Galápagos

GLPG
2005

ANNUAL REPORT

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AUDITED NON-CONSOLIDATED FINANCIALS

GALAPAGOS ANNUAL REPORT 2005
AUDITED NON-CONSOLIDATED FINANCIALS

This document, Galapagos' Annual Report 2005, Audited Non-consolidated Financials, contains the required information for the non-consolidated section of an annual brochure, as per the Belgian Code of Companies.

LANGUAGE OF THE ANNUAL REPORT

According to Belgian law, Galapagos must publish its Annual Report in Dutch. The Company has also prepared an English translation. In case of differences in interpretation, the Dutch version takes precedence. Galapagos is responsible for the translation and conformity between the Dutch and English versions.

AVAILABILITY OF THE ANNUAL REPORT

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

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For informational purposes, an electronic version of the Annual Report 2005 is available on the website of Galapagos, www.glpg.com.

Only the printed version of the Annual Report 2005 is legally valid. Galapagos will use reasonable efforts to ensure the accuracy of the electronic version of the Annual Report, but does not assume responsibility if inaccuracies or inconsistencies with the printed document arise as a result of any electronic transmission. Other information on the website of Galapagos or on other websites do not form a part of this Annual Report.

FORWARD-LOOKING STATEMENTS

The Annual Report 2005 may contain forward-looking statements, including, without limitation, statements containing the words "believes", "anticipates", "expects", "intends", "plans", "seeks", "estimates", "may", "will" 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 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.

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GALAPAGOS NV – AUDITED NON-CONSOLIDATED 2005 ANNUAL FINANCIALS

BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS

Ladies and gentlemen,
Dear shareholders,

We hereby have the pleasure of presenting to you our report relating to Galapagos NV's non-consolidated results during the financial year that ended on December 31, 2005.

Overview of Development, Result and Position of the Company

Galapagos NV's operating income in 2005 amounted to € 3,262,664, compared to € 6,682,701 in 2004, a decrease that is mainly the result of a decrease in license income. Income from sales amounted to € 2,569,487 and includes revenues from contract production (CPU), sale of viral libraries, income from research and development agreements (FTEs) and fees for access to our viral libraries. The other operating income amounts to € 693,177, of which € 657,478 relates to grants we received for our R&D projects.

Our operating costs of 2005 amounted to € 15,765,309, compared to € 9,884,487 in 2004. Purchases of raw materials and consumables decreased to € 945,084 compared to € 1,196,289 in 2004. Services and other goods increased to € 10.509.595 compared to € 3,840,883 in 2004, mainly as a result of the costs incurred in connection with the capital increases as a result of the IPO in May 2005 and the acquisition of BioFocus plc in the second half of 2005. Personnel costs in 2005 amounted to € 3,593,036, which is about the same as in 2004. Depreciation amounted to € 488,034 compared to € 1,217,078 in 2004; this decrease is due to a correction in accounting treatment in 2004. The other operational costs increased to € 229,559 and consist almost entirely of the stamp duties due in connection with the acquisition of the share capital of BioFocus plc.

Galapagos NV's 2005 financial income amounted to € 335,031 and comprised € 257,094 interests from bank deposits and € 77,937 of currency exchange gains.

Our 2005 financial costs amounted to € 165,986. They consisted mainly of interest costs from the lease of the Mechelen biology laboratories of up to € 142,207 and currency exchange rate losses of up to € 16,793.

The company's extraordinary income of 2005 amounted to € 906 resulting from gain on disposal of fixed assets compared to € 4,000 in 2004.

Investments in 2005 totaled € 907,251. They consisted of € 7,323 for investments in intangible assets (software licenses) and € 899,928 for investments in tangible fixed assets, of which € 393,858 relates to laboratory equipment and hardware and € 501,460 relates to assets under construction (including the chemistry labs).

Galapagos NV's cash position at the end of 2005 amounted to € 19,455,602, largely attributable to the cash proceeds arising from the IPO of May 2005.

The non-consolidated annual accounts of Galapagos NV that we submit for your approval are established in accordance with Belgian accounting rules as well as the legal and statutory requirements. They show a negative result. The financial year 2005 closed with a loss of € 12,332,694. The company intends to carry over this result to the following financial year.

Typically for a biotechnology group, the Company is confronted with a number of risks and uncertainties, such as the fact that: (i) Galapagos will need additional capital in the future to sufficiently fund its operations and research; (ii) there is a high risk that early-stage drug discovery and development might not successfully generate good drug candidates; (iii) Galapagos might not be able to commercialize its drug candidates successfully if problems arise in the testing and approval process; (iv) most of Galapagos' expected future revenues are contingent upon collaborative and license agreements; (v) Galapagos' success is dependent on intellectual property rights held by it and third parties and it's interest in such rights is complex and uncertain.

In 2005, the Company has not made use of financial instruments (e.g. hedging).

The Company continued to hold the necessary permits for its exploitation, and environmental rules were carefully respected.

On the level of staffing, the Company's core team including the biologists has remained stable and we have been successful in attracting a group of chemists with industry experience. The number of staff with Galapagos NV has increased from 46 at the end of 2004 to 56 at the end of 2005 (of which 54 have an employment agreement).

Activities in the area of research and development

Expenditures in research and development amounted to € 5,273,631 in 2005.

These expenditures relate to our biology and chemistry activities for our internal projects as well as to activities in research collaborations with third parties.

Our 2005 research and development activities show three highlights which demonstrate the significant progress we made in the transition from target discovery programs to higher value drug discovery programs. First, we completed validation of a number of disease modifying targets in our three core therapeutic R&D areas: rheumatoid arthritis, osteoarthritis and osteoporosis; these validated targets will contribute to feeding our internal drug discovery pipeline. Second, we strengthened our project portfolio across these disease areas by optimizing our chemical series against a number of our proprietary targets; such compounds were generated by the in-house chemistry capability that we established in 2005. Third, in two of our rheumatoid arthritis projects we demonstrated proof of principle in a mouse model, and one of the lead compounds showed Proof of Concept in a mouse model.

2005 also showed good progress in our research collaboration with Wyeth.

As of 2005, the R&D service activities performed by Galapagos NV for third parties (pharmaceutical companies) have been materially reduced. Such activities are now performed by our affiliate in Leiden (The Netherlands) and by BioFocus, our newly acquired affiliate in Saffron Walden (U.K.).

Capital increases and issue of shares

On 1 January 2005, the share capital of Galapagos NV was € 32,368,706 represented by 23,754,226 shares (before the 1:4 reverse share split).

On 29 March 2005, the Extraordinary General Meeting of shareholders ("EGM") decided to increase the capital of the Company by means of a public offer to private and institutional investors to subscribe to new shares of the company for a maximum amount of € 35,000,000. This EGM also proceeded, subject to the realization of the company's initial public offering ("IPO"), *i.a.* to: (i) have the Company take the capacity of a company that calls or has called for public savings as per article 438, 2° of the Code of Companies; (ii) decrease the threshold for transparency declarations as per the law of 2 March 1989 from five to three percent and all multiples of three and five percent; (iii) a 1:4 reverse share split after which the share capital of the company remained the same (€ 32,368,706.00) but was represented by 5,938,554 shares instead of 23,754,226 shares before the reverse share split; (iv) abolish the different classes of shares; consequently the entire share capital of the company is represented one category of shares; (vi) record that the exercise term of the anti-dilution warrants issued in 2002 was to expire in case of an IPO of the company; (vii) create the Warrant Plan 2005 for employees, directors and consultants, under which a minimum of 125,000 warrants were created and the maximum to be determined in accordance with the result of the IPO but not exceeding 500,000.

The same EGM also decided to change the name of the Company from "Galapagos Genomics" into "Galapagos".

On 10 May 2005, the Board of Directors established that the conditions for a successful IPO had been met and subsequently established, *i.a.*, (i) the realization of a capital increase with € 15,573,143 and the issue of 2,857,142 new shares; (ii) the exercise of 338,696 warrants resulting in a subsequent capital increase with
€ 390,010.16 and the issue of an additional 84,674 new shares; (iii) the creation of 467,421 new warrants within the framework of the Warrant Plan 2005; and (iv) the issue of 963,303 new warrants within the framework of the IPO Managers' over-allotment option.

On 8 June 2005, the Board of Directors established the capital increase pursuant to the exercise of 289,795 warrants granted within the framework of the IPO Managers' over-allotment option resulting in a capital increase of € 1,577,354.

On 19 September 2005, the Board of Directors resolved to make a recommended all share offer for the entire issued and to be issued share capital of BioFocus plc of Saffron Walden, U.K., whereby Galapagos offered 0.225 Galapagos shares for each BioFocus share. The offer was made on 21 September 2005 and it was declared unconditional as to acceptances on 12 October 2005 when valid acceptances for 76.9% of the issued share capital of BioFocus had been received. As of 17 October 2005, the Company's shares are also traded on the Alternative Investment Market (AiM) of the London Stock Exchange. On 26 October 2005 valid acceptances of the offer had been received for up to 92.6% of the BioFocus share capital; consequently, on 8 November 2005, the Board of Directors resolved to start the compulsory acquisition procedure for the BioFocus shares that were then not yet owned by Galapagos; this procedure was closed on 29 December 2005. In connection with the acquisition of BioFocus, the following increases of the share capital of Galapagos NV took place: (i) on 17 October 2005, the share capital was increased with € 15,392,456.80 and 2,824,304 new shares were issued; (ii) on 20 October 2005, the share capital was increased with
€ 1,205,234.80 and 221,144 new shares were issued; (iii) on 24 October 2005, the share capital was increased with € 160,404.40 and 29,432 new shares were issued; (iv) on 27 October 2005, the share capital was increased with € 1,765,859.95 and 324,011 new shares were issued; (v) on 30 November 2005, the share capital was increased with € 410,199.70 and 75,266 new shares were issued; and finally

(vi) on 9 January 2006, following the end of the compulsory acquisition procedure, the share capital was increased with € 1,496,891.55 and 274,659 new shares were issued.

On 30 November 2005, a total of 119,200 warrants were exercised by employees, *i.e.* 19,200 warrants under the Warrant Plan 1999 Belgium and 100,000 warrants under the Warrant Plan 2002 The Netherlands, resulting in a capital increase of € 136,200 and the issue of 29,800 new shares.

At 31 December 2005 the share capital of Galapagos NV amounted to € 68,979,569 and was represented by 12,674,122 shares without nominal value.

Information concerning the company's subsidiaries

Galapagos NV owns 100% of the shares of Galapagos Genomics BV, a company incorporated under the laws of the Netherlands, with offices at Archimedesweg 4, 2333 CN Leiden (The Netherlands). There have been no changes in this shareholding in 2005.

In 2005, Galapagos NV agreed to acquire 100% of the share capital of BioFocus plc by means of a recommended public offer that was concluded with a compulsory acquisition procedure that ended on 29 December 2005. The decision of the Board of Directors to proceed with this acquisition was taken after internal analyses and was supported by the analyses presented by two investment banks (Kempen & Co and ING Corporate Finance).

Conflicting interests of directors

The Board of Directors of 10 March 2005 decided to grant a salary increase of 8% to the CEO and the VP Business Development subject to a successful IPO, and the Board of Directors of 8 June 2005 decided to grant a bonus to the CEO of €100,000. As these decisions of the Board of Directors were made without taking into account the application of article 523 of the Belgian Code of Companies, the Board of Directors of 19 October 2005 has decided to submit these decisions for ratification to an Extraordinary General Meeting of Shareholders ("EGM"). The EGM of 6 January 2006 has ratified said decisions. The Board of Directors of 8 June 2005 also decided to call for an EGM to decide on a grant of 125,000 warrants to the CEO; this grant was decided and approved by the EGM of 4 July 2005.

The Board of Directors of 29 March 2005 in view of the IPO, decided, *i.a.*, to subscribe an improved director's liability insurance, including a public offering of securities liability insurance, and to conclude guarantee agreements between the Company and each of the members of its Board of Directors and Executive Committee. This Board decision was taken in compliance with the terms of Article 523 of the Belgian Code of Companies.

The Board of Directors of 19 October 2005 decided to approve a consultancy agreement at normal market terms between Galapagos NV and Parekh Enterprises Limited, a company controlled by Dr Raj Parekh, Chairman of Galapagos. In application of article 523 of the Belgian Code of Companies the Board of Directors has noted the following: "Dr Raj Parekh has informed the Board of Directors of a conflict of interest, concerning the proposed approval of the consultancy agreement between Galapagos NV and Parekh Enterprises Ltd. The Board has taken note of the recommendation given by the Remuneration Committee of 7 and 14 September 2005 to approve the proposed consultancy agreement, under which Parekh Enterprises will provide consultancy services to Galapagos against a monthly retainer of GB£ 4,166. The Board decides to approve the consultancy agreement, as it will permit the company to continue to use Parekh Enterprises' international expertise in the biotechnology sector. The Board notes that the financial conditions of said consultancy agreement do not deviate from what is common practice in the biotechnology sector and that the cost entailed by said contract does not impact on the company's financial situation. Mr Parekh has not participated in the deliberation and the vote."

The Board of Directors of 14 December 2005 decided to approve a bonus of € 40,000 to Mr Onno van de Stolpe, CEO. In application of article 523 of the Belgian Code of Companies the Board of Directors has noted the following: "The Chairman declares that Mr Onno van de Stolpe has informed the Board of Directors of a conflict of interest, concerning the proposed award of a bonus to him. It has been explained to the Board that the award of the bonus is proposed upon recommendation of the Remuneration Committee and is a justified reward for the results achieved by Mr Van de Stolpe in 2005. The award of the bonus will have no impact on the financial position of the company. The Board shares the opinion of the Remuneration Committee that the proposed bonus is justified and reasonable. Mr Van de Stolpe has not taken part in the deliberation and the vote concerning this decision."

Exceptional activities of the statutory auditor

During the financial year 2005, the statutory auditor delivered reports and gave advice relating to fiscal matters, and to major projects as the IPO and the acquisition of BioFocus. The total remuneration paid to the statutory auditor for such services amounted to € 592,411 (ex VAT). The Board of Directors is of the opinion that these ad hoc activities will not influence the opinion of the statutory auditor in the performance of its statutory duties.

Significant events that took place after the end of the financial year

On 6 January 2006, an Extraordinary General Meeting of shareholders ("EGM") was held to deliberate and decide on the following matters: (i) renewal of the powers given to the Board of Directors to increase the share capital of the Company and to amend the provisions in the articles of association of the Company that relate to the authorized capital; (ii) appointment of Dr David Stone and Mr Geoff McMillan as directors of the company and grant of warrants to Dr Stone and Mr McMillan; (iii) ratification of the decisions of the board of directors of 10 March 2005 granting a salary increase to the CEO and the VP Business Development subject to a successful IPO, and of the decision of the board of directors of 8 June 2005 granting a bonus to the CEO. The EGM approved all the resolutions submitted.

On 9 January 2006, following the end of the compulsory acquisition procedure on 29 December 2005 relating to the BioFocus acquisition, the Board of Directors increased the share capital of the company with
€ 1,496,891.55 and consequently issued 274,659 new shares, hence bringing the share capital of the Company up to € 70,476,460.54 and the number of outstanding shares up to 12,948,781.

On 1 February 2006, Mr David Smith was appointed Chief Financial Officer of the Galapagos Group.

On 3 February 2006, the Board of Directors using the authorized capital created a Warrant Plan 2006 Belgium/The Netherlands under which 350,000 new warrants were created substantially for Galapagos' employees in Belgium and The Netherlands and in secondary order for employees of its other subsidiaries, its directors and consultants.

Going concern and accounting standards

As the balance sheet of the company shows a loss carry-over and the profit and loss account shows a loss during two consecutive financial years, the Board has examined the accounting standards and is of the opinion that the accounting standards can be applied under the assumption of continuity. Taking into account the solid cash position and the favorable developments of the company's own drug discovery activities and its subsidiaries' service activities, the Board is of the opinion that it can submit the annual accounts in view of continuity. 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 short term needs, the Board points out that if the R&D activities continue to go well, the Company may need to seek additional funding to support the continuing development of its pipeline. It can be expected that because of these increasing expenditures and resulting losses the net assets of the Company, without further cash injection, will again fall below half of the share capital within the next 2 years. If and when this happens, the procedure according to article 633 of the Belgian Code of Companies will require the Board to draw up a report to be submitted to the Shareholders Meeting to decide upon the continuation or cessation of activities.

Relationship with important shareholders

Galapagos NV has no knowledge of the existence of any shareholders agreements between Galapagos' shareholders, except for the lock-up agreement among the pre-IPO shareholders whereby they will consult each other and those willing to sell will act together should the IPO-managers (KBC Securities and Kempen & Co together) consent to a sale of shares prior to the end of the two year lock-up period that started at the IPO of 10 May 2005.

Corporate Governance

On 29 March 2005, the Board of Directors approved the Company's Corporate Governance Charter. This charter is in addition to the corporate governance provisions included in the Belgian Code of Companies and in the Company's articles of association. The corporate governance rules aim at achieving an efficient management and an appropriate control of the Company.

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;
- Policy for transactions between the Company and its directors and executive managers;
- Protocols to avoid insider trading, relating to both the Belgian and the Dutch rules.

The Board of Directors expressed its opinion that clear understandings relating to corporate governance contribute to long-term value creation and to a workable equilibrium between the entrepreneurship on the one hand and the control functions of the management organisms on the other hand. The Board of Directors has set as an objective that the principles of the Belgian Corporate Governance Code (the so-called "Lippens-Code") be respected as scrupulously as possible. However, the Board of Directors also determined that it is permissible not to comply with certain corporate governance principles when the specific circumstances in which the Company operates are taken into account. In such cases, it shall apply the principle of "comply or explain".

For more detailed information on how the company applies the principles of Corporate Governance, we refer to the specific chapter on this subject matter in Galapagos' Annual Report 2005.

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

The Board of Directors will submit to you proposals of resolutions to approve the annual accounts for the financial year 2005, and to discharge the directors that were in office in 2005 and the Statutory Auditor, for the exercise of their mandate during the financial year that ended on 31 December 2005.

Mechelen, 3 March 2006.

On behalf of the Board of Directors,

Onno van de Stolpe	Raj Parekh
CEO	Chairman

REPORT OF THE INDEPENDENT AUDITORS

GALAPAGOS NV

STATUTORY AUDITOR'S REPORT FOR THE YEAR
ENDED 31 DECEMBER 2005 TO THE SHAREHOLDERS' MEETING

To the Shareholders

As required by law and the company's articles of association, we are pleased to report to you on the audit assignment which you have entrusted to us.

We have examined the financial statements of Galapagos NV for the year ended 31 December 2005, prepared in accordance with the legal and regulatory requirements applicable in Belgium, which show total assets of EUR 55.256 (000) and a loss for the year of EUR 12.333 (000). We have also performed those specific additional audit procedures required by the Companies Code.

The Board of Directors of the company is responsible for the preparation of the financial statements and the directors'report, for the assessment of the information that should be included in the directors'report, and the company's compliance with the requirements of the Companies Code and its articles of association.

Our audit of the financial statements was conducted in accordance with legal requirements and auditing standards applicable in Belgium, as issued by the "Institut des Reviseurs d'Entreprises/Instituut der Bedrijfsrevisoren".

Unqualified audit opinion on the financial statements

The forementioned auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In accordance with these standards we have taken into account the administrative and accounting organization of the company as well as its internal control processes. The responsible officers of the company have replied clearly to all our requests for explanations and information. We have examined, on a test basis, the evidence supporting the amounts included in the financial statements. We have assessed the basis of the accounting policies used, the significant accounting estimates made by the company and the presentation of the financial statements, taken as a whole. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, taking account of the legal and regulatory requirements applicable in Belgium, the financial statements as of 31 December 2005 give a true and fair view of the company's assets, liabilities, financial position and results.

Additional attestations and information

We supplement our report with the following attestations and information which do not change the scope of our audit opinion on the financial statements:

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

- Without prejudice to certain formal aspects of minor importance, the accounting records are maintained and the financial statements have been prepared in accordance with the legal and regulatory requirements applicable in Belgium.

- No transactions have been undertaken or decisions taken in violation of the company's articles or the Companies Code such as we would be obliged to report to you. The appropriation of the results proposed to the General Meeting is in accordance with the requirements of the law and the company's articles.

- In accordance with article 523 of the Companies Code, we are required to report on the following operations which have taken place since your last Annual General Meeting:

    The Board of Directors of 10 March 2005 decided to grant a salary increase of 8% to the CEO and the VP Business Development subject to a successful IPO, and the Board of Directors of 8 June 2005 decided to grant a bonus to the CEO of €100,000. As these decisions of the Board of Directors were made without taking into account the application of article 523 of the Belgian Code of Companies, the Board of Directors of 19 October 2005 has decided to submit these decisions for ratification to an Extraordinary General Meeting of Shareholders ("EGM"). The EGM of 6 January 2006 has ratified said decisions. The Board of Directors of 8 June 2005 also decided to call for an EGM to decide on a grant of 125,000 warrants to the CEO; this grant was decided and approved by the EGM of 4 July 2005.

    The Board of Directors of 29 March 2005 in view of the IPO, decided, i.a., to subscribe an improved director's liability insurance, including a public offering of securities liability insurance, and to conclude guarantee agreements between the Company and each of the members of its Board of Directors and Executive Committee. This Board decision was taken in compliance with the terms of Article 523 of the Belgian Code of Companies.

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The Board of Directors of 14 December 2005 decided to approve a bonus of € 40,000 to Mr Onno van de Stolpe, CEO. In application of article 523 of the Belgian Code of Companies the Board of Directors has noted the following: "The Chairman declares that Mr Onno van de Stolpe has informed the Board of Directors of a conflict of interest, concerning the proposed award of a bonus to him. It has been explained to the Board that the award of the bonus is proposed upon recommendation of the Remuneration Committee and is a justified reward for the results achieved by Mr Van de Stolpe in 2005. The award of the bonus will have no impact on the financial position of the company. The Board shares the opinion of the Remuneration Committee that the proposed bonus is justified and reasonable. Mr Van de Stolpe has not taken part in the deliberation and the vote concerning this decision."

6 March 2006

The Statutory Auditor

DELOITTE Reviseurs d'Entreprises
SC s.f.d. SCRL
Represented by Gert Vanhees

DELOITTE Reviseurs d'Entreprises
SC s.f.d. SCRL
Represented by Geert Verstraeten

AUDITED 2005 NON-CONSOLIDATED FINANCIAL STATEMENTS

GALAPAGOS NV ABRIDGED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER

ASSETS

Thousands of €	2005	2004
NON-CURRENT ASSETS	**30,735**	**2,153**
Intangible assets	10	41
Property Plant and Equipment	2,356	2,092
Financial Fixed Assets	28,369	20
CURRENT ASSETS	**23,375**	**12,125**
Inventories	143	98
Trade and Other Receivables	4,922	2,888
Cash and Cash Equivalents	19,456	9,139
TOTAL ASSETS	**54,110**	**14,278**

EQUITY AND LIABILITIES

Thousands of €	2005	2004
Current liabilities	**5,050**	**2,958**
Trade and other payables	4,200	2,239
Obligations under finance lease	115	106
Payroll and tax liabilities	735	613
Non-current liabilities	**1,728**	**1,413**
Obligations under finance lease	1,728	1,413
LIABILITIES	**6,778**	**4,371**
EQUITY	**47,332**	**9,907**
Capital and reserves	68,980	32,369
Share premium account	14,293	
Accumulated loss	-34,795	-22,462
TOTAL EQUITY AND LIABILITIES	**54,110**	**14,278**

GALAPAGOS NV ABRIDGED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER

Thousands of €/ as at 31 December	**2005**	**2004**
Turnover	2,570	5,380
Other operating income	693	1,303
Operating income	***3,263***	***6,683***
Raw materials, consumables and goods for resale	-945	-1,196
Services and other goods	-10,510	-3,841
Remuneration, social security costs and pensions	-3,593	-3,594
Depreciation of and other amounts written off	-488	-1,217
Other operation charges	-230	-37
Operating loss	***-12,503***	***-3,202***
Investment revenues	335	183
Finance income/ (cost)	-166	-627
Loss on ordinary activities before taxes	***-12,334***	***-3,645***
Extraordinary income	1	3
Loss before taxes	***-12,333***	***-3,642***
Taxes		
LOSS FOR THE YEAR	**-12,333**	**-3,642**
Loss brought forward	-22,462	-18,820
Loss to be carried forward	**-34,795**	**-22,462**

GENERAL INFORMATION

Summary of significant accounting policies:

1. Research and development

The company incurs significant research and development expenses. Although the Belgian accounting legislation allows certain research and development expenses to be capitalized, the Company has opted to expense all its research and development costs even if they would (partly) comply with the conditions for capitalization.

2. Fixed assets

a) Licenses and know how
The Company acquired a significant portion of licenses and know how from its shareholders Tibotec-Virco NV and Crucell in 2000 through a quasi contribution. These license agreements were substituted and renewed on the occasion of the private placement in March 2003. Such licenses and know how are amortized over 5 years on a straight-line basis. The remaining part of the license relates to acquired software licenses which are amortized over a period of 3 years on a straight-line basis.

b) Cost of IPO-capital increase and BioFocus acquisition
The costs of the IPO-capital increase and the BioFocus acquisition have been included as operating expenses in the income statement for an amount of € 3,891,000.

c) Property, plant and equipment
Property, plant and equipment are recorded at costs. Depreciation is provided on a straight-line basis over the useful economic lives of the assets involved as follows:

- Lab equipment: 5 years
- IT hardware: 3 years
- Furniture and vehicles: 5 years
- Assets under finance lease: 14 years

The assets under finance lease comprise the machinery and laboratory equipment as well as the leasehold improvements. The net book value of the assets is € 1,177,000 on 31 December 2005. The debt toward the leasing company amounts to € 1,298,000 on the long term and € 115,000 on the short term.

In 2005 a new lease was finalized, for which a total of € 430,000 in investments were recorded by the end of 2005.

3. Trade receivables

Trade receivables are recorded at nominal value. When collection becomes doubtful, bad debt provisions are set up.

4. Revenue

The Company generates revenues from the sale of products, providing contract research and development services, from different target discovery and development activities, from license or royalty agreements and from grants. The revenue recognition policy can be summarized as follows:

- Sales from standalone products are recognized as product revenue when shipped;
- 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 Company's full-time equivalents at a specified rate per FTE;
- Sales from the Company's target discovery and development business typically comprise multiple elements combined in one or more license agreements. The elements in such multiple element agreements are accounted for as follows:
  - 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 Company has fulfilled all conditions and obligations under the related agreement. In case of continuing involvement of the Company, the upfront fee would not be regarded as a separate transaction and the upfront non refundable license fees will be deferred at fair value over the period of the collaboration;
  - Library and technology access fees are recognized as license revenue over the period in which access is granted;
  - Fees charged for the delivery of library information are recognized, as license revenue when delivered, only if the Company has no continuing involvement in the use of the information, otherwise revenue is recognized similarly as upfront non refundable license fees;
  - Fees for options or licenses are recognized as revenue over the period of the option or the license, unless the Company has no continuing obligations, in which case the revenue is recognized when invoiced;
  - Technical milestone payments are recognized as license revenues when earned, unless the Company has continuing involvement in the development, in which case the technical milestone revenue is ratably recognized over the remaining period of the collaboration; and
- Royalties are recorded as license revenue when earned.
- The Company receives operational grants from certain governmental agencies, which support the Company's research and development efforts in defined projects. These grants generally aim to partly reimburse approved expenditures incurred as defined in research and development efforts of the Company and are recorded as grant income.

5. Share subscription rights

On 20 December 1999 and 1 March 2002 the Company by decision of the Extraordinary Shareholder's Meeting, established warrant plan for employees, Board members and third parties: The Belgian and Dutch 1999 warrants plans foresee a maximum issuance of 549,341 and 81,695 warrants, respectively. On 31 December 2004, no more warrants were outstanding in the Dutch plan. On 1 March 2002 the Extraordinary Shareholder's Meeting decided that no further warrants could be granted under the 1999 Plan Belgium.

On 1 March 2002 the Extraordinary Shareholder's Meeting also established the "2002 Belgian Warrant Plan" and the "2002 Dutch Warrant Plan". The Belgian and Dutch warrant plan foresee a maximum issuance of 3,013,000 and 500,000 warrants, respectively.

On 29 March 2005 the Extraordinary Shareholder’s Meeting decided to proceed to a 1:4 reverse stock split. Consequently, each 4 warrants granted under the aforementioned warrant plans give right to 1 share.

On 29 March 2005 the Extraordinary Shareholder's Meeting established a new Warrant Plan of maximum 500,000 warrants, each giving right to 1 share. The number of warrants finally created was, at the IPO, established at 467,421 by notary deed of 10 May 2005.

The table below describes the movements in warrants and the number of shares that the warrants give right to for the 1999 and 2002 Warrant Plans, taking into account the 1:4 reverse stock split.

1999 Belgian Warrant Plan
Expiration in 2007

	Warrants	Rights to shares
Maximal issuance of warrants	549,341	137,335
Total granted up to December 31, 2004	242,154	60,539
Total eliminated up to December 31, 2004	-331,787	-82,947
Total exercised up to December 31, 2004	0	0
Outstanding per January 1, 2005	217,554	54,389
Granted 2005	0	0
Eliminated 2005	0	0
Exercised 2005	-55,800	-13,950
Outstanding per December 31, 2005	161,754	40,439
Total granted under the Plan	242,154	60,539
Total eliminated from the Plan	331,787	82,946
Available for distribution	0	0
Exercise price	€ 1.00	

2002 Belgian Warrant Plan
Expiration date 2010/2011/2012/2013

	Warrants	Rights to shares
Maximal issuance of warrants	3,013,000	753,250
Total granted up to December 31, 2004	2,537,321	634,330
Total eliminated up to December 31, 2004	-459,676	114,919
Total exercised up to December 31, 2004	0	0
Outstanding per January 1, 2005	2,077,645	519,412
Granted 2005	637,500	159,375
Eliminated 2005	-203,852	-50,963
Exercised 2005	-248	-62
Returned to warrant pool in 2005	236,925	59,231
Outstanding per December 31, 2005	2,747,969	686,993
Total granted under the Plan	3,174,821	793,706
Total eliminated from the Plan	-663,528	165,882
Available for distribution	75,103	18,775
Exercise price	€ 1.00	

2002 Dutch Warrant Plan
Expiration 2006/2007

	Warrants	Rights to shares
Maximal issuance of warrant	500,000	125,000
Total granted up to December 31, 2004	482,595	120,649
Total eliminated up to December 31, 2004	0	0
Total exercised up to December 31, 2004	0	0
Outstanding per January 1, 2005	482,595	120,649
Granted 2005	0	0
Eliminated 2005	0	0
Exercised 2005	-401,848	100,462
Outstanding per December 31, 2005	80,747	20,187
Total granted under the Plan	482,595	120,649
Total eliminated from the Plan	0	0
Exercise price	€ 1.17	

2005 Warrant Plan
Expiration 2013

	Warrants and Rights to shares
Maximal issuance of warrant	467,421
Granted 2005	297,500
Eliminated 2005	0
Exercised 2005	0
Outstanding per December 31, 2005	297,500
Total granted under the Plan	297,500
Total eliminated from the Plan	0

The exercise price of warrants granted under the 2005 Plan are € 6.91 (grants of 4 July 2005), € 8.35 (grants of 23 November 2005) and € 8.60 (grant of 15 December 2005).

The warrants have an exercise period of 4 years (2002 Dutch Plan) and 8 years (2002 Belgian Plan and 2005 Plan). The Belgian warrants and the warrants granted under the 2005 Plan have a blocked period of 3 years. As of year four, 60% up to 100% can be exercised.

With respect to the 2002 Belgian Plan, the Board of Directors of 15 January 2004, in accordance with the provisions of said Plan, decided that 236,925 warrants, granted under said plan to an employee who had announced to leave employment, would not become null and void upon his departure, but would remain in existence and return to the warrant pool to grant these warrants to one or more future employees or directors. This decision has de facto been implemented with the warrant grants of 31 January 2005 under said plan.

Anti-Dilution warrants:

On 6 March 2002 and on 19 September 2002 the Extraordinary Shareholders' Meeting decided to grand anti-dilution warrants to each investor in B+ and C class shares, which allow these investors to subscribe on a certain number of preferred shares, based on a formula. These anti-dilution warrants were cancelled by the

Extraordinary Shareholders Meeting held on 29 March 2005, subject to the condition precedent of the realization of the projected public offering.

6. Guarantee

Galapagos NV stands guarantee for Galapagos Genomics BV, a 100% affiliate of Galapagos NV.

7. Going Concern

The Company has operational losses amounting to € 34.8 million as of 31 December 2005. As of 31 December 2005 the Company had a cash position of € 19.5 million and an equity of € 48.5 million. Based on these factors, the Board considers that the continuity is safeguarded until the General Shareholders Meeting that approves the 2006 annual accounts.

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