than 30% of the securities with voting rights in a company with registered office in Belgium whose securities are admitted to trading on a regulated or recognized market. The acquirer must offer to all other shareholders the opportunity to sell their shares at the 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 Companies 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 an Extraordinary General Shareholders' Meeting where at least 50% of Galapagos NV's share capital is present or represented. If the attendance quorum of 50% is not met, a new Extraordinary General Shareholders' Meeting must be convened at which the shareholders may decide on the agenda items, irrespective of the percentage of share capital present or represented at such meeting.

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 2013 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 2013 were Delta Lloyd N.V. (2,954,890 shares), Johnson & Johnson (2,350,061 shares), Baker Bros. Advisors, LLC (1,722,066 shares), Van Herk Investments B.V. (1,586,727 shares) and The Capital Group Companies, Inc. (1,554,438 shares).

At the end of 2013, the CEO owned 357,348 shares of Galapagos and 695,000 warrants. The other members of the Executive Team held an aggregate of 47,400 shares and 687,500 warrants. The other members of the Board held an aggregate of 6,800 shares and 192,350 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 2014').

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 a solid balance sheet
- liquidity in the short run; cash
- scientific risks and opportunities
- dependence on our alliance partners
- compliance with relevant rules and regulations
- reputation

The identification and analysis of risks is an ongoing process that is naturally a critical component of internal control. On the basis of these 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 behavior, 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 negative in 2013 (cash burn) as opposed to a positive cash flow in 2012, which was mainly due to the \$150 million upfront payment received from AbbVie in 2012. 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. In order to further reduce this risk, Galapagos implemented a netting system within the group in the course of 2012, which restrains intra-group payments between entities with a different functional 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 – which include an advanced integrated ERP system – secure the generation of consistent financial and operational information, allowing management to follow-up the Group's performance on a daily basis.

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 organization 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 2013:

- 6 January: Van Herck Investments notify of 5.3% shareholding in Galapagos
- 13 January: Galapagos receives €2.9 million IWT grant for cystic fibrosis research (not included in 2013 revenues)
- 29 January: First clinical centers opened for Phase 2 Crohn's study with GLPG0634
- 3 February: Galapagos receives €2.3 million IWT grant for fibrosis research (not included in 2013 revenues)
- 17 February: Galapagos completes patient recruitment in Proof-of-Concept study with GLPG0974 in ulcerative colitis
- 21 February: Galapagos to present GLPG0634 and GLPG0974 at International Conference on IBD
- 28 February: Galapagos provides status update for GSK2586184 in GSK's psoriasis, lupus, and ulcerative colitis clinical studies
- 7 March: Galapagos receives €2 million from osteoarthritis alliance with Servier (included in 2013 revenues)
- 13 March 2014: Galapagos announced the signing of a definitive agreement to sell its Argenta and BioFocus service operations to Charles River Laboratories International Inc. for total cash consideration of up to 134 million. The transaction is subject to customary closing conditions and is expected to close early in the second quarter of 2014. Charles River acquires all service operations of BioFocus and Argenta in the UK and the Netherlands. The acquisition includes all client contracts, order pipeline, premises, equipment, and further obligations of BioFocus and Argenta. All employees of BioFocus and Argenta will move into Charles River organization upon completion of the transaction. Charles River agrees to pay Galapagos immediate cash consideration of €129 million. Upon achievement of a revenue target 12 months after transaction closing, Galapagos will be eligible to receive an earn-out payment of €5 million. The legal entities to be sold as part of this transaction are BioFocus DPI Ltd., BioFocus DPI (Holdings) Ltd., Argenta Discovery 2009 Ltd. and Cangenix Ltd. Post-transaction, Galapagos NV will still have the following dormant entities from its service business division: BioFocus DPI AG, BioFocus DPI LLC, BioFocus Inc., Xenometrix Inc. and Discovery Partners International GmbH. The liquidation of these entities should be completed in 2014 and 2015. The sold service division represents the following contribution for Galapagos in 2013:
 - net profit from the sold service operations of €8.1 million in 2013
 - net assets of the sold service division of €70.7 million at 31 December 2013, including €83.4 million of assets and €12.7 million of liabilities.
- 18 March: Galapagos to present favourable pre-clinical data on GLPG1790, a selective ephrin receptor kinase inhibitor, at AACR in San Diego.
- 21 March: Euronext Amsterdam to become Market Reference for Galapagos.

7. GOING CONCERN AND ACCOUNTING STANDARDS

The 2013 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 RA and CF deals with AbbVie in 2012 and 2013, the divestment of the service division for a total cash consideration of €134 million (of which €129 million in cash and €5 million potential earn-out payments), and the favorable outlook of developments of Galapagos NV's drug discovery activities and its subsidiaries' activities including GLPG0634, 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 uses the Belgian Corporate Governance Code 2009 (which can be found on www.corporategovernancecommittee.be) as reference code. Galapagos NV's Board of Directors approved a Corporate Governance Charter. The Charter, which is available on the Company's website, is applicable in addition to the law, the Company's articles of association and the corporate governance provisions included in the Belgian Companies Code and the Belgian Corporate Governance Code 2009.

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 intends to comply with the provisions of the Belgian Corporate Governance Code at all times. Nevertheless, it is possible 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, the Company applies the "comply or explain" principle.

8.2. Board of Directors

Galapagos NV's Board of Directors consists of minimum five and maximum nine members, including the Chairman and the CEO. The Chairman is a non-executive Director and does not hold the office of CEO. 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 2013, the following persons were members of the Board: Dr Raj Parekh (Chairman), Ir Onno van de Stolpe (CEO), Dr Harrold van Barlingen, Mr Ferdinand Verdonck (until 26 February 2013), Dr Werner Cautreels, Mr Howard Rowe, Dr Vicki Sato and Ms Katrine Bosley (as from 27 February 2013); the latter five Directors were appointed as independent Directors within the meaning of article 526ter of the Belgian Companies Code.

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 2013, the Board of Directors held 4 regular meetings, 8 meetings by telephone conference to discuss specific matters and 3 meetings in the presence of a notary (relating to the private placement of 29 April 2013, the issuance of the Warrant Plan 2013 and the issuance of warrant plan 2013 (B)).

The attendance rate (in person or by written proxy to a fellow Director) for the Board members in function at 31 December 2013 was as follows: Dr Parekh 100%, Mr Van de Stolpe 100%, Dr Van Barlingen 93%, Mr Rowe 100%, Dr Cautreels 100%, Dr Sato 93% and Ms Bosley 92%. The overall attendance rate was 97%. 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; the Board is of the opinion that such evaluation can occur on an ongoing and informal basis within the framework of the meetings of the Board and its Committees.

Galapagos currently complies with the Law of 28 July 2011 with respect to gender diversification in the Board of Directors, and the Board will continue to monitor this compliance in the future.

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 2013, the Nomination and Remuneration Committee consisted of the following three non-executive Directors: Dr Parekh (Chairman), Dr Sato and Ms Bosley, the majority of whom are independent Directors. The Committee has the necessary expertise in the area of remuneration policy.

The Nomination and Remuneration Committee'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 2013, the Nomination and Remuneration Committee made recommendations on 4 occasions, dealing with matters including grants of warrants and bonuses, the appointment of Mr David Smith as CEO of the service division, the review of Galapagos' remuneration policy and salary increases. The Nomination and Remuneration Committee acts as a collegial body. The overall attendance (present or represented) at the Nomination and Remuneration Committee meetings in 2013 was 100%. The CEO attended the meetings of this Committee when the remuneration of the other members of the Executive Committee was discussed.

At the end of 2013, the Audit Committee consisted of the following three Directors: Dr Cautreels (Chairman), Dr Van Barlingen and Mr Rowe. All members of the Audit Committee are non-executive Directors, the majority of whom are independent. 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 have extensive experience 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 2013, the Audit Committee held 4 meetings, in which it dealt with matters including audit review, risk management and the ERP system. The Audit Committee acts as a collegial body. The overall attendance (present or represented) at the Audit Committee meetings in 2013 was 100%. Some of the meetings were attended by the Statutory Auditor.

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 2013, the Executive Committee consisted of five people: Mr Van de Stolpe (CEO, also executive Director), Dr Andre Hoekema (Senior Vice President, Corporate Development), Dr Piet Wigerinck (Chief Scientific Officer), Mr Guillaume Jetten (CFO) and Mr David Smith (CEO, Galapagos Services).

The Executive Committee meets regularly, and in principle once per month.

8.4. Remuneration report

8.4.1 Procedure for establishing the remuneration policy and setting the 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 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 into account the interests of all stakeholders.

The remuneration of the non-executive Directors consists of a fixed annual amount, irrespective of the number of Board meetings that are held during the year, with a correction principle pursuant to which, in the event a Director's presence rate at Board meetings is below 75%, 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 installments 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. The corporate objectives and the CEO's objectives are established annually by the Board of Directors, and the objectives of the other members of the Executive Committee are established annually by the CEO and are in relation to the corporate objectives set by the Board. For 2013 the corporate objectives included elements of revenue, operating profitability, clinical trial progression and business development; all of these objectives were considered to be of equal importance. The level of achievement of the objectives for the CEO is reviewed at the end of each year by the Nomination and Remuneration Committee and discussed and finally established by the Board, and the level of achievement of the objectives of the other members of the Executive Committee is assessed by the CEO at the end of the year in connection with appraisal discussions, discussed by the Nomination and Remuneration Committee and finally established by the Board of Directors.

Pursuant to the rules of the Senior Management Bonus Scheme 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 the Next Biotech Index at the start and end of the 3-year period is calculated by the average price over the preceding and last month of the 3-year period, respectively.

- If the 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.

In addition, exceptional special bonuses, outside the scope of the regular bonus schemes, can be considered by the Board upon recommendation of the Nomination and Remuneration Committee in the event of and for exceptional achievements.

b) Relative importance of the various components

The CEO's bonus under the Senior Management Bonus Scheme can be maximum 100% of the fixed part of his annual remuneration of the year for which the bonus is awarded. The aggregate bonuses of the other members of the Executive Committee under the Senior Management Bonus Scheme 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 as defined by the Belgian Companies Code.

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 2013 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 30 April 2013, the total maximum amount of the annual remuneration for all Directors together (other than Dr Parekh and the CEO) for the exercise of their mandate as a Director of the Company is fixed, on an aggregate basis, at €200,000 (plus expenses). The same Annual General Shareholders' Meeting granted a power of attorney to the Board to determine the remuneration of the individual Board members within the limits of said aggregate amount. Pursuant to this power of attorney, the Board determined, upon recommendation of the Nomination and Remuneration Committee, the allocation of the aggregate annual remuneration for Directors as follows: (a) remuneration for non-executive directors who do not represent a shareholder (Dr Van Barlingen and Mr Rowe): €20,000; (b) remuneration for non-EU-based Directors (who do not represent a shareholder) and/or for



Directors who actively and on a regular basis provide independent clinical, scientific and/or transactional advice to the Board of Directors (Dr Cautreels, Dr Sato and Ms Bosley): €40,000; (c) additional remuneration for the chairman of the Audit Committee (Dr Cautreels): €5,000. The aforementioned levels of remuneration are a continuation of the fees as paid in previous years.

In the event a Director has a presence rate at Board meetings that is below 75%, the amounts referred to above are proportionally decreased. Directors representing 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 2013).

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.

The Board of Directors resolved to issue the Warrant Plan 2013 for the benefit of the Directors and three independent consultants of Galapagos NV, and of employees of the Group. In accordance with the resolution of the Annual General Shareholders' Meeting of 30 April 2013, the following amount of warrants were offered under such Plan to the non-executive Directors: Ms Bosley: 7,500 warrants; Dr Parekh: 5,400 warrants; Dr Cautreels: 3,780 warrants; and Dr van Barlingen, Mr Rowe and Dr Sato: each 2,520 warrants. All Directors accepted the warrants. These warrants have a term of eight years. The exercise price of the warrants is €19.38. As regards the Directors, 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 grant. The Board of Directors does not consider these warrants as variable remuneration as defined by the Belgian Companies Code as they are not subject to any performance-related criteria.

The Board of Directors points out that provision 7.7 of the Belgian Corporate Governance Code 2009 stipulates that non-executive Directors should not be entitled to performance-related remuneration such as stock-related long-term incentive schemes. In deviation 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 operates. 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 2013 the corporate objectives included elements of revenue, operating profitability, clinical trial progression and business development; all of these objectives were considered to be of equal importance. 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 2013

- a) Base salary (fixed): €414,376.
- b) Variable remuneration (bonus): given the level of achievement of the criteria from the Senior Management Bonus Scheme to be entitled to a bonus (i.e. the corporate objectives for 2013), a bonus of €325,741 (i.e. 75% of the 2013 base salary) was awarded over 2013 of which 50% was paid early January 2014, and the other 50% was deferred for 3 years. The value of the 50% deferred part of the bonus awarded over 2010 was established at the end of 2013 and resulted in a payment in early January 2014 of an amount of €199,256 (a multiple of 1.205 of the deferred bonus, as a result of the share price performance over the period 2010-2013, see section 8.4.2).
- c) Pension: €67,027.
- d) Other components of the remuneration: company car and payments for invalidity and healthcare cover, totaling €25,398. In its meeting of 17 December 2013 (in application of Article 523 of the Belgian Companies Code without the CEO being present) the Board of Directors resolved, upon recommendation of the Nomination and Remuneration Committee, to increase the CEO's salary by 3% as from 2014. 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 2013

- a) Base salaries (fixed): €1,053,142.
- b) Variable remunerations (bonuses): given the level of achievement of the criteria from the Senior Management Bonus Scheme to be entitled to a bonus (i.e. the corporate objectives for 2013), an aggregate bonus of €405,000 (i.e. 75% of the aggregate bonus pot for the incumbents in function on 31 December 2013) was awarded over 2013 of which 50% was paid early January 2014, and the other 50% was deferred for 3 years. The value of the 50% deferred part of the bonus awarded over 2010 was established at the end of 2013 and resulted in an aggregate payment of €205,040 (a multiple of 1.205 of the deferred bonus, as a result of the share price performance over the period 2010-2013, see section 8.4.2). The deferred bonus was paid in early January 2014.
- c) Pensions: €67,793.
- d) Other components of the remunerations: company cars, payments for invalidity and healthcare cover, and other fringe benefits, totaling €45,310.

The amounts in this section include normal payments for compensation and benefits made to Dr Chris Newton, who ceased to be a member of the Executive Committee, until the date of cessation of his mandate as Executive Committee member, i.e. until 26 August 2013.

In its meeting of 17 December 2013 the Board of Directors resolved to implement salary increases as from 2014 for the members of the Executive Committee generally in line with the increases awarded in previous years, based on individual performance and taking into account the relevant benchmarks. 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 2013

In 2013, only warrants were offered to the members of the Executive Committee, and no shares or other rights to acquire shares were awarded. No warrants expired for members of the Executive Committee in 2013 and, in aggregate, 75,000 warrants were exercised by members of the Executive Committee in 2013. The Board of Directors does not consider the granted warrants as a variable remuneration, as they are not subject to any performance criteria. The following number of warrants were offered to and accepted by members of the Executive Committee in 2013: (i) under the Warrant Plan 2013, issued by the Board of Directors under the authorized capital on 16 May 2013, to each of Dr Hoekema, Dr Newton (who exited the Executive Committee per 26 August 2013) and Mr Jetten: 20,000 warrants; to Dr Wigerinck: 30,000 warrants and to Mr Van de Stolpe: 100,000 warrants; and (ii) under the Warrant Plan 2013 (B), issued by the Board of Directors under the authorized capital on 18 September 2013, to Mr David Smith (who joined the Executive Committee per 26 August 2013): 75,000 warrants.

The warrants issued under Warrant Plan 2013 have an exercise price of €19.38 per warrant, a life time of 8 years, vest only and fully at the end of the third calendar year after the year of the grant, except for Mr Van de Stolpe, whose warrants vest over a period of 36 months at a rate of 1/36th per month. The warrants cannot be exercised prior to the end of the third calendar year after the year of the grant; they are not transferable, and each warrant gives the right to subscribe to one share of the Company.

The warrants issued under Warrant Plan 2013 (B) have an exercise price of €15.18 per warrant, a life time of 8 years, vest only and fully at the end of the third calendar year after the year of the grant, cannot be exercised prior to the end of the third calendar year after the year of the grant, are not transferable, and each warrant gives the right to subscribe to one share of the Company.

At the end of 2013, the CEO owned 357,348 shares of Galapagos and 695,000 warrants. The other members of the Executive Committee in function on 31 December 2013 held an aggregate of 47,400 shares and 687,500 warrants. The other members of the Board held an aggregate of 6,800 shares and 192,350 warrants. Each warrant entitles 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 2013

Not applicable; in 2013 no members of the Executive Committee (including the CEO) have left the Group.

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

There are no contractual provisions in place between the Company and the CEO or 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 Belgian Companies Code (i.e. article 523 of the Belgian Companies 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 Companies 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, even in the event it is not a conflict of interest as provided for in article 523 of the Belgian Companies Code, shall be enacted in the minutes, and the Director or member of the Executive Committee shall not vote.



In 2013, four cases of conflict of interest between the Company and a Director were noted:

- (i) In a meeting of the Board of Directors held on 12 March 2013, 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 2013 as follows: Mr Van de Stolpe: 100,000 warrants; Ms Bosley: 7,500 warrants; Dr Parekh: 5,400 warrants; Dr Cautreels: 3,780 warrants; Dr Van Barlingen, Mr Rowe and Dr Sato: each 2,520 warrants. In application of article 523 of the Belgian Companies Code, the following is reported in connection with the proposed warrant offer for the CEO: The Chairman declares that Mr Onno van de Stolpe has informed the Board of Directors of a conflict of interest, concerning the proposed award to him of 100,000 warrants. 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. 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 held on 24 September 2013, the following was reported in application of article 523 of the Belgian Companies Code and in connection with the recommendation of the Remuneration Committee, further to the resolution of the General Shareholders' Meeting of 30 April 2013, as to the allocation of the aggregate annual remuneration of €200,000 (plus expenses) for Directors (other than Dr Parekh and Mr Van de Stolpe) for the exercise of their mandate as Director: the Chairman declared that the Directors involved had informed the Board of a conflict of interest, concerning their proposed remuneration. It has been explained to the Board that the proposed remuneration for each Director is a continuation of the level of the fees as paid in previous years, without increase. The level of these remunerations will have no material impact on the financial position of the company. Insofar as it related to his/her individual remuneration, the Director involved did not take part in the deliberation and the vote concerning this decision.
- (iii) During said meeting of the Board of Directors held on 24 September 2013, the following was reported in application of article 523 of the Belgian Companies Code and in connection with the general possibility of an exceptional special bonus (if and when applicable) under Galapagos' remuneration policy, that could become awardable to the executive Director, Mr Van de Stolpe: the Chairman declared that Mr Van de Stolpe had informed the Board of Directors of a conflict of interest concerning such general possibility of an exceptional special bonus. It has been explained to the Board that such exceptional special bonus can only apply in the event of exceptional achievements, and that it should have no material impact on the financial position of the Company. Mr Van de Stolpe did not take part in the deliberation and the vote concerning this decision.
- (iv) In a meeting of the Board of Directors held on 17 December 2013 the following was reported in application of article 523 of the Belgian Companies Code and in connection with the salary increase and bonus for the CEO: the Chairman declares that Mr Onno van de Stolpe has informed the Board of Directors of a conflict of interest, concerning the proposed award to him of a salary increase and a bonus. The salary of Mr Van de Stolpe was increased with 3% as of

2014. Given the actual level of achievement of the criteria from the Senior Management Bonus Scheme to be entitled to a bonus (i.e. the corporate objectives for 2013) a bonus of €325,741 (i.e. 75% of his 2013 salary) has been awarded to Mr Van de Stolpe for 2013. It has been explained to the Board that said salary increase and bonus is a justified reward for the results achieved by Mr Van de Stolpe in 2013. The salary increase and bonus will have no material impact on the financial position of the Company. The Board shares the opinion of the Remuneration Committee that the proposed salary increase and bonus is justified and reasonable. Mr Van de Stolpe did not take part in the deliberation and the vote concerning this decision.

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, which is incorporated by reference in this Corporate Governance Statement.

For information relating to anti-takeover provisions, the major shareholders of the Company and the shares and warrants held by the members of the Board of Directors and the members of the Executive Committee, we refer to Section 4 "Shares and Capital" of this report, which is incorporated by reference in this Corporate Governance Statement.

Based on the transparency notifications received by the Company, the shareholders owning 5% or more of the Company's shares on 31 December 2013 were Delta Lloyd N.V. (2,954,890 shares), Johnson & Johnson (2,350,061 shares), Baker Bros. Advisors, LLC (1,722,066 shares), Van Herk Investments B.V. (1,586,727 shares) and The Capital Group Companies, Inc. (1,554,436 shares).

9. FURTHER INFORMATION

This report of the Board of Directors will also be made available on the Company website:
<http://www.glpq.com/index.php/companyoverview/financialskey-financials/financial-reports/>

* * *

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 2013.

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 2013, 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 2013, a great year for the Company. The coming year will be rich with patient data readouts on the pipeline, showing once again the result of financing multiple novel target-based programs toward the clinic.

The Board of Directors will submit to you proposals of resolutions to approve the annual accounts for the financial year 2013, and to discharge the Directors and the Statutory Auditor, for the exercise of their mandate during the financial year that ended on 31 December 2013.

Mechelen, 27 March 2014

On behalf of the Board of Directors,

(signed)

Onno van de Stolpe
CEO

(signed)

Raj Parekh
Chairman

Consolidated financial statements

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

Consolidated income statement

Thousands of €	Notes	2013	2012
Services revenue		61,272	65,660
R&D revenue		76,427	70,608
Other income		21,849	16,716
Total operating income	4	159,549	152,984
Services cost of sales	5	-41,298	-48,179
R&D Expenditure	5	-99,380	-80,259
General and administrative costs	5	-26,430	-24,511
Sales and marketing expenses	5	-2,412	-2,134
Restructuring and integration costs	5	-1,050	-2,506
Result on divestment	34		-2,006
Operating profit/loss (-)	4/5	-11,020	-6,610
Finance income	7	2,194	3,820
Finance cost	8	-2,368	-2,362
Profit/loss (-) before tax		-11,194	-5,152
Taxes	9	3,115	-569
NET PROFIT/LOSS (-)	10	-8,079	-5,721
NET PROFIT/LOSS (-) attributable to:			
Owners of the parent	10	-8,079	-5,721
Basic result per share (in €)	10	-0.28	-0.22

Consolidated statement of comprehensive income

Exchange difference arising on translating of foreign operations	-824	959
Other comprehensive income	-824	959
Total comprehensive income attributable to:		
Owners of the parent	-8,903	-4,761

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER

Assets

Thousands of €	Notes	2013	2012
NON-CURRENT ASSETS		110,721	102,602
Goodwill	12	39,239	37,667
Intangible assets	13	7,832	9,424
Property, plant and equipment	14	19,525	18,099
Deferred tax assets	23	4,558	1,705
Non-Current tax receivables	9	39,347	35,288
Available for sale financial assets and other non-current assets	16	220	419
CURRENT ASSETS		176,653	132,727
Inventories	15	249	204
Trade and other receivables	17	19,207	32,494
Current tax receivables	9	10,625	188
Cash and cash equivalents	18	141,481	94,647
Other current assets	17	5,091	5,194
TOTAL ASSETS		287,374	235,329

Equity and liabilities

Thousands of €	Notes	2013	2012
TOTAL EQUITY		167,137	118,447
Share capital	19	154,542	139,347
Share premium account	20	112,484	72,876
Other reserves	22	47	
Translation differences	21	170	994
Accumulated losses		-100,107	-94,770
TOTAL LIABILITIES		120,237	116,882
NON-CURRENT LIABILITIES		7,678	7,868
Pension liabilities	29	2,189	2,035
Provisions	27	668	676
Deferred tax liabilities	23	2,192	2,624
Finance lease liabilities	24	167	165
Other non-current liabilities	26	2,462	2,367
CURRENT LIABILITIES		112,559	109,014
Provisions	27	81	176
Finance lease liabilities	24	226	240
Trade and other payables	26	29,365	22,093
Current tax payable	9	50	3
Other current liabilities	26	82,838	86,501
TOTAL LIABILITIES AND EQUITY		287,374	235,329

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER

Thousands of €	Notes	2013	2012
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		94,647	32,555
Result from operations		-11,020	-6,610
Adjustments for:			
Depreciation of property, plant and equipment	14	6,036	6,884
Amortization of intangible fixed assets	13	2,118	2,125
Inventories write off		-1	3
Exchange gain/loss (-) on translation of net assets of subsidiary		-178	-659
Share based compensation		2,742	2,086
Gain (-) / Loss (+) on disposal of business			3,004
Increase/Decrease (-) provisions		-88	-359
Increase/Decrease (-) pension liabilities (assets)		154	609
Profit on disposal of fixed assets			-17
Operating cash flows before movements in working capital		-238	7,066
Increase (-)/Decrease in inventories		-39	291
Increase (-)/Decrease in receivables	17	1,069	-16,876
Increase/Decrease (-) in payables	26	2,343	74,249
Cash generated/used (-) in operations		3,136	64,729
Interest paid and other financial costs	8	-2,529	-471
Taxes		-85	-153
NET CASH FLOWS GENERATED/USED (-) IN OPERATING ACTIVITIES		522	64,104



Thousands of €	Notes	2013	2012
Purchase of property, plant and equipment	14	-7,328	-5,896
Purchase of and expenditure in intangible fixed assets	13	-545	-940
Proceeds from disposal of intangible assets	13		20
Proceeds from disposal of property, plant and equipment	14	65	379
Acquisitions (-), disposals (+) of subsidiaries, associates or joint ventures, net of cash acquired	34	-1,152	
NET CASH USED IN INVESTING ACTIVITIES		-8,960	-6,437
Repayment of obligations under finance leases and other debts		-308	-477
Proceeds of Capital and Share premium increases, net of issue costs		54,803	2,742
Interest received and other financial income	7	1,325	1,769
NET CASH GENERATED/USED (-) IN FINANCING ACTIVITIES		55,820	4,034
EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS		-548	391
INCREASE/DECREASE (-) IN CASH AND CASH EQUIVALENTS		46,834	62,092
CASH AND CASH EQUIVALENTS AT END OF YEAR		141,481	94,647

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Thousands of €	Share capital	Share premium account	Translation dif- ferences	Other reserves	Accumulated losses	Total
Balance at 1 January 2012	137,460	72,021	35		-91,140	118,376
Net result					-5,721	-5,721
Other comprehensive income			959			959
Total comprehensive income			959		-5,721	-4,762
Share based compensation					2,086	2,086
Exercise warrants	1,887	855				2,742
Other					5	5
Balance at 31 December 2012	139,347	72,876	994		-94,770	118,447
Net result					-8,079	-8,079
Other comprehensive income			-824	47		-777
Total comprehensive income			-824	47	-8,079	-8,856
Share based compensation					2,742	2,742
Issue of share capital	13,429	39,346				52,775
Exercise warrants	1,766	262				2,028
Balance at 31 December 2013	154,542	112,484	170	47	-100,107	167,137

The consolidated financial statements of Galapagos were approved by the Board of Directors and authorized for issue, on 27 March 2014. They were signed on its behalf by:

(signed)

Onno van de Stolpe
Executive Director
27 March 2014

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.

On 13 March 2014, Galapagos announced a definitive agreement with Charles River Laboratories, Inc. to sell the BioFocus and Argenta operations, with closing of the transaction expected in early Q2 2014.

Galapagos acquired GlaxoSmithKline's research center in Zagreb, Croatia in September 2010, which became part of the R&D operations. In February 2013 this research center was renamed Fidelta and will become part of the service division once this site has made the operational transition to a services company.

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 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 €2.25 in potential earn-out payments upon performance of the business in 2012/2013 depending on revenues and certain corporate milestones; in 2012 an amount of €1 million was received as earn-out payment.

On 4 January 2013, Galapagos acquired Cangenix Ltd., a structure-based drug discovery company added to the Argenta service offering, for a total consideration of €1.7 million. The consideration paid in the course of 2013 amounted to €1.2 million. A deferred consideration of €0.5 million is payable after two years upon achievement of certain conditions.

On 13 March 2014, Galapagos announced a definitive agreement with Charles River Laboratories, Inc. to sell the BioFocus and Argenta operations, with closing of the transaction expected in early Q2 2014.

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 applicable for the annual period beginning on 1 January 2013

- IFRS 13 *Fair Value Measurement* (applicable for annual periods beginning on or after 1 January 2013)
- Improvements to IFRS (2009-2011) (normally applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 1 *First Time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 1 *First Time Adoption of International Financial Reporting Standards – Government Loans* (applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IAS 1 *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income* (applicable for annual periods beginning on or after 1 July 2012)
- Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IAS 19 *Employee Benefits* (applicable for annual periods beginning on or after 1 January 2013)
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (applicable for annual periods beginning on or after 1 January 2013)

Standards and Interpretations published, but not yet applicable for the annual period beginning on 1 January 2013

- IFRS 9 *Financial Instruments* and subsequent amendments (applicable for annual periods beginning on or after 1 January 2015, but not yet endorsed in EU)
- IFRS 10 *Consolidated Financial Statements* (applicable for annual periods beginning on or after 1 January 2014)
- IFRS 11 *Joint Arrangements* (applicable for annual periods beginning on or after 1 January 2014)
- IFRS 12 *Disclosures of Interests in Other Entities* (applicable for annual periods beginning on or after 1 January 2014)
- IAS 27 *Separate Financial Statements* (applicable for annual periods beginning on or after 1 January 2014)
- IAS 28 *Investments in Associates and Joint Ventures* (applicable for annual periods beginning on or after 1 January 2014)
- Amendments to IFRS 10, IFRS 12 and IAS 27 – *Consolidated Financial Statements and Disclosure of Interests in Other Entities: Investment Entities* (applicable for annual periods beginning on or after 1 January 2014, but not yet endorsed in EU)
- Amendments to IAS 19 *Employee Benefits – Employee Contributions* (applicable for annual periods beginning on or after 1 July 2014, but not yet endorsed in EU)

- Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (applicable for annual periods beginning on or after 1 January 2014, but not yet endorsed in EU)
- Amendments to IAS 36 – *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Asset* (applicable for annual periods beginning on or after 1 January 2014, but not yet endorsed in EU)
- Amendments to IAS 39 – *Financial Instruments – Novation of Derivatives and Continuation of Hedge Accounting* (applicable for annual periods beginning on or after 1 January 2014)
- IFRIC 21 – *Levies* (applicable for annual periods beginning on or after 1 January 2014, but not yet endorsed in EU)

The amendments to IAS19 *Employee benefits* applicable for the year 2013 had an impact of €47 thousands for the Group. The other new standards applicable did not have any impact on the Group's financials.

Going concern basis

The consolidated financial statements are prepared in accordance with the International Financial 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.

Tax receivables

Non-current tax receivables are discounted over the period until maturity date according to the appropriate discount rates.



Trade receivables

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

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 it 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, upfront 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 retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net Interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements)
- Net interest expenses or income
- Remeasurement

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans in future contributions to the plans. A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

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 agreements 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 meetings of the Executive Committee for resource allocation and performance measurement. Intersegment sales are charged at prevailing rates based on a tax transfer

pricing study.

On 13 March 2014, Galapagos announced a definitive agreement with Charles River Laboratories, Inc. to sell the BioFocus and Argenta operations, with closing of the transaction expected in early Q2 2014.

Segment information about these businesses for the years ended 31 December 2013 and 2012 is presented below.

2013 SEGMENT INFORMATION

Thousands of €		R&D	Services	Intersegment eliminations	Unallocated costs	Galapagos Group total
MANAGEMENT REPORTING	R&D revenue	72,478				72,478
	Service revenue	3,955	61,250			65,205
	Other Income	11,046	52			11,098
	Grant Income	5,054				5,054
	External revenue	92,533	61,302			153,835
	Internal revenue	4,719	2,508	-7,226		
	Total revenue	97,252	63,810	-7,226		153,835
	Cost of services	-6,919	-41,893	2,318		-46,494
	Gross Margin	90,333	21,917	-4,908		107,341
	Opex	-103,235	-14,887	4,908	-6,133	-119,347
	MR EBIT	-12,903	7,030		-6,133	-12,006
	MR EBITDA	-9,325	9,640		-5,736	-5,421
IFRS - RECURRING	R&D Tax Credits	4,084	1,903			5,987
	Discounting of CIR receivables	-110				-110
	Reversal of Novartis revenue recognition	-197				-197
	Transfer Pricing Effect	2,174	-2,174			
	Warrants	-1,809	-934			-2,743
	IFRS Amortisation	418	-1,168			-750
	IAS19R reclass actuarial gains/losses	-47				-47
	Other effects	63	-260			-197
	IFRS EBIT - RECURRING	-8,327	4,397		-6,133	-10,063
IFRS - NON RECURRING	Restructuring costs	-290	-554		-206	-1,050
	Other Effect on IFRS Non Recurring Result		93			93
	IFRS EBIT	-8,617	3,936		-6,339	-11,020

I Notes

Service revenues within the R&D segment relate to fee-for-service work performed by the Zagreb site, as well as fee-for-service work for Servier.

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). Depreciation charges and software costs related to the implementation of the company-wide

2012 SEGMENT INFORMATION

	R&D	Services	Intersegment eliminations	Unallocated costs	Galapagos Group total
Thousands of €					
MANAGEMENT REPORTING	R&D revenue	65,959			65,959
	Service revenue	4,676	65,766		70,442
	Other Income	10,639			10,639
	Grant Income	2,216			2,216
	External revenue	83,490	65,766		149,256
	Internal revenue	4,145	3,201	-7,347	
	Total revenue	87,635	68,967	-7,347	149,256
	Cost of services	-5,638	-46,378	2,765	-49,250
	Gross Margin	81,997	22,590	-4,582	100,006
	Opex	-85,528	-14,373	4,582	-6,333
MR EBIT	-3,531	8,217		-6,333	
MR EBITDA	896	11,652		-6,333	
IFRS - RECURRING	R&D Tax Credits	4,294			4,294
	Discounting of CIR receivables	-300			-300
	Reversal of Novartis revenue recognition	-197			-197
	Transfer Pricing Effect	472	-472		
	Warrants	-1,372	-714		-2,086
	IFRS Amortisation	415	-1,694		-1,279
	Other effects	-327	-557		-884
IFRS EBIT - RECURRING	-546	4,779		-6,333	
IFRS - NON RECURRING	Loss on liquidation of Cambridge Drug Discovery Holdings Ltd		-3,004		-3,004
	Basel closing costs		-1,136		-1,136
	Restructuring costs	-1,369			-1,369
	Earn Out Income from Evotec		981		981
	Other Effect on IFRS Non Recurring Result		17		17
IFRS EBIT	-1,914	1,638		-6,333	

Geographical information

In 2013 the Group's operations were located in Belgium, Croatia, France, Switzerland, The Netherlands and United Kingdom. The Group's R&D division is located in Belgium, Croatia, France and The Netherlands, with its service division operating in the remaining countries. The Swiss site was closed in the second half of 2012.

In 2013 the Group's top 10 customers represent 91% of the revenues. Our Group's client base includes 7 of the top 10 pharmaceutical companies in the world.

In 2013, Galapagos holds €111 million of non-current assets (€103 million in 2012) distributed as follows:

- United Kingdom €57 million (€53 million in 2012)
- France - €27 million (€28 million in 2012)
- Belgium - €21 million (€16 million in 2012)

ERP system also contribute to corporate costs.

- Croatia - €4 million (€5 million in 2012)
- The Netherlands - €2 million (€1 million in 2012)

4. TOTAL OPERATING INCOME

Thousands of €	2013	2012
Sales of goods	4,108	2,205
Services (selling FTE)	58,740	66,885
Milestone payments	22,594	28,201
License fees	235	38
Recognition of up-front non refundable fees	52,024	38,493
Other operating income	21,849	17,162
Total	159,549	152,984

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. The decrease compared to 2012 is mainly due to the closure of the Basel site in 2012.

Milestone payments are mainly earned in the R&D business, as well as the recognition of upfront fees. The upfront fees are deferred and taken in revenue according to the accounting policies. Upfront fees increased significantly compared to 2012 because of the recognition of €45 million in 2013 of the \$150 million (€112 million) upfront received from AbbVie for GLPG0634 in 2012 (compared to €37 million revenue recognition in 2012), increased with the \$20 million extension AbbVie payment received in 2013 on the one hand. On the other hand €6.8 million of upfront fees has been recognized in 2013 related to \$45 million upfront from AbbVie for cystic fibrosis received in October 2013.

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 and invest according to pre-agreed budgets. 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, UK and Belgian tax credit for research companies and the Dutch and Belgian credit for salaries of research personnel.

5. OPERATING COSTS

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

Services cost of sales

Thousands of €	2013	2012
Personnel costs	-22,372	-24,562
Disposables and lab fees	-8,424	-12,940
Depreciation	-2,969	-4,132
Provisions		376
Other operating expenses	-7,533	-6,920
Total	-41,298	-48,179

Compared to 2012, cost of sales decreased significantly due to the ceased operations in Basel which contributed €5.6M to cost of sales in 2012. Other operational costs mainly contain travel expenses, consultancy costs and fees.

R&D expenditure

Thousands of €	2013	2012
Personnel costs	-29,385	-27,131
Disposables and lab fees	-8,308	-9,764
Subcontracting	-44,760	-25,393
Premises costs	-7,532	-9,013
Depreciation	-3,393	-3,535
Impairment	-27	
Provisions		-626
Other operating expenses	-5,975	-4,796
Total	-99,380	-80,259

R&D expenses increased from €80.3 million to €99.4 million. This planned increase was driven by the Phase 2B program in RA and Phase 2 Crohn's disease study for GLPG0634, together with other clinical studies to support the pipeline.

General and administrative costs

Thousands of €	2013	2012
Personnel costs	-9,928	-9,445
Premises costs	-6,059	-4,590
Professional fees	-1,808	-2,708
Director fees	-1,556	-1,524
Depreciation	-1,796	-1,348
Provisions	-113	
Other operating expenses	-5,169	-4,896
Total	-26,430	-24,511

General and administrative costs increased to €26.4 million, primarily due to increased premises costs for the UK sites. These premises costs include rent, service charges, property taxes and utility costs such as water, electricity and gas. Professional fees also include legal and tax fees. Other operational costs mainly contain travel expenses, telephone, consultancy costs and fees.

Sales and marketing expenses

Thousands of €	2013	2012
Personnel costs	-1,675	-1,445
Other operating expenses	-737	-690
Total	-2,412	-2,134

Restructuring and integration costs and impairment

Thousands of €	2013	2012
Restructuring and integration costs	-1,050	-2,506
Total	-1,050	-2,506

Restructuring and integration expenses of €1.1 million mainly relate to reorganization costs of the UK sites. The decrease compared to 2012 can be explained by closing costs for the Basel site recorded in 2012.

6. PERSONNEL COSTS

The number of employees on 31 December was:

	2013	2012
	810	796
Total	810	796

The average number of employees during the year was:

	2013	2012
Key Management	5	6
Laboratory staff	673	716
Administrative staff	111	94
Total	789	816

Their aggregate remuneration comprised:

Thousands of €	2013	2012
Wages and salaries	-44,940	-46,903
Social security costs	-8,517	-8,394
Pension costs	-4,303	-3,656
Other costs	-7,156	-3,641
Total	-64,916	-62,594

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 €2,742K (2012: €2,086K). For the costs of warrants granted, we refer to note 30.

7. FINANCE INCOME

Thousands of €	2013	2012
Interest on bank deposits	1,189	1,022
Other financial income	1,005	2,798
Total	2,194	3,820

Interest income on bank deposits mainly comes from interests on received AbbVie payments. Decreased other financial income mainly relates to translation differences coming from CHF recorded in 2012.

8. FINANCE COSTS

Thousands of €	2013	2012
Interest on obligations under finance lease	-157	-150
Other financial costs	-2,210	-2,211
Total	-2,368	-2,362

In 2013 other financial costs mainly relate to exchange rate losses arising from USD. Finance costs in 2012 mainly related to available-for-sale financial assets which have been written off as management assessed these shares were impaired as from 2012. On the other hand €0.6 million of goodwill for R&D was impaired and as such reversed in 2012 because this goodwill was related to programs of ProSkelia SASU (now: Galapagos SASU) for which currently no more work is performed (on hold). More specifically, the largest part of this goodwill was allocated to GLPG0492 (SARM-Cachexia) for which the further development of the compound was discontinued in 2012.

9. TAXES

Tax assets and liabilities

Thousands of €	2013	2012
Tax assets		
Non-Current tax receivables	39,347	35,288
Current tax receivable	10,625	188
Total	49,972	35,476

The tax receivables relate to refunds resulting from tax credits on research expenses in France, UK and Belgium. Non-current tax receivables are discounted over the period until maturity date.

Thousands of €	2013	2012
Tax liabilities		
Income tax payable	50	3
Total	50	3

Taxes recognized in profit or loss

Thousands of €	2013	2012
Current tax	-165	150
Deferred tax (note 23)	3,280	-719
Total	3,115	-569

Corporation tax is calculated at 34% (2012: 34%) - which is the tax rate applied in Belgium - of the estimated assessable profit for the year. Current group result before tax is a loss before tax as well as 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:

Notes

Thousands of €	2013	%	2012	%
Profit/loss (-) before tax	-11,194	34	-5,152	34
Income tax credit, calculated using the Belgian statutory tax rate on the accounting profit/loss (-) before tax (theoretical)	-3,805		-1,751	
Tax expenses in income statement (effective)	-3,115		569	
Difference in tax expense to explain	690		2,320	
Effect of tax rates in other jurisdictions	-22		-325	
Effect of non taxable revenues	-6,817		-4,520	
Effect of consolidation correction without tax impact	-388		157	
Effect of non tax deductible expenses	1,188		1,840	
Effect of recognition of previous non recognized deferred tax assets	-3,595		-14	
Effect of change in tax rates	-245		-127	
Effect of tax losses (utilized) reversed	-499		-1,496	
Effect from under or over provisions in prior periods	-89		102	
Effect of non recognition of deferred tax assets	10,821		8,508	
Effect of R&D tax credit claims	-340		-2,332	
Effect of derecognition of previous recognized deferred tax assets	676		527	
Total Explanations	690		2,320	

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 not likely that these will be realized in the foreseeable future, except for BioFocus DPI Ltd. The non-taxable revenues, comprehending tax incentives like CIR, IWT, etc. in the different sites are also an important factor for the financial year 2013.

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 €	2013	2012
Result for the purpose of basic result per share	-8,079	-5,721
Number of shares (thousands)		
Weighted average number of shares for the purpose of result per share	28,787	26,545
Basic result per share (Euros)	-0.28	-0.22

Thousands of €	2013	2012
Result for the purpose of diluted result per share, being net profit/loss	-8,079	-5,721
Number of shares (thousands)		
Weighted average number of shares for the purpose of basic result per share	28,787	26,545
Number of dilutive potential ordinary shares		
Diluted result per share (Euros)	-0.28	-0.22

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 2012	38,880
Dissolution of subsidiaries	-620
Goodwill impairment	-593
On 31 December 2012	37,667
Acquisition of subsidiaries	1,572
On 31 December 2013	39,239

Goodwill increased in 2013 and is related to the acquisition of Cangenix Ltd. by Argenta Discovery 2009 Ltd. on 4 January 2013. The allocation of this goodwill through a Purchase Price Allocation (PPA) exercise has been performed in line with IFRS 3 and the outcome was that no goodwill should be allocated to tangible or intangible assets, as the purchase was driven by acquiring skills relating to structured-based biology and not customer base or customer relationships.

The decrease in goodwill in 2012 can on the one hand be explained by the liquidation of Cambridge Drug Discovery Holdings Ltd. and its subsidiaries Cambridge Genetics Ltd. and Cambridge Discovery Ltd. On the other hand goodwill for R&D was impaired and as such reversed because this goodwill was related to programs of ProSkelia SASU (now: Galapagos SASU) for which currently no more work is performed (on hold). More specifically, the larger part of this goodwill was allocated to GLPG0492 (SARM-Cachexia) for which the further development of the program was discontinued in 2012.

Thousands of €	2013	2012
Services - BioFocus	29,040	29,040
Services - Argenta	10,199	8,627
Total	39,239	37,667



Services

On 13 March 2014 Galapagos NV announced the signing of a definitive agreement to sell the BioFocus and Argenta service division operations to Charles River Laboratories International, Inc. for a total consideration of up to €134 million. Charles River agrees to pay Galapagos immediate cash consideration of €129 million. Upon achievement of a revenue target 12 months after transaction closing, Galapagos will be eligible to receive an earn-out payment of €5 million. The purchase price implies a multiple of approximately 2 times 2013 sales and approximately 12 times 2013 adjusted EBITDA. The net asset value of the sold service division operations amounts to €70.7 million at 31 December 2013. Consequently, the gain on the divestment will be much higher than the goodwill for the service division of €39 million in 2013 and no impairment charges need to be recorded.

13. INTANGIBLE ASSETS

Thousands of €	Customer rela- tionships	In process tech- nology	Software & data- bases	Brands, licenses, patents & know- how	Total
Acquisition value					
At 1 January 2012	4,167	6,066	6,629	15,131	31,991
Additions			941		941
Sales and disposals			-3	-375	-377
Transfer	-2,116	-505	-306	2,927	
Translation differences	4		-28	100	75
Balance at 31 December 2012	2,054	5,561	7,231	17,783	32,629
Additions			545		545
Sales and disposals			-35		-35
Transfer					
Translation differences			-62	-85	-147
Balance at 31 December 2013	2,054	5,561	7,680	17,698	32,993
Amortization and impairment					
At 1 January 2012	2,403	6,066	5,571	7,336	21,377
Charge for the year	102		455	1,568	2,125
Sales and disposals				-357	-357
Transfer	-1,699	-505	-187	2,391	
Translation differences	4		-28	84	60
Balance at 31 December 2012	809	5,561	5,811	11,022	23,205
Charge for the year	102		607	1,409	2,118
Sales and disposals			-35		-35
Transfer					
Translation differences			-62	-65	-127
Balance at 31 December 2013	911	5,561	6,322	12,366	25,161
Carrying amount					
At 31 December 2012	1,245		1,420	6,760	9,425
At 31 December 2013	1,143		1,358	5,332	7,832

The additions in software and databases mainly relate to software development for compound inventory. Prior years' additions mainly related 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 2012	13,675	52,514	1,547	6,998	74,735
Additions	300	5,060	539		5,900
Sales and disposals	-1,148	-12,237	-11	-4	-13,400
Other increase/decrease (-)			227		227
Transfer	791	1,313	2,012	-4,117	
Translation differences	93	364	35	8	501
Balance at 31 December 2012	13,712	47,015	4,350	2,886	67,962
Additions	265	5,460	168	1,730	7,623
Sales and disposals		-358	-17	-644	-1,019
Other increase/decrease (-)		102			102
Transfer		393		-393	
Translation differences	-79	-360	-46	-13	-498
Balance at 31 December 2013	13,898	52,251	4,455	3,565	74,169
Depreciations and impairment					
At 1 January 2012	10,594	38,877	674	5,066	55,211
Charge for the year	1,477	4,402	312	692	6,884
Sales and disposals	-1,124	-11,902	-7		-13,034
Other increase/decrease (-)			435		435
Transfer	731	1,189	1,434	-3,354	
Translation differences	75	268	21	3	368
Balance at 31 December 2012	11,753	32,834	2,869	2,408	49,864
Charge for the year	1,028	4,399	249	360	6,036
Sales and disposals		-313	-5	-637	-955
Other increase/decrease (-)	1	2			2
Transfer					
Translation differences	-66	-203	-27	-7	-303
Balance at 31 December 2013	12,715	36,720	3,086	2,123	54,644
Carrying amount					
At 31 December 2012	1,959	14,181	1,481	478	18,099
At 31 December 2013	1,183	15,532	1,368	1,441	19,525

I Notes

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 €	2013	2012
Raw materials and supplies (net)	249	204
Work in progress (net)		
Total	249	204

Inventory only consists of raw materials and supplies.

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

Available for sale financial assets have been written off in 2012 and represent an investment in common stock in an unlisted biotechnology company incorporated in the USA. The shares are not traded on the open market; management assesses these shares to be impaired as from 2012.

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 2013 remained at a fair value of €0.

Thousands of €	Measurement at cost		Measurement at fair value	
	2013	2012	2013	2012
Other non-current assets	220	420		
Total	220	420		

17. TRADE AND OTHER RECEIVABLES

Thousands of €	2013	2012
Trade receivables	13,291	27,876
Prepayments	2,124	2,125
Other receivables	3,792	2,493
Other current receivables	5,091	5,194
Accrued income	4,271	2,685
Deferred charges	820	2,509
Total	24,298	37,688

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 €	2013	2012
Bank balances	141,478	94,643
Cash at hand	4	4
Total	141,481	94,647

The bank balances and cash held by the Group 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 articles of association, reconciles to the 'Capital' on the balance sheet as follows:

Thousands of €	2013	2012
Share capital Galapagos NV	161,172	144,815
Costs of capital increases (accumulated)	-6,629	-5,468
Capital	154,542	139,347

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 articles of association of Galapagos NV (rounded).

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 2012				26,421,441	142,928,662
31 December 2012				26,770,747	144,815,588
5 April 2013		1,068,913	197,581		
29 April 2013	14,589,856		2,696,831		
1 July 2013		487,674	90,143		
21 October 2013		193,240	35,719		
6 December 2013		16,365	3,025		
31 December 2013				29,794,046	161,171,636

As of 1 January 2012, 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.

On 5 April 2012, warrants were exercised at various exercise prices under Warrant Plan 2002 Belgium, Warrant Plan 2005, Warrant Plan 2006 Belgium/The Netherlands, Warrant Plan 2006 UK, Warrant Plan 2007, Warrant Plan 2007 RMV and Warrant Plan 2008. The exercise resulted in a share capital increase of €740,589.74 (plus €359,072.53 in issuance premium) and the issuance of 137,414 new shares.

On 29 June 2012, warrants were exercised at various exercise prices under Warrant Plan 2006 Belgium/The Netherlands, Warrant Plan 2006 UK, Warrant Plan 2007, Warrant Plan 2007 RMV and Warrant Plan 2008. The exercise resulted in a share capital increase of €101,161.59 (plus €59,091.48 in issuance premium) and the issuance of 18,699 new shares.

On 12 July 2012, the Board of Directors of Galapagos NV decided, within the framework of the authorized capital, to create a maximum of 530,140 warrants, for the benefit of the Directors and certain independent consultants of Galapagos NV, and of employees of the Group under a new warrant plan ("Warrant Plan 2012"). After acceptances, the total number of warrants de facto created and granted under this plan is 481,140. These warrants have a term of eight years. The exercise price of the warrants is €14.19. As of 31 December 2012 no warrants were exercised under this plan and 456,140 warrants were still outstanding.

On 14 September 2012, warrants were exercised at various exercise prices under Warrant Plan 2005, Warrant Plan 2006 UK, Warrant Plan 2007 RMV and Warrant Plan 2008. The exercise resulted in a share capital increase of €116,688.29 (plus €28,133.01 in issuance premium) and the issuance of 21,569 new shares.

On 17 December 2012, warrants were exercised at various exercise prices under Warrant Plan 2002 Belgium, Warrant Plan 2005, Warrant Plan 2006 Belgium/The Netherlands, Warrant Plan 2006 UK, Warrant Plan 2007, Warrant Plan 2007 RMV and Warrant Plan 2008. The exercise resulted in a share capital increase of €928,485.84 (plus €408,400.79 in issuance premium) and the issuance of 171,624 new shares.

On 31 December 2012, the Company's share capital amounted to € 144,815,588.27, represented by 26,770,747 shares. All shares were issued, fully paid up and of the same class.

On 5 April 2013, warrants were exercised at various exercise prices under Warrant Plan 2006 Belgium/The Netherlands, Warrant Plan 2006 UK, Warrant Plan 2007, Warrant Plan 2008, Warrant Plan 2008 (B), Warrant Plan 2009 and Warrant Plan 2009 (B). The exercise resulted in a share capital increase of €1,068,913.21 (plus €113,013.18 in issuance premium) and the issuance of 197,581 new shares.

On 29 April 2013, 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 €14,589,855.71 (plus €39,346,764.29 in issuance premium) by means of a private placement with institutional investors, resulting in the issuance of 2,696,831 new shares.

On 1 July 2013, warrants were exercised at various exercise prices under Warrant Plan 2002 Belgium, Warrant Plan 2005, Warrant Plan 2006 UK, Warrant Plan 2007 RMV, Warrant Plan 2008, Warrant Plan 2009 and Warrant Plan 2009 (B). The exercise resulted in a share capital increase of €487,673.63 (plus €96,526.77 in issuance premium) and the issuance of 90,143 new shares.

On 21 October 2013, warrants were exercised at various exercise prices under Warrant Plan 2002 Belgium, Warrant Plan 2005, Warrant Plan 2006 UK, Warrant Plan 2008, Warrant Plan 2009 and Warrant Plan 2009 (B). The exercise resulted in a share capital increase of €193,239.79 (plus €49,634.41 in issuance premium) and the issuance of 35,719 new shares.

On 6 December 2013, warrants were exercised at various exercise prices under Warrant Plan 2007 RMV and Warrant Plan 2009. The exercise resulted in a share capital increase of €16,365.25 (plus €2,851.00 in issuance premium) and the issuance of 3,025 new shares.

Other information	Ordinary shares	Total
Par 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 notification by the FSMA (Financial Services and Markets Authority) 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 2013, €20,859,667.01 of the authorized capital was used, so that an amount of €121,731,103.43 still remained available under the authorized capital.

20. SHARE PREMIUM

Thousands of €	2013	2012
On 1 January	72,876	72,021
Increase as a result of capital increase in cash	39,608	855
On 31 December	112,484	72,876

21. TRANSLATION DIFFERENCE

Thousands of €	2013	2012
On 1 January	994	35
Translation differences, arisen from translating foreign activities	-824	959
On 31 December	170	994

The decrease in translation differences is mainly related to the translation of foreign operations in USD.

22. OTHER RESERVES

Actuarial gains (-) or losses recognised through OCI

Thousands of €	2013	2012
On 1 January		
Actuarial gains or losses (-) recognised through OCI	47	
On 31 December	47	0

Other reserves amount to €47K (2012: nil) and relate to actuarial gains due to experience adjustments in 2013 which have been booked through OCI (instead of through the income statement), in line with IAS19R.

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 (2012: nil).

On 31 December 2013 the fair value of the Group's currency derivatives is estimated to be nil (2012: 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 €	2013	2012
I Recognized deferred tax assets and liabilities		
Assets	4,558	1,705
Liabilities	-2,192	-2,624
II Deferred tax assets unrecognized	105,529	106,197
III Deferred taxes	3,280	-719
Deferred tax expenses net relating to origination and reversal of temporary differences	427	-205
Tax benefit arising from previously unrecognized tax assets used to reduce deferred tax expense (+)	3,529	14
Deferred tax expenses relating to write down of previously recognized deferred tax assets	-676	-527

The notional interest deduction for an amount of €2,624K (2012: €2,624K) and the investment deduction of €966K (2012: €966K) could give rise to deferred tax assets. The amount of notional interest deduction that has been accumulated in the past can be carried forward for maximum 7 years, the notional interest deduction of 2012 and following years will not be carried forward according to a change in the Belgian tax legislation. There is no limit in time for the investment deduction.

The unused tax losses carried forward at 31 December 2013 amount to €329,195K (2012: €345,546K), €18,694K relates to unrecognized tax losses with expiry date between 2014 and 2028.

The tax losses carried forward can be compensated with future profits of the Group for an indefinite period except for Switzerland, the US, Croatia and The Netherlands. Because BioFocus DPI Ltd. was profitable in 2012 and 2013 and management expects that this situation is sustainable, a deferred tax asset was set up for an amount of €4,558K (2012: €1,000K). This amount was based on a conservative estimate of net profits for the next 3 years. A deferred tax asset for tax losses carried forward, which are limited in time (3 years), was reversed for the Zagreb research center for an amount of €678K, because of the current year loss and forecasted losses in the foreseeable future due to the fact that Fidelta is in a transition period to go from an R&D subcontractor company to a fee-for-service company.

The deferred tax liabilities relate to timing differences on the value of fixed assets of BioFocus DPI Ltd., BioFocus DPI Holdings and Argenta.

24. FINANCE LEASE LIABILITIES

Thousands of €	Minimum lease payments		Present value of minimum lease payments	
	2013	2012	2013	2012
Amounts payable under finance lease				
Within one year	238	327	226	240
In the second to fifth years inclusive	237	298	167	165
After five years				
	475	625	393	405
Less future finance charges	82	220		
Present value of lease obligation	393	405		
Less amount due for settlement within 12 months			226	240
Amount due for settlement after 12 months			167	165

Thousands of €	Net book value		Acquisition cost	
	2013	2012	2013	2012
Leased assets				
Installation & machinery	384	295	2,534	2,247
Total	384	295	2,534	2,247

The Group leases certain of its installation and machinery under finance leases. For the year ended 31 December 2013, the average borrowing rate was 6.17% (2012: 8.29%). The interest rates were fixed at the date of the contracts. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximates their carrying value.

25. OPERATING LEASE OBLIGATIONS

The Group as lessee

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

Thousands of €	2013	2012
Minimum lease payments under operating leases recognized in the income statement for the year	6,492	6,702
Total	6,492	6,702

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

Thousands of €	2013	2012
Within one year	6,781	6,056
In the second to fifth years inclusive	19,989	20,532
After five years	65,331	15,883
Total	92,102	42,472

The increase in the lease commitments in 2013 is related to the new Robinson Building of BioFocus.

26. TRADE AND OTHER PAYABLES

Thousands of €	2013	2012
Trade payables	29,365	22,093
Other creditors	2,462	2,367
Other current liabilities	82,838	86,501
Accrued charges	3,858	2,893
Deferred income	78,979	83,608
Total	114,664	110,962
Included in current liabilities	112,202	108,594
Included in non-current liabilities	2,462	2,367
Total	114,664	110,962

The increase in trade payables relates mainly to increased accounts payable and accruals for clinical trials in R&D (mainly GLPG0634 RA and Crohn's disease).

The decrease in deferred income is mainly due to the revenue recognition of the AbbVie payments. An additional amount of €15.6M (\$20M) has been paid by AbbVie in 2013 for expansion of the patient population in the '634 trials. Revenue recognition of the initial €111.5M (\$150M) and the additional €15.6M (\$20M) for RA in the course of 2013 amounted to €45.0M. In addition an upfront of €34.0M (\$45M) was paid by AbbVie for cystic fibrosis of which €6.8M was recognized in the course of 2013. The net movement AbbVie payments and related revenue recognition in the course of 2013 amounts as such to a decrease of €2.1M.

27. PROVISIONS

Thousands of €	Post-employment benefits (non-current)	Other provisions (non-current)	Restructuring provision (current)	Total
Balance per 1 January 2013	10	666	176	852
Additional provisions		15		15
Provisions utilized amounts		-8	-93	-101
Reversed	-2			-2
Translation differences	-1	-12	-3	-16
Balance at 31 December 2013	7	660	81	747

The non-current provision is mainly related to a dilapidation provision in Argenta of €600K. The decrease of €93K in the (current) restructuring provision is related to utilized amounts related to the building of the Basel site.

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.

In the course of 2013 Galapagos SASU was subject to a tax audit on fiscal years 2008 to 2011. In December 2013 the French tax authorities proposed a tax adjustment amounting to €1.9 million in cash and a proposed decrease of its tax losses carried forward for €19,5 million. A defence response letter rejecting the claim was sent to the tax authorities on 10 February 2014. Considering the defence elements provided in favour of Galapagos SASU, the Board, also based on its external advisors assessment, evaluated the risk to be remote to possible, but not likely. Accordingly, it was decided not to record any tax provision in 2013 as the exposure is considered to be limited.

On 13 March 2014 Galapagos NV announced the signing of a definitive agreement to sell the BioFocus and Argenta service division operations to Charles River Laboratories International, Inc. for a total consideration of up to €134 million. Charles River agrees to pay Galapagos immediate cash consideration of €129 million. Upon achievement of a revenue target 12 months after transaction closing, Galapagos will be eligible to receive an earn-out payment of €5 million.

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 due by the Group to these pension schemes for 2013 was €2,996,491 (2012: €2,911,423) of which €33,924 was paid after 31 December 2013 (2012: €52,501). 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 2013 Galapagos SASU paid for this purpose €717,739 as employer social contributions (2012: €775,380).

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 benefit obligations for these retirement allowances amounted to €1,207,220 for 2013 (2012: € 1,115,870). This increase is mainly due to current service cost.

Additionally, there are also seniority premiums paid in France. The provisions for these premiums amounted to €981,829 in 2013 (2012: €919,591).

The revised IAS 19 standard is effective for accounting years beginning on or after 1 January 2013 with retroactive effect on accounting years beginning on or after January 1 2012. Actuarial gains and losses are to be recognized in the balance sheet immediately, with a charge or credit to other comprehensive income (OCI). They are not recycled subsequently. Regarding the provisions for seniority premiums ('Gratifications') the revised IAS 19 standard did not trigger any changes. Regarding retirement allowances ('Indemnités de départ en retraite'), the actuarial gains of €46.642 have been booked through OCI at the end of 2013.

Obligations included in the balance sheet

In €	31/12/2013	31/12/2012
Present value of funded defined benefit obligation	1,207,220	1,115,870
Fair value of plan assets		
Shortage	1,207,220	1,115,870
Liability included in the balance sheet	1,207,220	1,115,870

The present value of the gross obligation developed as follows

In €	31/12/2013	31/12/2012
Opening balance	1,115,870	728,641
Current service cost	113,214	78,554
Interest cost	33,476	34,610
Benefits paid	-8,699	
Actuarial gains (-) or losses due to experience adjustments	-47,039	22,740
Actuarial gains (-) or losses due to experience adjustments related to new financial assumptions		250,659
Actuarial gains (-) or losses due to experience adjustments related to new demographic assumptions	397	666
Closing balance	1,207,220	1,115,870

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

In €	31/12/2013	31/12/2012
Current service cost	113,214	78,554
Interest cost	33,476	34,610
Total expense	146,690	113,164

This expense is booked as pension cost within G&A personnel costs.

Obligation included in the balance sheet reconciles as follows

In €	31/12/2013	31/12/2012
Opening balance	1,115,870	728,641
Total expense recognized in the income statement	146,690	387,229
Remeasurement on the net defined benefit liability	-46,642	
Benefits paid	-8,699	
Closing balance	1,207,220	1,115,870

The most important actuarial assumptions are

In €	31/12/2013	31/12/2012
Discount rate	3.00%	3.00%
Expected salary increase	2.50%	2.50%

The expected contributions for next year amount to €148,241 of which €112,251 is related to service cost and €35,990 is related to interest cost.



30. WARRANT PLANS

Presented below is a summary of Warrant Plans activities for the reported periods. Various Warrant Plans were approved for the benefit of 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, Warrant Plan 2012, Warrant Plan 2013 and Warrant Plan 2013 (B), for which all warrants vest at the end of the third calendar year following the year of the grant, with no intermediate vesting. The warrants offered to Directors vest over a period of 36 months at a rate of 1/36th 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 Warrant Plan 2002 Belgium entitle the warrant holder to subscribe to one share. For the Warrant Plans created from 2005 onwards, one warrant entitles the warrant holder to subscribe to one share. In the summaries and tables below, the numbers of warrants issued under Warrant Plan 2002 Belgium 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 2013, per Warrant Plan:

Warrants	Allocation date	Expiry Date	Exercise Price (€)	Outstanding per 1 January 2013	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding per 31 December 2013	Exercisable per 31 December 2013
2002 B	09/07/04	08/07/17	4.00	31,250					31,250	31,250
2002 B	31/01/05	30/01/17	6.76	52,500		5,000			47,500	47,500
2005	04/07/05	03/07/18	6.91	145,000					145,000	145,000
2005	23/11/05	22/11/18	8.35	35,000		2,500			32,500	32,500
2005	15/12/05	14/12/18	8.60	12,500					12,500	12,500
2005	22/11/06	21/11/19	8.65	1,995		945			1,050	1,050
2006 BNL	13/02/06	12/02/19	8.61	52,749		6,279			46,470	46,470
2006 BNL	22/11/06	21/11/19	8.65	7,000		1,000			6,000	6,000
2006 BNL	04/05/07	03/05/20	9.22	7,500					7,500	7,500
2006 BNL	28/06/07	27/06/20	8.65	735					735	735
2006 BNL	21/12/07	20/12/20	7.12	2,100					2,100	2,100
2006 UK	01/06/06	31/05/14	8.70	17,691		13,943			3,748	3,748
2006 UK	22/11/06	21/11/14	8.65	1,835		1,100			735	735
2006 UK	28/06/07	27/06/15	8.43	7,890		945		945	6,000	6,000
2007	28/06/07	27/06/15	8.65	108,126					108,126	108,126
2007	28/06/07	27/06/20	8.65	104,770		126			104,644	104,644
2007 RMV	25/10/07	24/10/20	8.65	61,775		11,375			50,400	50,400

Warrants	Allocation date	Expiry Date	Exercise Price (€)	Outstanding per 1 January 2013	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	Outstanding per 31 December 2013	Exercisable per 31 December 2013
2008	26/06/08	25/06/21	5.60	143,765		7,625			136,140	136,140
2008 B	26/06/08	25/06/13	5.60	50,000		50,000				
2009	01/04/09	31/03/17	5.87	490,000		211,500			278,500	278,500
2009 B	02/06/09	01/06/14	7.09	56,670		14,130			42,540	42,540
2009 B	02/06/09	01/06/17	7.09	75,000					75,000	75,000
2010	27/04/10	26/04/18	11.55	462,250			5,500		456,750	
2010 B	27/04/10	26/04/15	11.55	190,248			140		190,108	
2010 C	23/12/10	26/04/18	11.74	75,000					75,000	
2011	23/05/11	22/05/19	9.95	569,000			32,500		536,500	
2011 B	23/05/11	22/05/16	9.95	129,220			1,470		127,750	
2012	03/09/12	02/09/20	14.19	456,140			20,650		435,490	
2013	16/05/13	15/05/21	19.38		602,790		10,750		592,040	
2013 B	18/09/13	17/09/21	15.18		75,000				75,000	
Total				3,347,709	677,790	326,468	71,010	945	3,627,076	1,138,438

	Warrants	Weighted average exercise price
Outstanding on 1 January 2012	3,341,290	8.70
Exercisable on 31 December 2011	949,683	
Granted during the period	481,141	
Forfeited during the year	-120,100	
Exercised during the period	-349,306	
Expired during the year	-5,315	
Outstanding on 31 December 2012	3,347,709	9.51
Exercisable on 31 December 2012	844,181	
Granted during the period	677,790	
Forfeited during the year	-71,010	
Exercised during the period	-326,468	
Expired during the year	-945	
Outstanding on 31 December 2013	3,627,076	11.50
Exercisable on 31 December 2013	1,138,438	

The table below sets forth the valuation of the warrants.

Belgian Plans	2013		2012
	29 July	18 September	3 September
Exercise Price	19.38	15.18	14.19
Current share price	17.74	14.87	13.02
Fair value on the grant date	7.75	6.80	5.91
Estimated volatility (%)	38.76	38.76	39.91
Time to expiration (years)	8.00	8.00	8.00
Risk free rate (%)	1.99	1.99	2.24
Expected dividends	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 2013 amounted to €2,742K (2012: €2,086K).

The following table provides an overview of the outstanding warrants per category of warrant holders at 31 December 2013.

Category	Number of warrants	
	2013	2012
Non-executive Directors	192,350	180,710
Executive Team	1,382,500	1,345,000
Other	2,052,226	1,821,999
Total warrants outstanding	3,627,076	3,347,709

The outstanding warrants at the end of the accounting period have an average exercise price of €11.50 (2012: €9,51) and a weighted average remaining useful life of 1,628 days (2012: 1,880 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 2013 and 2012, Galapagos NV 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

Pursuant to a power of attorney granted by the Annual General Shareholders' Meeting held on 30 April 2013, the Board, upon recommendation of the Nomination and Remuneration Committee, allocated the aggregate annual remuneration for all Directors (other than Dr Parekh and the CEO) for the exercise of their mandate as a Director of the Company in 2013, amounting in total to maximum €200,000 (plus expenses) as follows: (a) remuneration for non-executive Directors who do not represent a shareholder (Dr Van Barlingen and Mr Rowe): €20,000; (b) remuneration for non-EU-based Directors (who do not represent a shareholder) and/or for Directors who actively and on a regular basis provide independent clinical, scientific and/or transactional advice to the Board of Directors (Dr Cautreels, Dr Sato and Ms Bosley): €40,000; and (c) additional remuneration for the chairman of the Audit Committee (Dr Cautreels): €5,000. In 2012 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. In addition, the Annual General Shareholders' Meeting of 24 April 2012 authorized an additional compensation of €20,000 for Directors who provide actively and on a regular basis independent clinical and scientific advice to the Board of Directors. In 2012, this was the case for Dr Cautreels and Dr Sato. 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 the members of its Board of Directors or its Executive Committee.

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

In 2013 (as in 2012), 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 2013, a total of 124,240 warrants were issued to the Directors, of which 100,000 for the CEO; this issue of warrants was decided by the Board of Directors within the framework of the authorized capital, in accordance with the resolution of the Annual General Shareholders' Meeting of 30 April 2013. In 2012, the total number of warrants issued to Directors was 117,640 (of which 100,000 for the CEO) by decision of the Extraordinary General Shareholders' Meeting of 22 August 2012.



32. REMUNERATION OF KEY MANAGEMENT PERSONNEL

On 31 December 2013, the Executive Committee comprised five members: Mr Onno van de Stolpe, Dr Andre Hoekema, Dr Piet Wigerinck, Mr Guillaume Jetten and Mr David Smith. In the course of 2013, one individual ceased to be a member of the Executive Committee: Dr Chris Newton, with effect from 26 August 2013. The remuneration package of the members of the Executive Committee who were in function in the course of 2013 comprises:

Thousands of € (except for the number of warrants)	31/12/2013	31/12/2012
Short-term employee benefits (*)	2,502	3,348
Post-employment benefits	83	123
Total benefits excluding warrants	2,585	3,470
Number of warrants offered in the year	265,000	230,000

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

The above table includes the normal payments for compensation and benefits made to Dr Newton up to the date of cessation of his mandate as Executive Committee member.

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

The 265,000 warrants offered in 2013 to the members of the Executive Committee were offered under Warrant Plan 2013, with the exception of the warrants offered to Mr Smith (75,000 warrants), which were offered under Warrant Plan 2013 (B).

The retirement benefits to the members of 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.

The Executive Committee members, together with other senior managers, are eligible to receive bonuses under the Senior Management Bonus Scheme established in 2006. Pursuant to the rules of the Senior Management Bonus Scheme, 50% of the bonus is paid immediately around year-end and the payment of the remaining 50% is deferred for three years. The deferred 50% component is dependent on the 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 five members of the Executive Committee (including the CEO) who were in function in the course of 2013 were paid an aggregate amount of €1,467,517 in remunerations and received an aggregate amount of €841,937 in bonuses. The aggregate bonus amount was composed of 2 parts: (i) an aggregate bonus of €377,870, being 50% of the bonus for performance over 2013 (paid in early January 2014), with the other 50% being deferred for 3 years; and (ii) an aggregate amount of €464,067 paid in early January 2014 as the 50% deferred part of the bonus over 2010; this deferred part was established at the end of 2013 using a multiple of 1.205 of the deferred part of the 2010 bonus, as a result of the share price performance over the period 2010-2013. For 2012, the members of the then Executive Committee (comprising 7 members including the CEO) were paid an aggregate amount of €1,759,156 in remunerations and an aggregate amount of €1,366,470 in bonuses (which was composed of 3 parts: (i) an aggregate bonus of €286,125, being 50% of the bonus for performance over 2012 (paid in early January 2013), with the other 50% being deferred for 3 years, (ii) an aggregate amount of €817,915 paid in early January 2013 as the 50% deferred part of the bonus over 2009; this deferred part was established at the end of 2012 using a multiple of 1.96 of the deferred part of the 2009 bonus, as a result of the share price performance over the period 2009-2012; and (iii) an aggregate amount of €262,430 paid in April 2012 as 50% of the special bonus in connection with the major collaboration agreement relating to GLPG0634 entered into in February 2012, with the other 50% being deferred for 3 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 Directors, the Annual Shareholders' Meeting of 30 April 2013, resolved to establish the total maximum amount of the annual remuneration for all Directors together (excluding Dr Parekh and the CEO) for the exercise of their mandate as a Director of the Company, on an aggregate basis, at €200,000 (plus expenses). The same Annual General Shareholders' Meeting granted a power of attorney to the Board to determine the remuneration of the individual Board members within the limits of said aggregate amount. Pursuant to this power of attorney, the Board determined, upon recommendation of the Nomination and Remuneration Committee, the allocation of the aggregate annual remuneration for Directors as follows: (a) remuneration for non-executive Directors who do not represent a shareholder (Dr Van Barlingen and Mr Rowe): €20,000; (b) remuneration for non-EU-based Directors (who do not represent a shareholder) and/or for Directors who actively and on a regular basis provide independent clinical, scientific and/or transactional advice to the Board of Directors (Dr Cautreels, Dr Sato and Ms Bosley): €40,000; (c) additional remuneration for the chairman of the Audit Committee (Dr Cautreels): €5,000. The aforementioned levels of remuneration are a continuation of the fees as paid in previous years.

In 2013, a total amount of €137,625 was paid to the independent Directors as Board fees (2012: €112,474) and €26,104 as expenses (2012: €11,331).

In 2013 an aggregate amount of €20,000 was paid to the Directors who are not independent Directors and who do not represent a shareholder (2012: €20,000); they did not claim reimbursement of expenses.

In case a Director attends less than 75% of the meetings of the Board of Directors, the annual compensation set out above shall be reduced pro rata the absence score of such Director. This rule did not require implementation in 2013 or 2012.

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 2013 or 2012.

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 2013, 16,320 warrants were granted to non-executive Directors (2012: 17,640).

33. CONSOLIDATED COMPANIES AS OF 31 DECEMBER 2013

Name of the subsidiary	Country	% voting right Galapagos NV (directly or indirectly through subsidiaries)	Change in % voting right previous period (2013 vs 2012)
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%	
Cangenix Ltd.	United Kingdom	100%	100%
Discovery Partners International GmbH	Germany	100%	
Galapagos BV	The Netherlands	100%	
Fidelta d.o.o. (*)	Croatia	100%	
Galapagos SASU	France	100%	
Inpharmatica Ltd.	United Kingdom	100%	
Xenometrix, Inc.	United States	100%	

(*) On 5 February 2013, Galapagos istraživački centar d.o.o. was renamed Fidelta d.o.o.

34. COMPANY ACQUISITIONS AND DISPOSALS

Acquisition of subsidiary

On 4 January 2013 Galapagos acquired Cangenix Ltd. which is located in Canterbury, UK. Cangenix is a structure-based drug discovery company and has been added to the Argenta service offering. It was formed in 2011 by scientists from the Structural Biology and Biophysics group at Pfizer Sandwich, UK. Recognized as experts in the field, the Cangenix team brings over 70 years of combined experience in the application of protein crystallography and biophysical techniques to drug discovery. Cangenix contributed €1.3 million of revenues for the period between the date of acquisition and 31 December 2013. In the 9 months reference period prior to the date of acquisition, Cangenix reported €0.7 million of revenues. The consideration paid for Cangenix in the course of 2013 amounted to €1.2 million, including €0.1 million of cash and cash equivalents acquired. A deferred consideration of €0.5 million has been recognised on the balance sheet and is payable after two years upon achievement of certain conditions. The goodwill arising on the acquisition of Cangenix Ltd. amounts to €1.6 million. For this subject matter we refer to note 12 "Goodwill".

Thousands of €	04/01/2013
CONDENSED BALANCE SHEET CANGENIX AT ACQUISITION DATE	
Fixed assets	100
Work in progress	7
Debtors and prepayments	134
Cash	84
Total assets	325
Equity	207
Trade payables and advances received	67
Accrued charges and other liabilities	51
Total equity and liabilities	325
Net assets	207
Goodwill	1,572
TOTAL CONSIDERATION	1,779
Initial consideration paid	1,236
Deferred consideration	543
NET CASH OUTFLOW ARISING ON ACQUISITION	1,695
Cash consideration	1,779
Cash and cash equivalents acquired	-84

35. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Drafting financial statements in accordance with IFRS requires management to make judgments and estimates and to use assumptions that influence the reported amounts of assets and liabilities, the notes on contingent assets and liabilities on the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates.

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

Share based payments plans

The Group determines the costs of the share based payments plans on the basis of the fair value of the equity instrument at grant date. Determining the fair value assumes choosing the most suitable valuation model for these equity instruments, by which the characteristics of the grant have a decisive influence. This assumes also the input into the valuation model of some relevant judgments, like the estimated useful life of the warrant and the volatility. The judgments made and the model used are specified further in note 30.

Pension obligations

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

Impairment of goodwill

Changes in management assumptions on profit margin and growth rates used for 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. Considering that the consideration received for the sale of the service business is much higher than its net assets value, no estimation of the value in use is necessary anymore as at the end of 2013. (Cfr note 12. Goodwill).

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 2012.

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 €	2013	2012
Financial assets		
Cash at bank and in hand	141,481	94,647
Trade receivables	13,291	27,876
Other amounts receivable	3,792	2,493
Tax receivables (current and non-current)	49,972	35,476
Financial liabilities		
Trade debtors	29,365	22,093
Other amounts payable	2,462	2,367
Leasing debts	393	405
Tax payable	50	3

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.

Four clients represented 61% of the trade receivables at the end of 2013 of which 37% is related to one customer for which important milestones were achieved at year-end 2013 and which will be paid in 2014. Other clients represented less than 10% of the total balance sheet of the Group at the end of 2013. 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 €	2013
60 - 90 days	1,034
90 - 120 days	

Liquidity risk

The Group's consolidated balance sheet shows an amount of €100,107K as incurred losses. 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. 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. In order to further reduce this risk, Galapagos implemented a netting system within the group in the course of 2012, which restrains intra-group payments between entities with a different functional currency.

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

Net book value - Thousands of €	31/12/2013	31/12/2012
Euros - US Dollars	521	507
Euros - GB Pounds	185	927
Euros - CH Francs	163	93
Euros - HR Kunas	798	1,146
CH Francs - GB Pounds	1	95
HR Kunas - GB Pounds	31	5
US Dollars - GB Pounds	708	807

The magnitude of the amounts on 31 December 2013 has decreased mainly in the conversion Euros – GB Pounds, as well in the conversion Euros – HR Kunas.

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 €94,350 in 2013 (2012: €88,850). The fees for exceptional services or special missions executed by the statutory auditor, in particular other control missions, amounted to €20,906 in 2013 (2012: €12,863). 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 €105,650 in 2013 (2012: €111,150). The fees paid in 2013 for exceptional services or special missions executed in this Group by persons related to the statutory auditor for tax and consultancy amounted to €22,524 (2012: €126,087). 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 2013:

- 6 January: Van Herck Investments notify of 5.3% shareholding in Galapagos
- 13 January: Galapagos receives €2.9 million IWT grant for cystic fibrosis research (not included in 2013 revenues)
- 29 January: First clinical centers opened for Phase 2 Crohn's study with GLPG0634
- 3 February: Galapagos receives €2.3 million IWT grant for fibrosis research (not included in 2013 revenues)
- 17 February: Galapagos completes patient recruitment in Proof-of-Concept study with GLPG0974 in ulcerative colitis
- 21 February: Galapagos to present GLPG0634 and GLPG0974 at International Conference on IBD
- 28 February: Galapagos provides status update for GSK2586184 in GSK's psoriasis, lupus, and ulcerative colitis clinical studies
- 7 March: Galapagos receives €2 million from osteoarthritis alliance with Servier (included in 2013 revenues)
- 13 March 2014: Galapagos announced the signing of a definitive agreement to sell its Argenta and BioFocus service operations to Charles River Laboratories International Inc. for total cash consideration of up to 134 million. The transaction is subject to customary closing conditions and is expected to close early in the second quarter of 2014. Charles River acquires all service operations of BioFocus and Argenta in the UK and the Netherlands. The acquisition includes all client contracts, order pipeline, premises, equipment, and further obligations of BioFocus and Argenta. All employees of BioFocus and Argenta will move into Charles River organization upon completion of the transaction. Charles River agrees to pay Galapagos immediate cash consideration of €129 million. Upon achievement of a revenue target 12 months after transaction closing, Galapagos will be eligible to receive an earn-out payment of €5 million.
The legal entities to be sold as part of this transaction are BioFocus DPI Ltd., BioFocus DPI (Holdings) Ltd., Argenta Discovery 2009 Ltd. and Cangenix Ltd. Post-transaction, Galapagos NV will still have the following dormant entities from its service business division: BioFocus DPI AG, BioFocus DPI LLC, BioFocus Inc., Xenometrix Inc. and Discovery Partners International GmbH. The liquidation of these entities should be completed in 2014 and 2015. The sold service division represents the following contribution for Galapagos in 2013:
 - net profit from the sold service operations of €8.1 million in 2013
 - net assets of the sold service division of €70.7 million at 31 December 2013, including €83.4 million of assets and €12.7 million of liabilities.
- 18 March: Galapagos to present favourable pre-clinical data on GLPG1790, a selective ephrin receptor kinase inhibitor, at AACR in San Diego.
- 21 March: Euronext Amsterdam to become Market Reference for Galapagos.



Report of the statutory auditor

Galapagos NV Statutory auditor's report to the shareholders' meeting on the consolidated financial statements for the year ended 31 December 2013

To the shareholders

As required by law, we report to you in the context of our appointment as the company's statutory auditor. This report includes our report on the consolidated financial statements together with our report on other legal and regulatory requirements. These consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2013, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, as well as the summary of significant accounting policies and other explanatory notes.

Report on the consolidated financial statements – Unqualified opinion

We have audited the consolidated financial statements of Galapagos NV ("the company") and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

The consolidated statement of financial position shows total assets of 287,374 (000) EUR and the consolidated income statement shows a consolidated loss for the year then ended of 8,079 (000) EUR.

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

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

Statutory auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the group's preparation and fair presentation of 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. An audit also includes evaluating

the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements. We have obtained from the group's officials and the board of directors the explanations and information necessary for performing our audit.

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

Unqualified opinion

In our opinion, the consolidated financial statements of Galapagos NV give a true and fair view of the group's net equity and financial position as of 31 December 2013, and of its results and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Report on other legal and regulatory requirements

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

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

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

Kortrijk, 28 March 2014

The statutory auditor

(signed)

DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises

BV o.v.v.e. CVBA / SC s.f.d. SCRL

Represented by Gino Desmet

Non-consolidated Financial Statements

CONDENSED NON-CONSOLIDATED (STATUTORY) ANNUAL ACCOUNTS

THE STATUTORY AUDITOR HAS ISSUED AN UNQUALIFIED OPINION ON THE STATUTORY FINANCIAL STATEMENTS

GALAPAGOS NV STATEMENT OF PROFIT AND LOSS

Thousands of € on 31 December	2013	2012
Turnover	48,330	45,981
Internally generated intangible assets	90,444	74,450
Other operating income	13,185	13,282
Operating income	151,959	133,713
Raw materials, consumables and goods for resale	-3,399	-3,423
Services and other goods	-78,801	-71,304
Remuneration, social security costs and pensions	-12,094	-11,795
Depreciation, impairment and other amounts written off on constitution costs, intangible and tangible assets	-66,820	-45,490
Other operating charges	-6,579	-1,713
Operating profit/loss (-)	-15,735	-12
Finance income	1,905	3,117
Finance cost	-1,596	-860
Result on ordinary activities before taxes	-15,426	2,245
Extraordinary income		
Extraordinary cost	-1,001	-29,477
Result before taxes	-16,427	-27,232
Taxes		
Result for the year	-16,427	-27,232
Loss brought forward	-115,287	-88,055
Result to be carried forward	-131,714	-115,287

GALAPAGOS NV BALANCE SHEET ON DECEMBER 31

Assets

Thousands of € on 31 December	2013	2012
Non-current assets	209,812	185,982
Intangible assets	125,842	100,553
Property, plant and equipment	3,762	3,233
Financial Fixed Assets	80,209	82,196
Current assets	156,263	110,482
Inventories	249	204
Trade and other receivables	28,873	38,652
Cash and cash equivalents	127,141	71,626
Total assets	366,075	296,464

Equity and liabilities

Thousands of € on 31 December	2013	2012
Equity	140,775	98,600
Share capital and reserves	161,172	144,816
Share premium account	106,524	66,916
Accumulated losses	-131,714	-115,287
Investment grants	4,793	2,155
Liabilities	225,300	197,864
Non-current liabilities	464	573
Obligations under finance lease (non-current)	167	165
Other liabilities	297	408
Current liabilities	224,835	197,291
Trade and other payables	50,782	46,033
Obligations under finance lease (current)	226	204
Tax, payroll and social security liabilities	2,452	2,370
Other liabilities	171,376	148,684
Total equity and liabilities	366,075	296,464

Glossary

ACR20

American College of Rheumatology 20% response rate signifies a 20% or greater improvement in the number of swollen and tender joints as well as a 20% or greater improvement in three out of five other disease-activity measures

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

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

BID dosing

Twice daily dosing

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

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

Colitis ulcerosa/ulcerative colitis

see IBD

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

Corrector drug

Drug that restores the protein forming the ion channel opening in cystic fibrosis patients. In most CF patients, a potentiator and corrector drug are needed in combination to restore the genetic defect causing CF

Crohn's

see IBD

CRP

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

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

DAS28

DAS28 is an RA Disease Activity Score based on C-reactive protein, tender and swollen joint counts of 28 defined joints and physician's global health assessment

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

Dose-range finding study

Phase 2 clinical study exploring the trade-offs between efficacy and safety among various doses of treatment in patients. Results are used to determine doses for later studies

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

FDA

The Food and Drug Administration is an agency responsible for protecting and promoting public health

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 which was being developed for treatment of cancer metastasis; Galapagos ceased further work on the compound in 2013

GLPG0492

A drug to treat cachexia. This drug was outlicensed by Galapagos to DART Therapeutics for testing in Duchenne muscular dystrophy

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 Phase 2 trials in November 2011 and November 2012, partnered with AbbVie in 2012. Currently in a Phase 2B study in rheumatoid arthritis and Phase 2 study in Crohn's disease

GLPG0778

Second candidate drug from Galapagos' arthritis alliance with GlaxoSmithKline, inlicensed by GSK in 2012. This program is now called GSK2586184 and is currently in Phase 2 studies in lupus, ulcerative colitis, and psoriasis

GLPG0974

Galapagos candidate drug targeting GPR43, which plays a key role in Inflammatory Bowel Disease: currently in a Phase 2 Proof of Concept study in ulcerative colitis patients

GLPG1205

Novel mode of action medicine in inflammatory bowel disease, in the alliance with Janssen Pharmaceutica, currently on track to enter Phase 2 by end 2014

GLPG1790

A novel drug targeting the ephrin tyrosine kinase receptor, with potential applications in triple-negative breast cancer, melanoma, prostate and other cancer types. Currently in pre-clinical candidate stage

GLPG1837

A potentiator drug currently in pre-clinical candidate stage, on track to enter Phase 1 by end 2014. Galapagos and AbbVie are looking for a corrector drug to use in combination with GLPG1837 to treat the largest mutation of CF

GSK2586184

Previously known as GLPG0778, GSK2586184 is a second candidate drug from Galapagos' arthritis alliance with GlaxoSmithKline, inlicensed by GSK in 2012. This program is currently in Phase 2 studies in lupus, ulcerative colitis, and psoriasis

IBD

Inflammatory Bowel Disease. This is a general term for autoimmune disease affecting the bowel, including Crohn's disease and ulcerative colitis. Crohn's disease

affects the small intestine primarily, while ulcerative colitis affects the large intestine. Both diseases involve inflammation of the intestinal wall, leading to pain, bleeding, and ultimately in some cases removal of bowel tissue

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 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 and/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

Investigational New Drug (IND) application

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

JAK

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

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

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

MRSA

Methicillin-resistant *Staphylococcus aureus* is a strain of *Staphylococcus aureus* that is resistant to methicillin. It causes a potentially life-threatening infection that occurs most frequently among patients in hospitals

Oral dosing

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

Osteoarthritis

The most common form of arthritis, usually occurring after middle age, marked by chronic breakdown of cartilage in the joints leading to pain, stiffness, and swelling

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

Placebo-controlled

A clinical study can only show statistical significance when the effect of a candidate drug is measured against that of a placebo, a substance having no pharmacological effect but administered as a control in testing experimentally or clinically the efficacy of a biologically active preparation

Potentiator drug

Drug that restores the ion channel opening in cystic fibrosis patients. In most CF patients, a potentiator and corrector drug are needed in combination to restore the genetic defect causing CF

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 (PCC)

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

Psoriasis

Psoriasis is an immune-mediated disease that affects the skin. It is caused by the immune system being mistakenly triggered, resulting in overproduction of new skin cells

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

Systemic Lupus Erythematosus

Systemic Lupus Erythematosus (SLE) is an autoimmune disease characterized by inflammation of many parts of the body. This inflammation is caused by the immune system that mistakenly attacks healthy cells, leading to tissue damage

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)

Ussing Chamber

Ussing chamber is a scientific tool used to measure the current as an indicator of ion transport taking place across an epithelium

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