Annual Financial Report 2009

Galápagos

Table of contents

REPORT OF THE BOARD OF DIRECTORS 4

AUDITED CONSOLIDATED 2009 ANNUAL FINANCIAL STATEMENTS 20

CONSOLIDATED INCOME STATEMENT AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 20
CONSOLIDATED STATEMENT OF FINANCIAL POSITION 21
CONSOLIDATED CASH FLOW STATEMENT 22
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 24
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 25
REPORT OF THE STATUTORY AUDITOR 77

AUDITED NON-CONSOLIDATED 2009 ANNUAL FINANCIAL STATEMENTS 80

CONDENSED NON-CONSOLIDATED ANNUAL ACCOUNTS 80

GLOSSARY 82

Galápagos

Galapagos
Annual Financial Report 2009

This document, Galapagos' Annual Financial Report 2009 in the form of a brochure, contains all required information as per the applicable Belgian laws.

LANGUAGE OF THE ANNUAL FINANCIAL REPORT 2009

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 2009

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

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For informational purposes, an electronic version of the Annual Financial Report 2009 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 2009 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 2009 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 2009

Ladies and gentlemen,
Dear shareholders,

With pleasure we present to you our report relating to Galapagos' consolidated and non-consolidated results during the financial year ended on 31 December 2009.

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); BioFocus DPI BV (Leiden, The Netherlands); BioFocus DPI (Holdings) Ltd and its subsidiaries BioFocus DPI Ltd, Cambridge Drug Discovery Holding Ltd, Cambridge Genetics Ltd, Cambridge Discovery Ltd (Saffron Walden, UK); BioFocus, Inc. and its subsidiaries, BioFocus DPI LLC, Xenometrix Inc. and Compound Focus, Inc. (USA); BioFocus DPI AG (Basel, Switzerland) and its subsidiary Discovery Partners International GmbH (Heidelberg, Germany); Inpharmatica Ltd (Saffron Walden, UK); and Galapagos SASU (Romainville, France).

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

In its tenth year of operations, Galapagos has moved into a key phase of its development: profitability. With this major achievement, we join an elite group of biotech companies that are self reliant and independent of the capital markets. The year 2009 has been excellent for Galapagos in many respects. Most importantly, we have surpassed the promises we made to you, our shareholders.

Our quest

Galapagos' mission is to discover and develop breakthrough medicines to advance human health both through partnered programs and through retained programs. In this quest, we are joined by several pharma partners. Why has Galapagos become the drug discovery partner of choice for top pharmaceutical companies? First, our commitment to innovation matches well with those pharma companies that are looking for innovative new therapies to fill their pipelines. Second, our core strength - the ability to identify novel targets that may lead to a new mode of action medicine – is widely recognized as world-leading and important to the future of the industry, at a time when most companies still develop drugs against generally known targets. Galapagos' SilenceSelect® technology remains the world's premier source of novel targets. Third, we have a broad suite of capabilities to turn our novel targets into novel drug candidates with an efficiency that surpasses that of pharma companies. Shortly after our IPO in 2005, we stepped up efforts to build small molecule drug discovery capabilities with the acquisitions of BioFocus, DPI, Inpharmatica, and most recently Argenta. The capabilities that these acquisitions brought us have been successfully integrated with our target discovery platform into a seamless drug discovery engine that is yielding a strong pipeline of novel drug candidates.

From the lab to the clinic

The year 2009 marked Galapagos' transition to a clinical development company. At the start of the year, Galapagos had merely one (in-licensed) program in the clinic. By year end, we had four programs in clinical development, three of which were discovered internally. All candidates address substantial markets with significant unmet medical needs. In March, we started Phase I studies with our first novel target-based program, GLPG0259. This candidate drug for rheumatoid arthritis shows good safety and a profile suitable for once-daily oral dosing. We also successfully completed a Phase I study with candidate drug GLPG0187 for metastasis, showing good safety and relevant biomarker response in healthy volunteers. Galapagos aims to start patient trials for both of these candidate drugs in 2010. In 2009, we also moved Nanocort into a Phase II study for treatment of multiple sclerosis flares, and we started the first Phase I study with GLPG0555, a compound that was fully driven by the arthritis alliance with GlaxoSmithKline. With two more programs planned to start clinical development shortly, we may enter 2011 with a pipeline of six separate clinical programs.

Behind these clinical stage programs we have a deep portfolio of more than 50 target-based programs. In all of its indication areas, Galapagos has multiple "shots on goal" in terms of delivering a marketed product, which significantly enhances our risk-reward profile. Another strength of our portfolio is the mix of partnered and unpartnered programs – we have the flexibility to partner a Galapagos program at the point when it delivers the most upside for shareholders. Most of our programs are based on novel targets, representing new modes of action, and we have strong patent positions on both the novel targets and the therapeutic compounds.

Galapagos – a unique success story

Our unrivaled target discovery engine and world class drug discovery capabilities form the basis of seven risk-sharing alliances with the world's top pharma companies. We have built a strong reputation for delivering in these alliances - in some cases milestones were achieved even ahead of plan. Another key element of our business strategy is to finance our internal research efforts partially through the profits from our service operations, which we further strengthened in February 2010 with the acquisition of Argenta's profitable fee-for-service activities.

Execution of our strategy, which has remained constant, is paying off. Financially, Galapagos has exceeded its 2009 goals with regard to revenues, cash flow and profitability. Having achieved a net profit of €3.0 million in 2009, compared to a net loss of €12.2 million in 2008 on a pro forma restated basis*, we believe that we have left the years of start-up losses behind us. We achieved €106.0 million in consolidated revenues, an increase of 34% over 2008*, with the R&D division revenues outpacing the Services for the first time. Importantly, with a positive cash flow of €20.0 million (including a share placement of €18.2 million), we ended 2009 with €47.4 million in cash, well above our guidance of €38.0 million. Galapagos has become self-reliant, placing the Company in a select field of biotechnology companies.

We will continue to leverage our discovery engine, and not just through signing more alliances. We are also breaking ground on our new strategy in orphan diseases, diseases not commonly pursued by pharma due to their relatively limited patient populations. We plan to select a number of orphan drug targets that we discovered in collaboration with patient foundations,

* 2008 figures have been restated for the sale of the San Diego (US) service operations as well as the reclassification of subsidies and French tax rebates on research activities as revenues for transparency and common industry practice.

Report of the Board of Directors

and we intend to progress these programs all the way to the patients. The first orphan disease program selected by Galapagos is cystic fibrosis, a life-threatening genetic disease that affects approximately 70,000 people worldwide. We have identified novel targets in collaboration with the US-based Cystic Fibrosis Foundation and have initiated drug discovery programs on a number of these targets.

Outlook

We expect the growth and self-sufficiency that we have achieved in 2009 to be sustainable, as we see our product pipeline mature and alliance payments and service revenues grow. We have given guidance for 2010 for Group revenues exceeding €135 million, for year-on-year growth of at least 27%. We also expect the Group to deliver a positive operational income and cash flow in 2010, while continuing to make significant progress in both partnered and unpartnered therapeutic programs.

Where is Galapagos going from here? We have a rich pipeline of discovery programs which will enable us to expand our development portfolio. In 2010, we will see further progress in our clinical programs, including initiation of the Phase II efficacy trial for the Company's first novel mode-of action-program, GLPG0259. In our early-stage research, we anticipate new sets of novel targets to enter drug discovery. This is already the situation for our cystic fibrosis program, our first venture into orphan diseases, in which we plan to deliver a drug to patients under the Galapagos name. With BioFocus and Argenta in our service operations, we have become the leader in drug discovery services in the Western world, and we aim to strengthen this position through further organic growth. The innovation and expertise upon which Galapagos was built over the past ten years will continue to be the drivers for the next decade. The world needs new innovative medicines and Galapagos is committed to delivering these.

Galapagos has maintained a clear vision in its drive for innovation and self reliance. With your continued support in 2010, we aim to build further on these foundations to create one of the most successful biotech companies in Europe.

Details of the financial results

Revenue

Galapagos' revenues for the full year 2009 grew 34% to €106.0 million (pro forma restated 2008: €78.9 million). BioFocus generated €56.5 million in revenues (+6%), including €13.4 million intra-company revenues eliminated in the consolidation. The service operations achieved organic sales growth of 13%, indicating the resiliency of BioFocus' premium positioning. The R&D division increased its revenues by 76% to €63.8 million, driven by success-based payments in all alliances.

Results

The Group net profit for the full year 2009 was €3.0 million, or €0.14 earnings per share, a positive turnaround of €15.2 million when compared to a loss of €12.2 million, or €0.58 per share, on a pro forma restated basis for 2008. Research and development costs increased from €38.7 million to €60.0 million, making Galapagos' R&D budget one of the largest in European biotech in 2009. BioFocus reported a positive segment result of €7.9 million, compared to €2.9 million in 2008. The service division's substantially improved recurring result was mainly attributable to better gross margins, particularly in the biology division, and to

higher capacity utilization. General and administrative costs decreased to €16.9 million (16% of revenues), as compared to €19.1 million in 2008 (24% of revenues). The group net result was also impacted by recognition of €1.3 million in deferred tax assets from the UK operation, as per early adoption of IFRS 3R and IAS 27R.

Cash position

Galapagos' cash and cash equivalents amounted to €47.4 million on 31 December 2009, compared to €27.3 million at the end of 2008. The positive cash flow, in combination with the successful €18.2 million private placement in October 2009, resulted in a year-end 2009 cash position of €47.4 million. This is €9.4 million better (25%) than the updated guidance of €38.0 million given in November following the successful private placement.

Personnel

At the end of 2009, the total number of employees working within the Group amounted to 516.

Environment

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

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

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

At the start of 2009, Galapagos NV had merely one (in-licensed) program in the clinic. By year end, the Company had four programs in clinical development, three of which were discovered internally. In the course of 2009, Phase I studies were completed with Galapagos NV's first novel target-based program, GLPG0259. This candidate drug for rheumatoid arthritis showed good safety and a profile suitable for once-daily oral dosing. The Company also completed a successful Phase I study with candidate drug GLPG0187 for metastasis, showing good safety and relevant biomarker response in healthy volunteers. Galapagos NV aims to start patient trials for both of these candidate drugs in 2010. In 2009, Nanocort moved into a Phase II study for treatment of multiple sclerosis flares, and the first Phase I study was started with GLPG0555, a compound that was fully driven by the arthritis alliance with GlaxoSmithKline. Behind these clinical stage programs Galapagos NV has a deep portfolio of more than 50 target-based programs.

Galapagos NV's operating income in 2009 amounted to €59.0 million compared to €36.2 million in 2008. Income from sales amounted to €51.9 million and includes revenues from the GSK alliances in osteoarthritis and infectious diseases, revenues from the Lilly alliance, revenues from the Janssen Pharmaceutica alliance in rheumatoid arthritis and revenues from the alliances with Merck & Co. The other operating income amounts to €7.1 million including €3.1 million in grants we received for our R&D projects and €2.1 million recharges to subsidiaries.

Report of the Board of Directors

The operating costs of 2009 amounted to €66.5 million compared to €45.7 million in 2008. Material purchases decreased to €3.4 million compared to €3.6 million in 2008. Services and other goods increased to €50.1 million compared to €32.2 million in 2008, mainly as a result of the costs related to recharges from subsidiaries, and the increased outsourcing for development of our products.

Personnel costs in 2009 amounted to €8.2 million compared to €7.2 million in 2008. The number of employees with Galapagos NV at the end of 2009 amounted to 104.

Depreciation amounted to €1.4 million compared to €1.1 million in 2008; this increase is due to the depreciation on assets acquired in the course of 2008 and 2009, in particular the in-licensing of Nanocort.

Galapagos NV's 2009 financial income decreased to €0.5 million compared to €2.3 million in 2008. Financial costs amounted to €0.3 million compared to €2.4 million in 2008; the high amount in 2008 was due to the full write-off of a CDO (Collateralized Debt Obligation) for an amount of €2.0 million.

No significant extraordinary income was recorded in 2009 or 2008. In 2008 the extraordinary costs amounted to €6.3 million due to the write off of a receivable of its sold facility, BioFocus DPI, Inc.

Investments in 2009 totaled €0.9 million. They consisted of €0.7 million for investments in intangible assets (software licenses) and €0.2 million for investments in tangible fixed assets relating to laboratory equipment, hardware, and technical equipment.

Galapagos NV's cash position at the end of 2009 amounted to €36.8 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 2009 closed with a loss of €7.4 million.

In 2009, neither Galapagos NV nor its affiliates made direct or active use of financial instruments (e.g. hedging).

3. ACTIVITIES IN THE AREA OF RESEARCH AND DEVELOPMENT

For a description of Galapagos' Research & Development activities in 2009, we refer to what is set forth above in section 1, topic "From the lab to the clinic."

4. SHARES AND CAPITAL

Capital increases and issue of shares

On 1 January 2009, the share capital of Galapagos NV amounted to €114,995,166.45 represented by 21,188,829 shares. In the course of 2009 there were four capital increases resulting from the exercise of warrants, amounting to €1,184,264.00 in additional share capital and 296,066 new shares being issued. On 21 October 2009, Galapagos issued 2,125,925 new shares by way of a private placement with institutional investors, resulting in an increase of the share capital by €11,543,773.00 and an increase of the issuance premium by €6,632,886.00. At the end of 2009, the total share capital of Galapagos NV amounted to €127,723,203.20 represented by 23,610,820 shares.

On 1 April 2009, the Board of Directors issued 555,000 warrants within the framework of the authorized capital, for the benefit of employees and an independent consultant of Galapagos and its subsidiaries under a new warrant plan ("Warrant Plan 2009"). These warrants have a term of eight years and an exercise price of €5.87.

On 2 June 2009, the Extraordinary General Shareholders' Meeting of Galapagos issued 135,100 warrants, for the benefit of directors and the new CFO of Galapagos under a new warrant plan ("Warrant Plan 2009 (B)"). These warrants have a term of five years and an exercise price of €7.09.

Shares and rights attached to the shares

Of the 23,610,820 shares of Galapagos NV outstanding at the end of 2009, 1,657,207 were shares registered in the register of shareholders, 21,934,621 shares were dematerialized shares and 18,992 shares were bearer shares. All shares are issued and fully paid up and are of the same class.

Each share:

- entitles its holder to one vote at the Shareholders' Meetings;
- represents an identical fraction of the capital and has the same rights and obligations and participates equally in the profit of Galapagos NV;
- gives its holder a preferential subscription right to subscribe to new shares, convertible bonds or warrants in proportion to the part of the share capital represented by the shares already held. The preferential subscription right can be restricted or cancelled by a resolution approved by the Shareholders' Meeting, or by the Board of Directors subject to an authorization of the Shareholders' Meeting, in accordance with the provisions of the Belgian Company Code and Galapagos NV's articles of association.

Report of the Board of Directors

Authorized capital

Conform the articles of association, the Extraordinary General Shareholders' Meeting of Galapagos NV authorized the Board of Directors to increase the share capital of the Company, in one or several times, and under certain conditions set forth in extenso in the Articles of Association of Galapagos NV. This authorization was renewed and is valid for a period of five years from the date of this renewal, i.e. 2 June 2009. The Board of Directors may increase the share capital of Galapagos NV within the framework of the authorized capital for an amount of up to €115,068,666.45.

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

In 2009, Galapagos NV's Board of Directors made use of the right to increase the capital in the framework of the authorized capital on two occasions. On 1 April 2009, this was done in connection with the issuance of the Warrant Plan 2009 under which a maximum of 555,000 new shares can be issued for a total maximum capital increase of €3,013,650.00 (plus issuance premium). Following the issuance of Warrant Plan 2009 there remained €98,391,598.63 of the authorized capital. During the Extraordinary General Shareholders' Meeting of 2 June 2009, the authorized capital was renewed and increased to €115,068,666.45. On 21 October 2009, in connection with a private placement, 2,125,925 new shares were issued for a share capital increase of €11,543,772.75 (plus issuance premium of €6,632,886.00). On 31 December 2009 an amount of €103,524,893.70 of authorized capital remained available.

Changes in share capital

In accordance with the Belgian Company Code, Galapagos NV may increase or decrease its capital by decision of the Extraordinary Shareholders' Meeting taken with a majority of 75% of the votes cast, at a meeting where at least 50% of the share capital of Galapagos NV is present or represented. If the attendance quorum of 50% is not met, a new Extraordinary Shareholders' Meeting must be convened at which the shareholders may decide on the agenda items irrespective of the percentage of share capital represented at this meeting. There are in this respect no conditions imposed by the bylaws that are more stringent than those required by law.

Within the framework of the powers under the authorized capital, the Board of Directors may also increase Galapagos NV's capital as specified in its Articles of Association.

Purchase and sale of own shares

At the Extraordinary General Shareholders' Meeting of 2 June 2009, the Board of Directors was authorized to approve the acquisition, subject to the provisions of the Belgian Company Code, of Galapagos NV's own shares representing up to 10% of Galapagos NV's capital at a price which may not be lower than €0.05 and not higher than 110% of the price at which such shares were quoted on the Brussels stock exchange on the day preceding the day of the purchase. This authorization was granted for a

period of 18 months after the publication of such decision in the Annexes to the Belgian State Gazette. The authorization is also applicable to the acquisition of shares of Galapagos NV by its affiliates. The conditions for the purchase and sale of own shares are set forth in extenso in the articles of association of Galapagos NV.

On 31 December 2009, neither Galapagos NV nor any subsidiary of Galapagos NV held any shares in Galapagos NV nor did any third party hold any shares in Galapagos NV on their behalf.

Anti-takeover provisions in Galapagos NV's Articles of Association

The Board of Directors is expressly authorized during a period of three years as of the date of the general meeting which granted this authorization, i.e. 2 June 2009, to increase Galapagos NV's share capital within the context of the authorized capital by contributions in kind or in cash with restriction or cancellation of the shareholders' preferential subscription rights, even after the BFIC has notified Galapagos NV of a public take-over offer for the Company's shares, provided that the relevant provisions of the Belgian Company Code are complied with including that the number of shares issued under such capital increase does not exceed 10% of the shares representing Galapagos NV's capital that is issued prior to such capital increase. The authorization referred to above may be renewed.

The articles of association explicitly authorize the Board of Directors to acquire and dispose of any own shares of Galapagos NV, without prior approval by the Shareholders' Meeting, if this is necessary to avoid a threat of serious disadvantage for Galapagos NV. This authorization was granted for a period of three years from the publication of such decision in the Annexes to the Belgian State Gazette. This authorization applies under the same conditions to the acquisition of the shares of Galapagos NV by its subsidiaries.

Anti-takeover provisions under Belgian laws

Under Belgian law, public takeover bids for all the outstanding voting securities issued by the issuer are subject to the supervision of the BFIC. If the latter determines that a takeover violates Belgian law, it may lead to suspension of the exercise of the rights attached to any shares that were acquired in connection with the envisaged takeover. According to the Belgian law of 1 April 2007 on public takeovers, a mandatory takeover bid must be made when, as a result of its own acquisition or the acquisition by persons acting in concert with it, a person owns, directly or indirectly, more than 30% of the securities with voting rights in a company with registered office in Belgium whose securities are admitted to trading on a regulated or recognized market. The acquirer must offer to all other shareholders the opportunity to sell their shares at the highest of (i) the highest price offered by the acquirer for shares of the issuer during the 12 months preceding the announcement of the bid or (ii) the weighted average price of the shares on the most liquid market of the last 30 calendar days prior to the date on which the obligation of the acquirer to offer the takeover of the shares of other shareholders starts.

Change of the Articles of Association

Pursuant to the Belgian Company Code, any amendment to the Articles of Association such as an increase or decrease in the capital of Galapagos NV, and certain other matters such as the approval of the dissolution, merger or de-merger of Galapagos NV may only be authorized with the approval of at least 75% of the votes validly cast at a Shareholders' Meeting where at least 50% of Galapagos NV's share capital is present or represented.

Agreements with and between Shareholders

On the date of this report, Galapagos NV had no knowledge of the existence of any shareholders' agreements between Galapagos' shareholders. Throughout 2009 there were no lock-up agreements in effect between the Company and any of its shareholders.

5. RISK FACTORS

Typically for a biotechnology company, Galapagos is confronted with a number of risks and uncertainties. The Company wants to highlight the following risks: (i) the success of Galapagos is uncertain due to its relatively limited operating history, its history of operating losses and the uncertainty of future profitability, (ii) Galapagos may need additional capital in the future to fund its operations and research sufficiently; (iii) there is a high risk that early-stage drug discovery and development might not successfully generate good drug candidates; (iv) Galapagos might not be able to commercialize its drug candidates successfully if problems arise in the testing and approval process or if competitors develop technologies which are more effective than those of Galapagos (v) most of Galapagos' expected future revenues are contingent upon success-based milestone payments and royalties, collaborative and license agreements; (vi) Galapagos' success is dependent on intellectual property rights held by it and third parties and its interest in such rights is complex and uncertain; (vii) due to its lack of internal capacity in conducting clinical trials and manufacturing, Galapagos needs to rely on third parties which may delay its clinical trials, or may jeopardize regulatory approval for its product candidates if such third parties do not perform as contractually required or expected.

For information on the Group's financial risk management (including capital management and management of risk relating to credit, liquidity, interests and currency exchange) reference is made to Note 36 of the 2009 consolidated accounts.

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

Galapagos announced the following significant events after 31 December 2009:

- 11 January: Galapagos initiated a strategic alliance with Roche in COPD (chronic lung disease). Galapagos received a research access payment of €6 million from Roche and is eligible to receive discovery, development, regulatory and sales milestone payments that could potentially exceed €400 million, plus royalties upon commercialization of any products covered in the agreement.

- 12 January: Galapagos' BioFocus service division achieved success in its oncology target discovery collaboration with Ortho Biotech Oncology Research & Development, a division of Janssen Pharmaceutica N.V. (Janssen), leading to €1.6 million in milestone payments to BioFocus.
- 15 January: Galapagos reached milestones in its metabolic and inflammatory strategic alliances with Merck, which entitled Galapagos to an aggregate payment of €3.6 million from Merck & Co.
- 19 January: Galapagos announced results from the first-in-human trial with metastasis candidate drug GLPG0187. The candidate drug showed good safety and a promising biomarker profile in healthy volunteers. Based on these results, Galapagos plans to initiate a second Phase I trial including cancer patients in 2010.
- 2 February: Galapagos announced the acquisition of Argenta Discovery 2009 Ltd. Together with BioFocus, this resulted in the creation of one of the world's largest drug discovery service organizations, with 390 employees, an estimated €70 million in annual turnover and significant profitability. Galapagos paid €16.5 million cash for Argenta Discovery 2009 Ltd and increased revenue guidance to €135 million. Argenta reported revenues of €14 million and a profit of €3.5 million in 2009 and employs 140 persons.
- 18 February: Galapagos and MorphoSys expand antibody alliance in bone & joint diseases, thereby increasing the total number of programs to four.
- 22 February: Galapagos delivers third candidate drug in arthritis alliance with GlaxoSmithKline. Together with milestones achieved for other compounds in the alliance, Galapagos received €5.7 million from GSK.
- 23 February: Galapagos successfully completes Phase I clinical trials for rheumatoid arthritis candidate drug GLPG0259. The results from the trials support scheduling a Phase II study in 2010, where the efficacy of the novel candidate drug will be assessed in RA patients.
- 5 March: Galapagos reports record revenues of €106 million and a net profit of €3 million for 2009. Management reiterates guidance for Group revenues of at least €135 million, with profitability and a positive operating result and cash flow.
- 19 March: Galapagos announces details on its orphan disease strategy, with cystic fibrosis as the first program.

7. GOING CONCERN AND ACCOUNTING STANDARDS

Notwithstanding that the 2009 consolidated results are positive, the balance sheet of Galapagos NV shows a loss carry-over and the profit and loss account showed a loss for both the financial years 2009 and 2008; therefore 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 relatively solid cash position and the favorable developments of Galapagos NV's own drug discovery activities and its subsidiaries' activities (drug discovery in Romainville; service activities at BioFocus and Argenta), 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 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 for opportunistic reasons.

Report of the Board of Directors

8. CORPORATE GOVERNANCE

Galapagos' Board of Directors approved a Corporate Governance Charter. This Charter is in addition to the corporate governance provisions included in the Belgian Company Code and in the Company's articles of association. The Corporate Governance Charter aims to achieve an efficient management and appropriate control of the Company. This Charter is available on the website 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;
- 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 expressed its opinion that clarity relating to corporate governance contributes 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 provisions of the Belgian Corporate Governance Code be respected. However, the Board of Directors also determined that it is permissible not to comply with certain corporate governance provisions when the specific circumstances in which the Company operates are taken into account. In such cases, which are mentioned in this chapter, it applies the principle of "comply or explain."

Board of Directors

Galapagos' Board of Directors consists of minimum five and maximum nine members, including the Chairman and the CEO. The Chairman is a non-executive Director and does not hold the office of CEO. The Board of Directors consists of at least three independent Directors.

Except for Onno van de Stolpe, all Board members are non-executive Directors. In 2009, the following persons were members of the Board: Dr Raj Parekh (Chairman), Ir Onno van de Stolpe (CEO), Dr Harrold van Barlingen, Dr Ferdinand Verdonck, Dr Rudi Pauwels, Dr Garth Rapeport and Dr Werner Cautreels (as from 2 June 2009); the latter four Directors were appointed as independent Directors. Dr Laurent Ganem and Mr Geoff McMillan were Directors until the General Shareholders' Meeting of 2 June 2009, when their mandate expired.

The Board's role is to pursue the long-term success of the Company by providing entrepreneurial leadership and enabling risks to be assessed and managed.

In 2009, the Board of Directors held 4 regular meetings, 7 meetings by telephone conference to discuss specific matters and 2 meetings in the presence of a notary (the latter relating to the issuance of the Warrant Plan 2009 and to the private placement of October).

The Belgian Code on Corporate Governance provides that the individual attendance record of Directors should be disclosed. The Company decided not to comply with this provision, based on the consideration that the Board of Directors, as well as the Audit Committee and the Nomination and Remuneration Committee, are collegial bodies, and deliberate and take decisions as collegial bodies. The attendance of the Board meetings and the meetings of the Committees, presented in a global attendance rate, guarantees decision-making in compliance with the articles of association and in the interest of the Company. Overall attendance rate (present or duly represented) to the meetings of the Board of Directors was 85%.

Committees

The Nomination- and Remuneration Committee consisted of the following three non-executive Directors: Raj Parekh (Chairman), Rudi Pauwels, Ferdinand Verdonck (until 2 October 2009) and Garth Rapeport (as from 2 October 2009), the majority of whom are independent Directors.

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

The Nomination and Remuneration Committee meets at least twice per year. In 2009, the Nomination- and Remuneration Committee held 2 meetings, in which it dealt with matters including grants of warrants and bonuses, new warrant plans and salary increases. The Nomination- and Remuneration Committee acts as a collegial body. The attendance (present or represented) at the Nomination-and Remuneration Committee meetings in 2009 was 100%.

The Audit Committee consisted of the following three Directors: Ferdinand Verdonck (Chairman), Raj Parekh, Garth Rapeport (until 2 October 2009) and Werner Cautreels (as from 2 October 2009). All members of the Audit Committee are non-executive Directors, the majority of whom are independent. The Chairman is an independent non-executive Director and has extensive experience in financial matters (including general accounting and financial reporting) and in matters of audit, internal control and risk control.

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

In 2009, the Audit Committee held 4 meetings, in which it dealt with matters including audit review, corporate restructuring, authorities and procedures. The Audit Committee acts as a collegial body. The attendance (present or represented) to the Audit Committee meetings in 2009 was 92%.

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

On 31 December 2009, the Executive Committee consisted of six people: Ir Onno van de Stolpe (also executive Director), Dr Graham Dixon, Dr Andre Hoekema, Dr Chris Newton, Dr Piet Wigerinck and Mr Guillaume Jetten (as of 1 July 2009). Mr Leo Steenbergen was member of the Executive Committee until 30 June 2009.

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

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

According to the decision of the Annual General Meeting of 2 June 2009 the independent Directors receive a remuneration of €20,000 per year. The Chairman of the Audit Committee receives an additional amount of €5,000 for performing his duties. The non-executive Directors who do not qualify as independent Directors and who do not represent a shareholder of the Company also receive remuneration for their mandate as a Director of €20,000 per year. In the event a Director is less than 75% present at the meetings of the Board of Directors, the amounts referred to above will be proportionally decreased. Directors who represent a shareholder in the Board of Directors will only receive reimbursement of the expenses incurred for participating in the Board of Directors.

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

For clarity, the CEO does not receive any special remuneration for his work on the Board of Directors, as this is part of his total remuneration package in his capacity as member of the Executive Committee.

The Board of Directors points out that the Belgian Code on Corporate Governance does not recommend granting warrants to non-executive Directors, as this code contains a provision which states that non-executive Directors should not be entitled to performance-related remuneration such as stock related long-term incentive schemes. In deviation to this provision, the Board of Directors has decided to grant warrants to non-executive directors. This way, the Company has additional possibilities to attract competent non-executive Directors and to offer them an attractive additional remuneration that does not affect the cash

position of the Company. Furthermore, the grant of warrants is a commonly used method in the sector in which the Company is active. Without this possibility, the Company would be confronted with a considerable disadvantage compared to competitors who do offer warrants to their non-executive Directors. The Board of Directors is of the opinion that the granting of warrants has no negative impact on the function of the non-executive Directors.

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

The members of the Executive Committee (including the CEO) who were in function in the course of 2009 were paid an aggregate amount of €1,534,974 in remuneration and an aggregate amount of €471,750 in bonuses for their performance in 2009. The amount of the bonuses paid is half of the bonuses awarded; the payment of the other half is deferred for 3 years and is subject to the conditions set forth in the Group bonus scheme. Other components of their remuneration include contributions to the Company's pension and health insurance schemes, and certain fringe benefits of non-material value.

Increases of the remuneration of the individual members of the Executive Committee and the determination of their individual bonuses are determined by the Board of Directors upon recommendation of the Remuneration Committee. Remuneration increases and bonuses are merit driven and based on the Company's performance rating system; they depend on delivery with regard to the individual's personal objectives in combination with exceptional deliverables during the past year. The bonuses are discretionary; half of the bonus is paid immediately and the payment of the other half is deferred for three years. The Board has established that all 2009 corporate objectives have been met. These 2009 objectives included a revenue target of €100 million, a year end cash target of €20 million, an improved contribution by BioFocus to the Group result, and the initiation of three clinical trials.

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

Conflict of interest and related parties

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

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

Report of the Board of Directors

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

In 2009, two cases of conflict of interest between the Company and a Director were noted.

In a meeting of the Board of Directors of 27 January 2009, it was resolved, effective June 2009, that in the event of a change in control of the Company a compensation would be payable equal to an annual salary for the chief executive officer and equal to nine months salary for members of the Executive Committee; and that if the aforementioned individuals would lose their jobs as a result of such change in control, said compensation be doubled, it being understood that in such case this compensation should be part of their total departure package and the total value of the latter should stay within the limits of the applicable law and practice. In application of article 523 of the Belgian Code of Companies the following is reported in connection with the change in control compensation clause for the benefit of the chief executive officer: "Chairman declares that Mr Onno van de Stolpe has informed the Board of a conflict of interest, concerning the proposal to grant him a one year salary compensation in the event of change of control of the company and an additional one year salary compensation in case his contract with the company would be terminated because of such change of control, subject to the limits set by applicable law. It has been explained to the Board that the award of said compensation is within the limits of what is considered market practice, as confirmed by external counsel, and that the rationale for it is to incentivize the CEO not to object against a change of control for fear of his position but to focus on the interests of the company and its shareholders. Such compensation will have limited impact on the financial position of the company. Mr van de Stolpe has not taken part in the deliberation and the vote concerning this decision."

In a meeting of the Board of Directors on 8 December 2009 the following was reported, in application of article 523 of the Belgian Code of Companies, in connection with the bonus and the remuneration increase 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. It has been explained to the Board that the award of said benefits is proposed upon recommendation of the Remuneration Committee and is a justified reward for the results achieved by Mr van de Stolpe in 2009. The award of these benefits will have no material impact on the financial position of the company. The Board shares the opinion of the Remuneration Committee that the proposed benefits are justified and reasonable. Mr van de Stolpe has not taken part in the deliberation and the vote concerning this decision." The CEO's bonus for 2009 amounted to €397,500 (half of this bonus was immediately payable and the other half was deferred for three years and is linked to conditions relating to the realization of certain parameters concerning the evolution of the Galapagos share price) and the increase of his remuneration was 4%.

9. FURTHER INFORMATION

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

* * *

The Board of Directors of Galapagos NV, represented by all its members, declares that, as far as it is aware, the statutory accounts and consolidated financial statements, prepared according to the applicable standards for financial statements, give a true and fair view of the equity, financial position and the results of the Company and its consolidated companies as of 31 December 2009.

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 2009, gives a true and fair view on the development, results and position of the Company and its consolidated companies and on the most important risks and uncertainties with which the Company is being confronted.

* * *

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

The Board of Directors will submit to you proposals of resolutions to approve the annual accounts for the financial year 2009, and to discharge the Directors and the Statutory Auditor, for the exercise of their mandate during the financial year that ended on 31 December 2009.

Mechelen, 26 March 2010

On behalf of the Board of Directors,

(signed)

Onno van de Stolpe
CEO

(signed)

Raj Parekh
Chairman

Consolidated financials

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

Consolidated income statement

Thousands of €	Notes	2009	2008*
Services revenue		41,315	43,614
R&D revenue		51,774	29,501
Other income		12,951	8,790
Total operating income	4	**106,041**	**81,905**
Services cost of sales	5	-25,082	-27,769
R&D expenditure	5	-60,015	-38,726
General and administrative costs	5	-16,934	-21,072
Sales and marketing expenses	5	-2,075	-2,327
Restructuring and integration costs	5	-277	-3,124
Operating profit/loss (-)	5,6	**1,659**	**-11,114**
Finance income	7	738	1,863
Finance cost	8	-711	-5,126
Profit/loss (-) before tax		**1,685**	**-14,377**
Taxes	9	1,324	-207
NET PROFIT/LOSS (-)	10	**3,010**	**-14,584**
NET PROFIT/LOSS (-) attributable to:			
Owners of the parent	10	3,010	-14,584

Consolidated statement of comprehensive income

	2009	2008*
Exchange difference arising on translating of foreign operations	282	-1,116
Other comprehensive income	**282**	**-1,116**
Total comprehensive income attributable to:		
Owners of the parent	3,292	-15,700

* See note 2 Accounting Policies - Changes in accounting policies and presentation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER

Assets

Thousands of €	Notes	2009	2008
NON-CURRENT ASSETS		**59,024**	**58,975**
Goodwill	12	33,751	33,751
Intangible assets	13	3,480	4,159
Property plant and equipment	14	19,285	20,293
Deferred tax assets	23	1,700	
Available for sale financial assets	16	808	772
CURRENT ASSETS		**84,686**	**59,849**
Inventories	15	1,816	3,574
Trade and other receivables	17	24,305	18,208
Current tax receivables	9	7,679	8,408
Cash and cash equivalents	18	47,391	27,316
Other current assets	17	3,495	2,343
TOTAL ASSETS		**143,709**	**118,824**

Equity and liabilities

Thousands of €	Notes	2009	2008
TOTAL EQUITY		**108,877**	**84,324**
Share capital	19	122,870	110,855
Share premium account	20	54,901	48,268
Translation differences	21	-2,026	-2,307
Accumulated losses		-66,868	-72,492
TOTAL LIABILITIES		**34,832**	**34,500**
NON-CURRENT LIABILITIES		**3,488**	**4,749**
Pension liabilities		872	830
Provisions	27	127	850
Deferred tax liabilities	23	564	201
Finance lease liabilities	24	964	1,156
Other non-current liabilities	26	961	1,712
CURRENT LIABILITIES		**31,344**	**29,751**
Finance lease liabilities	24	520	530
Trade and other payables	26	15,130	13,425
Current tax payable	9	44	56
Other current liabilities	26	15,650	15,740
TOTAL LIABILITIES AND EQUITY		**143,709**	**118,824**

Consolidated financials

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER

Thousands of €	Notes	2009	2008
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**27,316**	**49,295**
Result from operations		1,659	-11,115
Adjustments for:			
Depreciation of property, plant and equipment	14	5,308	6,014
Amortization of intangible fixed assets	13	1,647	1,352
Impairment loss on intangible assets			1,543
Inventories write off		674	367
Loss on disposal of business			2,568
Exchange gain/loss (-) on translation of net assets of subsidiary		-259	961
Share based compensation		2,642	1,161
Increase/Decrease (-) in provisions		-734	-1,852
Increase/Decrease (-) in pension liabilities (assets)		42	166
Operating cash flows before movements in working capital		**10,979**	**1,165**
Increase (-)/Decrease in inventories		1,265	502
Increase (-)/Decrease in receivables	17	-6,560	1,352
Increase/Decrease (-) in payables	26	361	-9,588
Increase/Decrease (-) in provisions		15	-844
Cash generated/used (-) in operations		**6,059**	**-7,413**
Interest paid and other financial costs	8	-439	-709
Taxes		682	-88
NET CASH FLOWS GENERATED/USED (-) IN OPERATING ACTIVITIES		**6,303**	**-8,210**

Thousands of €	Notes	2009	2008
Purchase of property, plant and equipment	14	-4,128	-5,702
Purchase of and expenditure in intangible fixed assets	13	-1,058	-1,512
Proceeds from disposal of intangible assets	13	216	16
Proceeds from disposal of property, plant and equipment	14	227	198
Acquisitions, disposals of subsidiaries, associates or joint ventures, net of cash acquired			-857
Reclassification from cash and cash equivalents to available for sale financial assets			-2,000
NET CASH USED IN INVESTING ACTIVITIES		**-4,743**	**-9,857**
Repayment of obligations under finance leases and other debts		-497	-5,076
Proceeds of capital and share premium increases, net of issue costs		18,648	
Interest received and other financial income	7	364	1,163
NET CASH GENERATED/USED (-) IN FINANCING ACTIVITIES		**18,515**	**-3,913**
INCREASE/DECREASE (-) IN CASH AND CASH EQUIVALENTS		**20,075**	**-21,979**
CASH AND CASH EQUIVALENTS AT END OF YEAR		**47,391**	**27,316**

Consolidated financials

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Thousands of €	Share capital	Share premium	Translation differences	Accumulated losses	Total
Balance at 1 January 2008	**110,855**	**48,268**	**-1,535**	**-58,962**	**98,626**
Net result				-14,584	-14,584
Other comprehensive income			-1,116		-1,116
Share based compensation				1,161	1,161
Disposal of subsidiaries			344		344
Other				-107	-107
Balance at 31 December 2008	**110,855**	**48,268**	**-2,307**	**-72,492**	**84,324**
Net result				3,010	3,010
Other comprehensive income			282		282
Share based compensation				2,642	2,642
Issue of share capital	10,831	6,633			17,464
Exercise warrants	1,184				1,184
Other				-28	-28
Balance at 31 December 2009	**122,870**	**54,901**	**-2,026**	**-66,868**	**108,877**

The consolidated financial statements of Galapagos NV (hereafter the "Group" or the "Company") were approved by the Board of Directors and authorized for issue on 26 March 2010. They were signed on its behalf by:

(signed)

Onno van de Stolpe
Executive Director
26 March 2010

Notes to Consolidated Financial Statements

1. General information

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

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

R&D

The R&D division is progressing one of the largest pipelines in biotech, with four clinical and over 50 discovery/pre-clinical programs. Many of these programs are based on novel and proprietary disease-modifying drug targets in disease areas for which there is a need for safe and effective medicines. Through risk/reward-sharing alliances with GlaxoSmithKline, Lilly, Janssen Pharmaceutica, Merck & Co. and Roche, Galapagos' R&D division is eligible to receive up to €3 billion in downstream milestones*, plus royalties. Galapagos' R&D division also has an alliance with MorphoSys to develop new antibody therapies in bone and joint diseases.

Services (BioFocus)

The Services division (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.

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

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

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

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

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.

* See Glossary for further explanation of this figure.

Notes

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

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

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

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

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

On 1 October 2009 Galapagos' service division changed its trading name to BioFocus. On 21 October 2009, Galapagos raised €18.2 million in a private placement on Euronext resulting in a net cash contribution of €17.5 million.

In a post-closing event taking place on 1 February 2010, Galapagos acquired the service operations of Argenta Discovery for a €16.5 million cash payment. This event is not included in the 2009 figures.

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

The following financial statements are presented in thousands of Euros.

2. Accounting policies

Changes in accounting policies and presentation

Galapagos receives R&D incentives in various jurisdictions and from various government institutions in support of its research and development. These incentives pertain to our R&D activities and are presented as other income, a part of the income in accordance with IAS 20. Galapagos opted to present these as other income rather than netting them against R&D spend in order to improve the insight in the business. The 2008 figures are restated to reflect this change and make them more comparable to 2009.

In November 2008 Galapagos sold BioFocus DPI's San Diego operations. For better comparison, certain financial statements in this report have been presented on a pro forma basis, excluding the divested business, enabling a like-for-like comparison between the years.

Basis of preparation

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

Standards and interpretations effective in the current period

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

- Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Cost of an investment on first-time adoption (annual periods beginning on or after 1 January 2009).
- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (annual periods beginning on or after 1 January 2009).
- Amendment to IFRS 7 Financial Instruments: Disclosures – Enhanced disclosures about fair value and liquidity risk (annual periods beginning on or after 1 January 2009).
- IFRS 8 - Operating Segments. This standard replaces IAS 14 (annual periods beginning on or after 1 January 2009).
- IAS 1 Presentation of Financial Statements (annual periods beginning on or after 1 January 2009). This Standard replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005.
- Amendment to IAS 1 Presentation of Financial Statements – disclosure of puttable instruments and obligations arising on liquidation (annual periods beginning on or after 1 January 2009).
- IAS 23 Borrowing Costs – Comprehensive revision of the Standard (relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009).
- Amendment to IAS 27 Consolidated and Separate Financial Statements – Cost of an investment on first-time adoption (annual periods beginning on or after 1 January 2009).
- Amendment to IAS 32 Financial Instruments – Puttable instruments and obligations arising on liquidation (annual periods beginning on or after 1 January 2009).
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Embedded derivatives when reclassifying financial instruments (annual periods ending on or after 30 June 2009).
- Annual improvements to IFRSs (2008) (annual periods beginning on or after 1 January 2009). The Standards implied are: IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41.
- IFRIC 13 Customer Loyalty Programs (applicable for accounting years beginning on or after 1 July 2008).
- IFRIC 15 – Agreements for the construction of real estate (applicable for accounting years beginning on or after 1 January 2009).
- IFRIC 16 Hedges of a net investment in a foreign operation (applicable for accounting years beginning on or after 1 October 2008).
- IFRIC 18 Transfers of Assets from Customers (applicable for Transfers received on or after 1 July 2009).

Notes

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

Early adoption of Standards and Interpretations

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

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

The income statement is positively affected for an amount of €1.7 million as a result of early adoption and that shall be properly disclosed. See note 23 for further information.

Standards and Interpretations in issue but not yet adapted

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

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Revised standard (applicable for annual periods beginning on or after 1 July 2009). A further amendment relating to oil and gas assets and determing whether an arrangement contains a lease will be applicable for annual periods beginning on or after 1 January 2010.
- Amendment to IFRS 2 Share-based Payment – Group cash-settled share-based payment transactions (applicable for periods beginning on or after 1 January 2010).
- IFRS 9 Financial Instruments – Classification and Measurement. This standard includes the first part of its project to replace IAS 39 (applicable for accounting periods beginning on or after 1 January 2013).
- IAS 24 Related Party Disclosures – Revised definition of related parties (applicable for periods beginning on or after 1 January 2011).
- Amendment on IAS 28 Investments in Associates (applicable for annual periods beginning on or after 1 July 2009).
- Amendment to IAS 31 Interests in Joint Ventures (applicable for annual periods beginning on or after 1 July 2009).
- Amendment to IAS 32 Financial Instruments: Presentation – Classification of rights issues (applicable for annual periods beginning on or after 1 February 2010).
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (annual periods beginning on or after 1 July 2009).
- Annual improvements to IFRS (2009) (normally applicable for accounting years beginning on or after 1 January 2010).
- Amendment to IFRIC 14 'IAS 19' – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – annual periods beginning on or after 1 January 2011.
- IFRIC 17 Distributions of Non-cash Assets to Owners (applicable for accounting years beginning on or after 1 July 2009).
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (applicable for annual periods beginning on or after 1 July 2010).

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

Going Concern basis

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

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

Group accounting

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Together these comprise the Group. Control is achieved where the Company has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The results of subsidiaries are included in the income statement and statement of comprehensive income from the effective date of acquisition up to the date when control ceases to exist.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

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

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any cost directly attributable to the business combination.
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.

Notes

Business combinations and related goodwill

Goodwill arising on business combinations is recognized as an asset and initially measured at cost, being the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill is not amortized but tested for impairment on an annual basis and whenever there is an indication that the cash generating unit to which goodwill has been allocated may be impaired. Goodwill is stated at cost less accumulated impairment losses. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where there exists an excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost, all fair values and cost calculations are reassessed. In the event that an excess still exists, it is immediately recognized in profit or loss.

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 at the date that the asset meets the conditions described above.

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

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

- Customer relationships: 1-10 years
- In process technology: 3-5 years
- Software & databases: 3-5 years
- Brands, licenses, patents & know how: 5-10 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: 4-5 years

Any gain or loss incurred at the disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset, and is booked in profit or loss.

Leasehold improvements

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

Assets held under finance lease

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

Inventories

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

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

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

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

Financial instruments

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

Trade receivables

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

Notes

Available for sale financial assets

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

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

Cash and cash equivalents

Cash and cash equivalents are carried on the balance sheet at nominal value. For the purposes of the cash flow statements, cash and cash equivalents comprise cash on hand, deposits held on call with banks, other short term deposits, highly liquid investments and bank overdrafts. On the balance sheet, bank overdrafts are included in borrowings as current liabilities.

Trade payables

Trade payables bear no interest and are measured at their nominal value.

Taxation

Income tax in the profit or loss accounts represents the sum of the tax currently payable and deferred tax.

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

Deferred income tax is provided in full, using the liability-method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. As such, a deferred tax asset for the carry forward of unused tax losses will be recognized to the extent that is probable that future taxable profits will be available.

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

Foreign currencies

- **Functional and presentation currency**
  Items included in the financial statements of each of the Group's entities are valued using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Euros, which is the Company's functional and presentation currency.

- **Transactions and balances in foreign currency**
  Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transaction. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at closing rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

  Non-monetary assets and liabilities measured at historical cost that are denominated in foreign currencies are translated using the exchange rate at the date of the transaction.

- **Financial statements of foreign group companies**
  The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
  - Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
  - Income and expenses for each income statement are translated at average exchange rates
  - All resulting exchange differences are recognized as a separate component of equity
  - Such exchange rates are recognized in profit or loss in the period in which the foreign operation is disposed of

Revenue recognition

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

- Research milestone payments are recognized as revenues when earned. In addition, the payments have to be acquired irrevocably and the milestone payment amount needs to be substantive and commensurate with the magnitude of the related achievement. Milestones that are not substantive, not commensurate or that are not irrevocable are recorded as deferred revenue. The Group believes that each substantive milestone payment represents a separate fair value for that phase of the collaboration agreement;

Notes

- Non-refundable, up-front payments received in connection with research and development collaboration agreements are deferred and recognized on a straight-line basis over the relevant periods of continuing involvement;
- 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 business unit typically comprise multiple elements combined in one or more license agreements. The elements in such multiple element arrangements are accounted for as follows:
  - Sales of molecule collections and reagents are recognized as product revenue when delivered;
  - Contract research and development services are recognized as service revenues at fair value as such services are rendered. These services are usually in the form of a defined number of the Group's full-time equivalent ("FTE") at a specified rate per FTE;
  - Upfront non-refundable license fees are only recognized as revenue at fair value when products were delivered and/or services were rendered in a separate transaction and the Group has fulfilled all conditions and obligations under the related agreement. In case of continuing involvement of the Group, the upfront fee would not be regarded as a separate transaction and the upfront non-refundable license fees will be deferred at fair value over the period of the collaboration;
  - Molecule collections or viruses and technology access fees are recognized as license revenue over the period in which access is granted;
  - Revenue under compound repository services is recorded as costs are incurred, which includes indirect costs that are based on provisional rates estimated by management. If actual costs are subsequently calculated to be greater than provisional rates, the additional income is recorded if there is a contractual right to submit updated claims. A reserve is provided against receivables for estimated losses that may result from rate negotiations, audit adjustments and/or lack of government funding availability if it is deemed necessary. To the extent that we incur adjustments due to rate negotiations or lack of government funding availability, revenue may be impacted;
- The Group receives operational grants and tax credits from certain governmental agencies which support the Group's research and development efforts. These grants and tax credits generally aim to partly reimburse approved expenditures incurred in research and development efforts of the Group and are credited to the income statement when the relevant expenditure has been incurred and there is reasonable assurance that the grant or tax credit is receivable;
- Revenues from term licenses are spread over the period to which the licenses relate, reflecting the obligation over the term, to update content and provide ongoing maintenance;
- Revenues from perpetual licenses are recognized immediately upon sale to the extent that there are no further obligations, and only if the license imposes no time restrictions;

Equity instruments

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

Research & development costs

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

Defined contribution plans

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

Defined benefit plans

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

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

Provisions

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

The Group as lessee

Leases are classified as finance leases whenever the terms of the lease substantially transfers all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. The payments are divided proportionally between the financial costs and a diminution of the outstanding balance of the obligation, so that the periodic interest rate on the outstanding balance of the

obligation would be constant. Interest is charged directly against the income statement, unless it is directly attributable to the corresponding asset, in which case they are capitalized.

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

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually, and whenever there is an indication that the asset might be impaired. The recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset or cash generating unit is estimated to be less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment is treated as a revaluation increase.

Net earnings/loss per share

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

Share-based payments

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

Fair value is measured by use of the Black & Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

Segment reporting

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

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets and liabilities do not include income tax items. For further information, we refer to note 35 "Critical accounting estimates and judgments" and note 36 "Financial risk management".

3. Segment reporting

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

The R&D division is progressing one of the largest pipelines in biotech, with four clinical and over 50 discovery/pre-clinical programs. Many of these programs are based on novel and proprietary disease-modifying drug targets in disease areas for which there is a need for safe and effective medicines. Through risk/reward-sharing alliances with GlaxoSmithKline, Lilly, Janssen Pharmaceutica, Merck & Co. and Roche, Galapagos' R&D division is eligible to receive up to €3 billion in downstream milestones, plus royalties. Galapagos' R&D division also has an alliance with MorphoSys to develop new antibody therapies in bone and joint diseases.

Services

The service division (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.

Notes

All of the Group's operations are continuing.

Segment information about these businesses for the years ended 31 December 2009 and 2008 is presented below.

2009 SEGMENT INFORMATION

Revenue

Thousands of €	R&D	Services	Intersegment eliminations	Unallocated	Galapagos Group
External revenues	51,774	41,315			93,089
Other income	12,026	1,872	-948		12,951
Intersegment sales	16	13,301	-13,317		
Total operating income	**63,817**	**56,488**	**-14,265**		**106,041**
Gross margin	**63,817**	**21,815**	**-4,673**		**80,959**
R&D expenditure	**-63,718**		**3,703**		**-60,015**
General and administrative costs	**-2,488**	**-11,871**	**942**		**-13,416**
Unallocated G&A costs				-3,518	-3,518
Sales and marketing expenses	**-98**	**-2,004**	**28**		**-2,075**
Restructuring and integration costs	-277				-277
Operating results	**-2,763**	**7,940**	**0**	**-3,518**	**1,659**

PRO FORMA 2008 SEGMENT INFORMATION

Revenue

Thousands of €	R&D	Services	Intersegment eliminations	Unallocated	Galapagos Group
External revenues	29,501	40,577			70,078
Other income	6,489	2,403	-102		8,790
Intersegment sales	223	10,347	-10,570		
Total operating income	**36,212**	**53,327**	**-10,672**		**78,868**
Gross margin	**36,212**	**22,331**	**-4,031**		**54,513**
R&D expenditure	**-42,159**		**3,837**		**-38,322**
General and administrative costs	**-537**	**-14,154**	**194**		**-14,496**
Unallocated G&A costs				-4,625	-4,625
Sales and marketing expenses	**-82**	**-2,160**			**-2,242**
Non-recurring result		**-2,568**			**-2,568**
Restructuring and integration costs	-5	-549			-554
Operating results	**-6,569**	**2,900**	**0**	**-4,625**	**-8,294**

2008 SEGMENT INFORMATION

Revenue

Thousands of €	R&D	Services	Intersegment eliminations	Unallocated	Galapagos Group
External revenues	29,501	43,614			73,115
Other income	6,489	2,403	-102		8,790
Intersegment sales	223	10,914	-11,137		
Total operating income	**36,213**	**56,931**	**-11,239**		**81,905**
Gross margin	**36,213**	**21,549**	**-3,626**		**54,137**
R&D expenditure	**-42,159**		**3,432**		**-38,727**
General and administrative costs	**-537**	**-15,923**	**194**		**-16,266**
Unallocated G&A costs				-4,809	-4,809
Sales and marketing expenses	**-82**	**-2,246**			**-2,327**
Non-recurring result		**-2,568**			**-2,568**
Restructuring and integration costs				-554	-554
Operating results	**-6,564**	**812**	**0**	**-5,363**	**-11,114**

In 2009 the Group's operations were located in Belgium, The Netherlands, United Kingdom, USA, France and Switzerland. The Group's R&D division is located in Belgium and France, with its BioFocus division operating in the remaining countries.

4. Total operating income

Thousands of €	2009	Pro Forma 2008	2008
Sales of goods	4,027	4,496	4,496
Services (selling FTE)	35,003	28,409	31,446
Milestone payments	45,588	27,955	27,955
License fees	256	4,886	4,886
Recognition of up-front non refundable	8,214	4,333	4,333
Other operating income	12,951	8,789	8,789
Total	**106,041**	**78,868**	**81,905**

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

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

Notes

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

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

In addition, other income includes other incentives received from government agencies, and consists mainly of the French tax credit for research companies and the Dutch and Belgian credit for salaries of research personnel.

Other income includes government grants received towards the cost of internal research and development programs. In many cases these carry clauses which require the Company to maintain a presence in the same region for a number of years. Failure to do so may result in the repayment of all or part of the grants received.

5. Operating costs

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

Services cost of sales

Thousands of €	2009	Pro Forma 2008	2008
Personnel costs	-10,893	-10,545	-12,932
Disposables and lab fees	-7,212	-7,224	-7,721
Depreciation + impairment	-2,854	-3,179	-3,390
Other operating expenses	-4,124	-3,408	-3,726
Total	**-25,082**	**-24,355**	**-27,769**

R&D expenditure

Thousands of €	2009	Pro Forma 2008	2008
Personnel costs	-20,357	-15,166	-15,571
Disposables and lab fees	-16,539	-13,601	-13,601
Subcontracting	-15,924	-4,130	-4,130
Premises costs	-4,026	-3,504	-3,504
Depreciation + impairment	-3,169	-1,920	-1,920
Total	**-60,015**	**-38,321**	**-38,726**

Compared to 2008, all costs of research and development increased. The biggest increase is due to an increase in clinical development activities, which resulted in increased personnel charges and external outsourcing.

General and administrative costs

Thousands of €	2009	Pro Forma 2008	2008
Personnel costs	-6,383	-7,052	-7,613
Premises costs	-5,078	-4,169	-4,910
Professional fees	-1,498	-1,223	-1,256
Director fees	-1,122	-959	-959
Depreciation + impairment	-932	-3,556	-3,611
Other operating expenses	-2,657	-2,161	-2,723
Provisions	736		
Total	**-16,934**	**-19,120**	**-21,072**

Premises costs include rent, service charges, property taxes and utility costs such as light, heat and water.
Other operational costs mainly contain travel expenses, telephone, consultancy costs and fees.

Sales and marketing expenses

Thousands of €	2009	Pro Forma 2008	2008
Personnel costs	-1,418	-1,517	-1,602
Other operating expenses	-657	-1,404	-725
Total	**-2,075**	**-2,922**	**-2,327**

Notes

Restructuring and integration costs and impairment

Thousands of €	2009	Pro Forma 2008	2008
Other operating expenses	-277	-554	-554
Deconsolidation losses		-2,570	-2,570
Impairment (see note 13+14)		-1,544	-1,544
Total	**-277**	**-4,668**	**-4,668**

The other operating expenses, amounting to €277K, concern the sale of BioFocus DPI, Inc (sold November 5, 2008).

6. Personnel costs

The number of employees at 31 December was:

	2009	Pro Forma 2008	2008
	516	482	482
Total	**516**	**482**	**482**

The average number of employees during the year was:

	2009	Pro Forma 2008	2008
Key management	6	7	7
Laboratory staff	429	376	410
Administrative staff	60	57	63
Total	**495**	**440**	**480**

Their aggregate remuneration comprised:

Thousands of €	2009	Pro Forma 2008	2008
Wages and salaries	-27,390	-25,210	-27,872
Social security costs	-4,055	-4,257	-4,467
Pension costs	-3,473	-2,278	-2,354
Other costs	-4,134	-2,535	-3,025
Total	**-39,051**	**-34,280**	**-37,718**

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 €2,642K (2008: €1,161K). For the costs of warrants granted, we refer to note 30. The increase in warrant costs is due to the extension of the exercise period, based on the Belgian Economic Recovery Law of 27 March 2009, which had an impact of €1,011K.

7. Finance income

Thousands of €	2009	Pro Forma 2008	2008
Interest on bank deposits	284	330	1,039
Interest on short term deposits	169	824	824
Other financial income	284		
Total	**738**	**1,154**	**1,863**

8. Finance costs

Thousands of €	2009	Pro Forma 2008	2008
Interest on obligations under finance lease	-195	-161	-161
Other financial costs	-516	-4,681	-4,965
Total	**-711**	**-4,842**	**-5,126**

Finance costs include €272K of unrealized foreign exchange translation losses (2008: €2,417K).

9. Taxes

Tax assets and liabilities

Thousands of €	2009	Pro Forma 2008	2008
Tax assets			
Current tax receivable	7,679	8,408	8,408
Total	**7,679**	**8,408**	**8,408**

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

Thousands of €	2009	Pro Forma 2008	2008
Tax liabilities			
Income tax payable	44	56	56
Total	**44**	**56**	**56**

Taxes recognized in profit or loss

Thousands of €	2009	Pro Forma 2008	2008
Current tax			
Foreign tax	-26	5	5
Deferred tax (note 23)	1,351	-212	-212
Total	**1,324**	**-207**	**-207**

Corporation tax is calculated at 34% (2008: 34%) of the estimated assessable profit for the year. The applied tax rate for other territorial jurisdictions is the tax rate that is applicable in these respective territorial jurisdictions on the estimated taxable result of the accounting year.

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

Thousands of €	2009	%	Pro Forma 2008	%	2008	%
Profit/loss (-) before tax	1,685	34	-11,982	34	-14,377	34
Income tax credit, calculated using the Belgian statutory tax rate on the accounting profit/loss (-) before tax	573		-4,074		-6,283	
Effect of expenses that are not deductible in determining taxable profit	1,021		1,332		1,332	
Effect of previously unrecognized and unused tax losses and tax offsets now recognized as deferred tax assets	-1,700					
Effect of unused tax losses not recognized as deferred tax assets	-1,218		2,535		4,744	
Tax expense or credit (-) for the year	**-1,324**		**-207**		**-207**	

The main difference between the theoretical tax and the effective tax is explained by the deferred tax assets on tax losses carried forward for which the Company does not think that it is probable that these will be realized in the foreseeable future, except for BioFocus DPI Ltd. (see note 23).

10. Earnings/loss per share

Basic earnings/loss 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 €	2009	Pro Forma 2008	2008
Result for the purpose of basic earnings/loss (-) per share	3,010	-12,189	-14,584
Numbers of shares (thousands)			
Weighted average number of shares for the purpose of basic earnings/loss (-) per share	21,656	21,189	21,189
Basic earnings/loss (-) per share (Euros)	**0.14**	**-0.58**	**-0.69**

Thousands of €	2009	Pro Forma 2008	2008
Result for the purpose of diluted earnings per share, being net profit/loss	3,010	-12,189	-14,584
Numbers of shares (thousands)			
Weighted average number of shares for the purpose of diluted earnings/loss (-) per share	21,656	21,189	21,189
Number of dilutive potential ordinary shares	1,053		
Diluted earnings/loss (-) per share (Euros)	**0.13**	**-0.58**	**-0.69**

As the Group has reported a net loss up to 2008, the outstanding warrants have an anti-dilutive effect rather than a dilutive effect. Consequently, basic and diluted loss per share have been the same. Starting in 2009, the diluted earnings per share were calculated, taking into account outstanding warrants that have a dilutive effect.

11. Rights and commitments not reflected in the balance sheet

On 31 December 2009 Galapagos did not have any rights or commitments which were not reflected in the balance sheet.

12. Goodwill

Thousands of €	
On 1 January 2008	**33,952**
Disposals of subsidiaries	-201
On 31 December 2008	**33,751**
On 31 December 2009	**33,751**

Due to the sale of BioFocus DPI, Inc. in 2008 to ChemVentures Pty Ltd., the net goodwill was reduced to €33,751K.

The goodwill was allocated to the R&D division and to the services cash generating units (CGU's) for the annual exceptional impairment test as described below:

Thousands of €	2009	2008
Services	33,158	33,158
R&D	593	593
Total	**33,751**	**33,751**

Annual test for impairment

Overview of the carrying amount assets per CGU :

Thousands of €	Services	R&D
Goodwill	33,158	593
Intangible assets	1,413	2,067
Property, plant and equipment	11,047	8,238
Working capital	6,762	46,580
Total	**52,380**	**57,478**

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

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

Services

The recoverable value for this CGU was determined based on a value in use calculation which uses input values from an annual budget and as projected until 2020 as approved by the Audit Committee. Management used growth assumptions of 7% for the first year, decreasing with 5% and 6% by 2020 with a perpetual growth of 2%. The EBIT-margin evolves to 17%. The applied discount rate scenarios (after taxes) used were 12.5% and 15%. The cashflows for the following years were extrapolated on the basis of a prudent estimation of the growth of this segment. Only when assuming revenue growth of 5% or less during the first 3 years and reducing to 2% by 2019, with perpetual growth at 2% or less, and when using a discount rate of more than 21%, would recoverable amounts drop below carrying amounts. However, management and the Audit Committee consider such assumptions to be unrealistic and decided not to retain them for the present analysis.

R&D

The recoverable value for this CGU was determined based on a value in use calculation which uses input values from a three year plan and as projected until 2020 as approved by the Audit Committee. The applied discount rate scenarios (after taxes) used were 12.5% and 15.0% (2008: 12.5% and 15.0%). Additional key assumptions were made related to the assessment of the timing and the amounts of the milestone payments under the different research collaboration contracts, which management decided upon based on the current status of the research project and standard industrial benchmarks. Management assumptions include an attrition rate* of 12 to 1 from targets identified to the product on the market and exclude future royalty payments. The Company believes that a possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU, even in a most conservative case assuming only half of the projected milestone payments would be achieved.

* See Glossary

Notes

13. Intangible assets

Thousands of €	Customer relationships	In process technology	Software & databases	Brands, licenses, patents & know-how	Total
Acquisition value					
At 1 January 2008	**2,797**	**2,637**	**3,824**	**2,302**	**11,559**
Additions			1,418	94	1,512
Sales & disposals			-35	-3,000	-3,035
Transfer	-13	3,500	1,681	2,793	7,961
Translation differences	-519	-134	-378	-219	-1,250
Balance at 31 December 2008	**2,265**	**6,003**	**6,510**	**1,970**	**16,748**
Additions			905	153	1,058
Sales and disposals			-418		-418
Transfer			-2,040	2,094	54
Translation differences	140	33	38	48	259
Balance at 31 December 2009	**2,405**	**6,036**	**4,994**	**4,265**	**17,700**
Amortization and impairment					
At 1 January 2008	**1,171**	**1,850**	**1,345**	**1,105**	**5,470**
Charge for the year	404	171	566	211	1,352
Impairment			918	493	1,411
Sales and disposals			-19	-3,000	-3,019
Transfer	-13	3,499	1,589	2,839	7,914
Translation differences	-218	-89	-175	-59	-541
Balance at 31 December 2008	**1,345**	**5,431**	**4,223**	**1,589**	**12,589**
Charge for the year	250	280	959	158	1,648
Sales and disposals			-202		-202
Transfer			-971	1,024	54
Translation differences	73	26	14	20	132
Balance at 31 December 2009	**1,668**	**5,736**	**4,024**	**2,791**	**14,220**
Carrying amount					
At 31 December 2008	919	572	2,287	381	4,159
At 31 December 2009	**736**	**300**	**970**	**1,474**	**3,480**

The in process technology contains programs for research and development for an amount of €300K (2008: €461K). These assets came into our possession through the business combinations in 2006 and require further R&D for some years before they will be ready for use. These assets are included at fair value.

Impairment loss

The closure of the Inpharmatica site in London together with the Discovery Informatics license sale have crystallized an impairment charge on fixed assets of €1,411K in 2008. In 2009 no impairment losses were booked.

14. Property, plant and equipment

Thousands of €	Land & building improvements	Installation & machinery	Furniture, fixtures & vehicles	Other tangible assets	Total
Acquisition value					
At 1 January 2008	**9,551**	**22,084**	**541**	**4,612**	**36,788**
Additions	1,262	3,844	227	369	5,702
Sales and disposals	-111	-1,406		-17	-1,534
Disposals of subsidiaries	-281	-991	-22	-197	-1,491
Transfer	1,007	12,251	-230	875	13,903
Other increase/decrease (-)				10	10
Translation differences	-356	-909	-39	-201	-1,505
Balance at 31 December 2008	**11,072**	**34,873**	**477**	**5,451**	**51,873**
Additions	365	3,111	42	609	4,128
Sales and disposals	-41	-693	-6		-740
Transfer	370	901	101	-252	1,121
Translation differences	107	479	7	66	658
Balance at 31 December 2009	**11,873**	**38,671**	**621**	**5,875**	**57,040**
Depreciations and impairment					
At 1 January 2008	**2,629**	**8,960**	**237**	**2,048**	**13,874**
Charge for the year	1,704	3,765	263	282	6,014
Impairment	73	60			133
Sales and disposals		-1,337			-1,337
Disposals of subsidiaries	-281	-428		-145	-854
Transfer	1,045	12,148	-171	927	13,949
Other increase/decrease (-)		11			11
Translation differences	-101	30	-18	-121	-210
Balance at 31 December 2008	**5,069**	**23,209**	**311**	**2,991**	**31,580**
Charge for the year	1,656	3,006	142	503	5,308
Sales and disposals		-513			-513
Transfer	-184	1,305	16	-16	1,121
Translation differences	31	191	4	33	260
Balance at 31 December 2009	**6,573**	**27,199**	**473**	**3,511**	**37,755**
Carrying amount					
At 31 December 2008	6,003	11,664	166	2,460	20,293
At 31 December 2009	**5,301**	**11,472**	**148**	**2,364**	**19,285**

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.

Notes

15. Inventory

Thousands of €	2009	2008
Raw materials and supplies (net)	820	568
Work in progress (net)	117	810
Finished goods	879	2,195
Total	**1,816**	**3,574**

The work in progress consists of incomplete molecule collections and is valued at the lowest of the cost price and the net realizable value. Finished goods contain completed molecule collections that are available for sale and that are valued at the lowest of the cost price and the net realizable value. In 2009 there were write-offs on stock of €674K (2008: €367K).

16. Available for sale financial assets

Available for sale financial assets of €757K (2008: €704K) represent an investment in common stock in an unlisted biotechnology company incorporated in the USA. The shares are not traded on the open market; however, the fair value is based on purchases of the same class of stock during the year. The change is only due to translation differences.

In 2008 a reclassification was done from cash and cash equivalents to available for sale financial assets. This reclassification relates to the CDO (for an amount of €2,000K), that was impaired fully in 2008, and as of 31 December 2009 remained at a fair value of €0.

	Measurement at cost		Measurement at fair value	
Thousands of €	2009	2008	2009	2008
Available for sale financial assets	808	772	757	704
Total	**808**	**772**	**757**	**704**

17. Trade and other receivables

Thousands of €	2009	2008
Trade receivables	19,111	13,847
Allowance for bad debt and doubtful debt		-3
Prepayments	1,543	1,201
Other receivables	3,651	3,163
Other current receivables	3,495	2,343
Accrued income	2,048	1,012
Deferred charges	1,447	1,331
Total	**27,800**	**20,551**

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 €	2009	2008
Bank balances	41,594	12,952
Short term deposits	5,790	14,364
Cash at hand	7	
Total	**47,391**	**27,316**

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

19. Share capital

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

Thousands of €	2009	2008
Share capital Galapagos NV	127,723	114,995
Costs of capital increases (accumulated)	-4,853	-4,140
Capital	**122,870**	**110,855**

Costs of capital increases are netted against the proceeds of capital increases, in accordance with IAS 32 Financial instruments: disclosure and presentation.

History of Share Capital

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

Date	Share capital increase new shares (in €)	Share capital increase warrants (in €)	Number of shares issued	Aggregate Number of Shares after transaction	Aggregate share capital after transaction (in €)
1 January 2008				**21,188,829**	**114,995,166.45**
31 December 2008				**21,188,829**	**114,995,166.45**
1 April 2009		73,500	18,375	21,207,204	115,068,666.45
8 June 2009		108,500	27,125	21,234,329	115,177,166.45
4 September 2009		99,700	24,925	21,259,254	115,276,866.45
21 October 2009	11,543,772.75		2,125,925	23,385,179	126,820,639.20
4 December 2009		902,564	225,641	23,610,820	127,723,203.20
31 December 2009				**23,610,820**	**127,723,203.20**

As of 1 January 2008, the Company's share capital amounted to €114,995,166.45, represented by 21,188,829 shares. All shares were issued, fully paid up and of the same class.

On 26 June 2008, the Board of Galapagos decided, within the framework of the authorized capital, to create a maximum of 250,065 warrants, for the benefit of employees and consultants of Galapagos and its subsidiaries under a new warrant plan ("Warrant Plan 2008"). After acceptances, the total number of warrants de facto created and granted under this plan is 201,445. These warrants have a term of eight years; however, the lifetime of these warrants has been extended with 5 years in accordance with the Economic Recovery Law of 27 March 2009. The exercise price of the warrants is €5.60. No warrants were exercised under this plan as of 31 December 2009.

Also on 26 June 2008, the Extraordinary General Shareholders' Meeting of Galapagos decided to create a maximum of 57,500 warrants, for the benefit of two directors of Galapagos under a new warrant plan ("Warrant Plan 2008 (B)"). After acceptances, the total number of warrants de facto created and granted under this plan is 57,500. These warrants have a term of five years. The exercise price of the warrants is €5.60. No warrants were exercised under this plan as of 31 December 2009.

In the course of 2008 no warrants were exercised and no other capital increases were implemented.

On 31 December 2008, the Company's share capital amounted to €114,995,166.45, represented by 21,188,829 shares. All shares were issued, fully paid up and of the same class.

On 1 April 2009, the Board of Galapagos decided, within the framework of the authorized capital, to create a maximum of 560,000 warrants, for the benefit of employees and an independent consultant of Galapagos and its subsidiaries under a new warrant plan ("Warrant Plan 2009"). After acceptances, the total number of warrants de facto created and granted under this plan is 555,000.

These warrants have a term of eight years. The exercise price of the warrants is €5.87. No warrants were exercised under this plan as of 31 December 2009.

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

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

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

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

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

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

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

	Ordinary Shares	Total
Other information		
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 2 June 2009, to increase the share capital of the Company within the framework of the authorized capital through contributions in kind or in cash, with limitation or cancellation of the shareholders' preferential rights,

even after the BFIC (Banking, Finance and Insurance Commission) has given notice of a public takeover bid on the Company's shares, provided that the relevant provisions of the Code of Companies are complied with, including that the number of issued shares cannot be more than one tenth of the number of shares issued prior to the capital increase and representing the share capital of the Company. Said authorization can be renewed.

The authorized capital as approved by the Extraordinary General Shareholders' Meeting of 2 June 2009 amounted to €115,068,666.45. As of 31 December 2009, €11.543.772,75 of the authorized capital was used, so that on the balance sheet date an amount of €103,524,893.70 still remained available under the authorized capital.

20. Share premium

Thousands of €	2009	2008
On 1 January	48,268	48,268
Increase as a result of capital increase in cash	6,633	
On 31 December	**54,901**	**48,268**

21.Translation differences

Thousands of €	2009	2008
On 1 January	-2,307	-1,535
Translation differences, arisen from translating foreign activities	281	-772
On 31 December	**-2,026**	**-2,307**

22. Derivative financial instruments

Currency derivatives

The Group does not actively use currency derivatives to hedge planned future cashflows. In the past, there were some foreign currency contracts that were taken over with the acquisition of BioFocus plc by the Company, and these were executed in the course of 2005 and 2006. Since said acquisition, there have been no more similar new contracts within the Group. The foreign currency contracts related to currencies of the Group's most important markets.
On the balance sheet date, total notional amount of outstanding forward foreign exchange contracts that the Group has committed are nil (2008: nil).

On 31 December 2009 the fair value of the Group's currency derivatives is estimated to be nil (2008: nil).

There are no changes in the value of the non-hedging currency derivatives, because the contracts have ended and therefore no result was taken into the profit or loss accounts of this year.

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

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

23. Deferred tax

Thousands of €	2009	2008
I Recognized deferred tax assets and liabilities		
Assets	1,700	
Liabilities	-564	-201
II Deferred tax assets unrecognized	**69,333**	**67,849**
III Deferred taxes	**1,351**	**-212**
Deferred tax expenses net relating to origination and reversal of temporary differences	-349	-212
Tax benefit arising from previously unrecognized tax assets used to reduce deferred tax expense (+)	1,700	

Other temporary differences, that could give rise to deferred taxes, relate to the notional interest deduction for an amount of €2,882K (2008: €1,713K) and deduction from investments €1,547K (2008: €1,413K).

The unused tax losses carried forward at 31 December 2009 amount to €217,318K (2008: €208,017K).

The tax losses carried forward can be compensated with future profits of the Group for an indefinite period except for Switzerland and US. Because BioFocus DPI Ltd. became profitable in 2009 and management expects that this situation is sustainable, a deferred tax asset was set up for an amount of €1,700K. This amount is based on a conservative estimate of net profits for the next 3 years. The notional interest deduction can be carried forward for maximum 7 years.

Notes

24. Finance lease liabilities

	Minimum lease payments		Present value of minimum lease payments	
Thousands of €	**2009**	**2008**	**2009**	**2008**
Amounts payable under finance lease				
Within one year	678	660	520	530
In the second to fifth years inclusive	1,402	1,428	964	989
After five years	305	624		167
	2,385	**2,712**	**1,484**	**1,686**
Less future finance charges	900	1,026		
Present value of lease obligation	**1,485**	**1,686**		
Less amount due for settlement within 12 months			520	530
Amount due for settlement after 12 months			**964**	**1,156**

	Net book value		Acquisition cost	
Thousands of €	**2009**	**2008**	**2009**	**2008**
Leased assets				
Land & buildings	281	339	502	502
Installation & machinery	1,580	1,731	3,557	3,585
Furniture, fixture & vehicles	46	82	184	184
Total	**1,907**	**2,152**	**4,243**	**4,271**

The Group leases certain of its installation and machinery under finance leases. For the year ended 31 December 2009, the average borrowing rate was 12.15% (2008: 10.50%). 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 €	**2009**	**2008**
Minimum lease payments under operating leases recognized in the income statement for the year	4,394	5,306
Total	**4,394**	**5,306**

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

Thousands of €	2009	2008
Within one year	4,050	4,041
In the second to fifth years inclusive	10,252	11,353
After five years	13,591	15,477
Total	**27,893**	**30,871**

26. Trade and other payables

Thousands of €	2009	2008
Trade payables	15,130	13,425
Other creditors	961	1,712
Other current liabilities	15,650	15,740
Accrued charges	2,270	2,306
Deferred income	13,380	13,434
Total	**31,742**	**30,877**
Included in current liabilities	30,780	29,165
Included in non-current liabilities	961	1,712
Total	**31,742**	**30,877**

Deferred income relates to upfront payments on R&D projects. During 2009, upfront payments from Janssen Pharmaceutica and GSK were taken into revenues and a new upfront payment from Roche was added to deferred income.

27. Provisions

Thousands of €	Provisions for litigation	Restructuring provision	Other provisions	Total
Balance per 1 January 2009	**160**	**3**	**687**	**850**
Additional provisions			13	13
Provisions utilized amounts		-2		-2
Reversed	-160		-574	-734
Balance per 31 December 2009	**0**	**1**	**126**	**127**

Other provisions contain a provision for untaken vacation that does not expire (€96K).

Reversals were done because a provision taken for a possible lawsuit was no longer required and because a provision for unoccupied spaces was no longer relevant.

28. Contingent liabilities and assets

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

29. Retirement benefit schemes

Defined contribution plans

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

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

The amounts paid by the Group to these plans in 2009 was €1,766,341 (2008: €1,698,536) and no payments were outstanding as of 31 December 2009. 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. 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 2009 Galapagos SASU paid €588,702 for this purpose (2008: €451,505).

In addition, the Chemical and Pharmaceutical Industry's collective bargaining agreements require that Galapagos SASU pays a retirement allowance depending on the seniority of the employees at the moment they retire. The provisions for these retirement allowances amounted to €377,210 for 2009 (2008: €386,761).

Additionally, there are also seniority premiums paid in France. The provisions for these premiums amounted to €495,121 in 2009 (2008: €442,828).

Obligations included in the balance sheet

In €	31/12/09	31/12/08
Present value of funded defined benefit obligation	421,351	398,135
Fair value of plan assets		
Shortage	421,351	398,135
Actuarial gains or losses (-) not recognized	-47,263	-11,374
Liability included in the balance sheet	**374,088**	**386,761**

The present value of the gross obligation developed as follows:

In €	31/12/09	31/12/08
Opening balance	398,135	351,536
Acquired through business combination		
Current service cost	38,142	39,015
Interest cost	19,145	19,014
Benefits paid	-69,960	
Actuarial gains (-) or losses	35,889	-11,430
Closing balance	**421,351**	**398,135**

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

In €	31/12/09	31/12/08
Current service cost	38,142	39,015
Interest costs	19,145	19,014
Actuarial gains or losses (-)		8,865
Total expense	**57,287**	**66,894**

Obligation included on the balance sheet reconciled as follows:

In €	31/12/09	31/12/08
Opening balance	386,761	319,867
Total expense	57,287	66,894
Paid allowances and contributions by the employer	-69,960	
Closing balance	**374,088**	**386,761**

The most important actuarial assumptions were:

	31/12/09	31/12/08
Discount rate	5.15%	5.25%
Expected salary increase	2.50%	2.50%

Adjustments resulting from experience amounted to:

In €	31/12/09	31/12/08
Present value of the gross obligation	421,351	398,135
Experience adjustments	24,983	32,924

30. Warrant plans

A summary of the warrant plans activity for the reported periods is presented below. After the reverse 4:1 share split decided by the General Shareholders' Meeting of 29 March 2005, 4 warrants of the Warrant Plans 2002 plans will entitle the warrant holder to subscribe to one share. One warrant of the Warrant Plans created from 2005 onwards will entitle the warrant holder to subscribe to one share. In the summaries and tables below, the numbers of the Warrant Plans 2002 are divided by 4 to avoid a mixture of rights.

Warrant plans 2002

During the Extraordinary Shareholders' Meeting of 1 March 2002, a warrant plan was approved for the management and personnel of Galapagos NV ("Warrant Plan Belgium 2002") and a second warrant plan for management and personnel of Galapagos NV's subsidiary in The Netherlands ("Warrant Plan The Netherlands 2002"). No more warrants are outstanding and exercisable in Warrant Plan The Netherlands 2002, and this plan is completely terminated.

Warrant Plan Belgium 2002

On 31 December 2009, an aggregate of 793,706 warrants (recalculated after reverse share split 1:4) had been allotted to directors, management and personnel of Galapagos NV under the Warrant Plan Belgium 2002, of which 148,250 warrants were still outstanding on 31 December 2009. On 31 December 2008 the number of warrants outstanding under this plan was 457,255. There are no more warrants available for distribution under this plan. The warrants have a term of eight years and can be exercised at the latest on 1 February 2012; however, the lifetime of the warrants granted under this plan as from 1 January 2003 has been extended by 5 years in accordance with the Economic Recovery Law of 27 March 2009. Each vested warrant entitles the warrant holder to subscribe to one share. The warrants offered to employees and consultants vested according to the following scheme: 10% of the number of warrants granted vested upon the date of the grant; 20% vested on the first anniversary of the grant; 40% vested on the second anniversary of the grant; 60% vested on the third anniversary; 100% vested on the end of the third calendar year following the grant. The warrants offered to directors vested linearly over a period of 36 months at 1/36 per month.

All warrants granted under this plan have an exercise price of €4.00 per warrant (post-reverse split 1:4 of the Company's shares), as determined in accordance with the terms of the plan.

Warrant Plan 2005

Pursuant to Warrant Plan 2005, a total of 467,421 warrants were created (notary deed of 29 March 2005). On 31 December 2009, an aggregate of 458,600 warrants had been allotted to directors and employees of the Group, of which 355,055 warrants were still outstanding on 31 December 2009. On 31 December 2008 the number of warrants outstanding under this plan was 378,815. There are no more warrants available for distribution under this plan. The warrants have a term of eight years and can be exercised at the latest on 29 March 2015; however, the lifetime of the warrants granted under this plan has been extended by 5 years in accordance with the Economic Recovery Law of 27 March 2009. Each vested warrant entitles the warrant holder to

subscribe to one share. The vesting scheme is identical to that of Warrant Plan Belgium 2002. The exercise price of the warrants was decided as at least (a) the closing price of the last day preceding the date of the offer, or (b) the average of the price per share, as listed on the stock market, of the last thirty days, or any other relevant period, preceding the date on which the warrants are offered.

Warrant plans 2006

Warrant Plan 2006 Belgium/The Netherlands

Pursuant to Warrant Plan 2006 Belgium/The Netherlands, a total of 350,000 warrants were created by the Board under the authorized capital (notary deed 3 February 2006). On 31 December 2009, an aggregate of 346,288 warrants were allotted to directors and employees of the Group of which 200,670 warrants were still outstanding on 31 December 2009. On 31 December 2008 the number of warrants outstanding was 205,258. There are no more warrants available for distribution under this plan. The warrants have a term of eight years and can be exercised at the latest on 2 February 2016 (i.e. 10 years after the date of creation of the plan); however, the lifetime of the warrants granted under this plan has been extended by 5 years in accordance with the Economic Recovery Law of 27 March 2009. Each vested warrant entitles the warrant holder to subscribe to one share. The vesting scheme is identical to that of Warrant Plan 2005. The exercise price of the warrants was decided by the Board as at least (a) the closing price of the last trading day preceding the date of the offer, or (b) the average of the closing price per share, as quoted on the stock market, of the last thirty days preceding the date on which the warrants are offered.

Warrant Plan 2006 U.K.

Pursuant to Warrant Plan 2006 U.K., a total of 453,715 warrants were created by the Board under the authorized capital (notary deed 12 May 2006). On 31 December 2009, an aggregate of 425,386 warrants were allotted to employees of the Group, of which 314,668 warrants were still outstanding on 31 December 2009. On 31 December 2008 the number of warrants outstanding was 334,135. There are no more warrants available for distribution under this plan. The warrants have a term of eight years and can be exercised at the latest on 11 May 2016 (i.e. 10 years after the date of creation of the plan). Each vested warrant entitles the warrant holder to subscribe to one share. The vesting scheme is identical to that of Warrant Plan 2005. The exercise price of the warrants was decided by the Board as at least (a) the closing price of the last trading day preceding the date of the offer, or (b) the average of the closing price per share, as quoted on the stock market, of the last five trading days preceding the date on which the warrants are offered.

Warrant plans 2007

Warrant Plan 2007

Pursuant to Warrant Plan 2007, a total of 364,440 warrants were created by the Board under the authorized capital (notary deed of 28 June 2007). All of these warrants have been offered to and accepted by directors and employees of the Group. The exercise price of the warrants was fixed by the Board of Directors at €8.65 (which was the average stock price for the 30 days preceding the date of the offer, which was also on 28 June 2007). There are no more warrants available for distribution under this plan. The number of warrants outstanding under this plan was 316,909 on 31 December 2009 and 317,161 on 31 December 2008. The warrants have a term of eight years and can be exercised at the latest on 27 June 2015; however, the lifetime of the warrants

granted under this plan was extended by 5 years in accordance with the Economic Recovery Law of 27 March 2009. Each vested warrant entitles the warrant holder to subscribe to one share. The vesting scheme is identical to that of the Warrant Plan 2005.

Warrant Plan 2007 RMV

Pursuant to Warrant Plan 2007 RMV, a total of 108,850 warrants were created by the Board under the authorized capital (notary deed of 25 October 2007). All of these warrants were offered to and accepted by employees of Galapagos SASU (Romainville, France). The exercise price of the warrants was fixed at €8.65 by the Board of Directors (which was at least the average stock price for the 30 days preceding the date of the offer, which was also on 25 October 2007). There are no more warrants available for distribution under this plan. The number of warrants outstanding under this plan was 107,870 on 31 December 2009 and 108,850 on 31 December 2008. The warrants have a term of eight years and can be exercised at the latest on 24 October 2015; however, the lifetime of the warrants granted under this plan has been extended by 5 years in accordance with the Economic Recovery Law of 27 March 2009. Each vested warrant entitles the warrant holder to subscribe to one share. The vesting scheme is identical to that of Warrant Plan 2005.

Warrant plans 2008

Warrant Plan 2008

Pursuant to Warrant Plan 2008, a total of 201,445 warrants were created by the Board under the authorized capital (notary deed of 26 June 2008). All of these warrants were offered to and accepted by employees and consultants of the Galapagos Group. The exercise price of the warrants was fixed at €5.60 by the Board of Directors (which was the average stock price for the 30 days preceding the date of the offer, which was also on 25 June 2008). There are no more warrants available for distribution under this plan. The number of warrants outstanding under this plan was 197,372 on 31 December 2009 and 201,445 on 31 December 2008. The warrants have a term of eight years and can be exercised at the latest on 26 June 2016; however, the lifetime of the warrants granted under this plan was extended by 5 years in accordance with the Economic Recovery Law of 27 March 2009. Each vested warrant entitles the warrant holder to subscribe to one share. The vesting scheme is identical to that of Warrant Plan 2005.

Warrant Plan 2008 (B)

Pursuant to Warrant Plan 2008 (B), a total of 57,500 warrants were created by the General Shareholders' Meeting (notary deed of 26 June 2008). All of these warrants were offered to and accepted by two Directors of the Company. The exercise price of the warrants was fixed at €5.60 (which was the average stock price for the 30 days preceding the date of the offer, which was also on 26 June 2008). There are no more warrants available for distribution under this plan. The number of warrants outstanding under this plan was 57,500 on 31 December 2009 and also 57,500 on 31 December 2008. The warrants have a term of five years and can be exercised at the latest on 25 June 2013. Each vested warrant entitles the warrant holder to subscribe to one share. The warrants vest linearly over a 36 months period at 1/36 per month.

Warrant plans 2009

Warrant Plan 2009

Pursuant to Warrant Plan 2009, a total of 555,000 warrants were created by the Board under the authorized capital (notary deed of 1 April 2009). All of these warrants were offered to and accepted by employees and consultants of the Galapagos Group. The exercise price of the warrants was fixed at €5.87 by the Board of Directors (which was the average stock price for the 30 days preceding the date of the offer, which was also on 1 April 2009). There are no more warrants available for distribution under this plan. The number of warrants outstanding under this plan was 555,000 on 31 December 2009. The warrants have a term of eight years and can be exercised at the latest on 31 March 2017. Each vested warrant entitles the warrant holder to subscribe to one share. The vesting scheme is identical to that of Warrant Plan 2005.

Warrant Plan 2009 (B)

Pursuant to Warrant Plan 2009 (B), a total of 135,100 warrants were created by the General Shareholders' Meeting (notary deed of 2 June 2009). All of these warrants were offered to and accepted by Directors and an independent consultant of the Company. The exercise price of the warrants was fixed at €7.09 (which was the average stock price for the 30 days preceding the date of the offer, which was also on 2 June 2009). There are no more warrants available for distribution under this plan. The number of warrants outstanding under this plan was 135,100 on 31 December 2009. The warrants have a term of five years and can be exercised at the latest on 1 June 2014. Each vested warrant entitles the warrant holder to subscribe to one share. The warrants vest linearly over a 36 months period at 1/36 per month for the Directors, and for the independent consultant the vesting scheme is identical to that of Warrant Plan 2005.

The total number of outstanding warrants on 31 December 2009 was 2,388,394. The total number of shares outstanding on 31 December 2009 was 23,610,820. Therefore, the number of outstanding warrants as a percentage of outstanding shares on 31 December 2009 was 10.12%. On 31 December 2008 the number of then outstanding warrants as a percentage of then outstanding shares was 9.72%.

Notes

Warrant plans	Warrants	Weighted average exercise price
Outstanding on 1 January 2008	**2,020,922**	**7.49**
Exercisable on 31 December 2007	319,934	4.00
Granted during the period	258,945	
Forfeited during the period	-219,448	
Exercised during the period		
Expired during the period		
Outstanding on 31 December 2008	**2,060,419**	**7.34**
Exercisable on 31 December 2008	329,316	4.00
Granted during the period	690,100	
Forfeited during the period	-29,324	
Exercised during the period	-296,066	
Expired during the period	-31,312	
Forfeited during previous periods (correction)	-5,423	
Outstanding on 31 December 2009	**2,388,394**	**7.34**
Exercisable on 31 December 2009	761,703	4.00

The table below sets forth the valuation of the warrants.

BELGIAN PLANS	**2009**		**2008**		**2007**				**2006**		
	1 Apr	**2 Jun**	**26 Jun**	**26 Jun**	**14 Feb**	**4 May**	**28 Jun**	**21 Dec**	**13 Feb**	**13 Feb**	**22 Nov**
Exercise price	5.87	7.09	5.60	5.60	9.57	9.22	8.65	7.12	8.61	8.73	8.65
Current share price	6.14	8.05	5.05	5.05	9.51	8.95	8.51	7.73	8.78	8.78	8.99
Fair value on the grant date	3.02	3.18	2.37	1.73	4.74	4.40	4.21	4.05	4.44	4.40	4.59
Estimated volatility (%)	41.64	41.64	41.64	41.64	41.64	41.64	41.64	41.64	41.64	41.64	41.64
Time to expiration (years)	7.00	4.00	7.00	4.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Risk free rate (%)	3.00	2.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Expected dividends	None	None	None	None	None	None	None	None	None	None	None

UK PLAN	2007		2006		
	28 Jun	21 Dec	17 Jun	22 Nov	19 Dec
Exercise price	8.43	7.25	8.70	8.65	9.18
Current share price	8.51	7.73	8.77	8.99	9.34
Fair value on the grant date	4.28	4.01	4.40	4.59	4.72
Estimated volatility (%)	41.64	41.64	41.64	41.64	41.64
Time to expiration (years)	7.00	7.00	7.00	7.00	7.00
Risk free rate (%)	4.00	4.00	4.00	4.00	4.00
Expected dividends	None	None	None	None	None

FRENCH PLAN	2007
	25 Oct
Exercise price	8.65
Current share price	7.98
Fair value on the grant date	3.80
Estimated volatility (%)	41.64
Time to expiration (years)	7.00
Risk free rate (%)	4.00
Expected dividends	None

The method of determining the exercise share price is set up by the Board of Directors or by the Extraordinary General Shareholders' Meeting, as the case may be.

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.

Notes

Warrants expense for warrants that were granted in 2009 amounted to €2,642K (2008: €1,161K).

The following table provides an overview of the outstanding warrants per personnel category on 31 December 2009.

	Number of Warrants	
Category	**2009**	**2008**
Non-executive Directors	78,850	108,750
Executive Team	852,500	948,266
Other	1,457,044	1,003,403
Total Warrants outstanding	**2,388,394**	**2,060,419**

Note: The above numbers for the non-executive Directors and members of the executive team, for the years 2009 and 2008, relate only to those individuals that were (still) in such capacity on 31 December 2009.

The outstanding warrants at the end of the accounting period have an average exercise price of €7.34 (2008: €7.12) and a weighted average remaining useful life of 2,454 days (2008: 1,891 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 2009 and 2008, Galapagos and its affiliates had no trading transactions with parties that are considered as related parties as defined in IAS24.

Potential conflicts of interest between the Company and its Directors

In 2009 and 2008 the independent Directors and the Directors who do not represent shareholders received an annual fee of €20,000 plus expenses. The chairman of the Audit Committee received an additional payment of €5,000.

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 May 2008 a consultancy contract was entered into between the Company and Valetusan Ltd., a company controlled by Dr Pauwels, a member of the Board of the Company. Under this contract, Valetusan provides strategic scientific advice and advice relating to the selection of candidate drugs. Valetusan receives a fee of €125 per hour for this advice. This contract was entered into in compliance with the procedure of article 523 of the Belgian Code of Companies.

There are no loans between Galapagos NV and its members of the Board of Directors or its Executive Team, other than for prefinancing of withholding taxes for an amount of €23,107 (2008: €23,107). These loans have been paid back to the Company after the end of the financial year.

The bonus of the CEO (Mr van de Stolpe) for 2009 amounted to €397,500 (2008: €305,425); half of this bonus was immediately payable and the other half was deferred for three years and was linked to conditions relating to the realization of certain parameters concerning the evolution of the Galapagos share price (see description under 32). The increase of the CEO's remuneration for 2009 was 4% (2008: 5%). For all these compensations, the procedure of article 523 of the Belgian Code of Companies was applied.

In 2009 (as in 2008), 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 2009, a total of 60,100 warrants were issued to the Directors, of which 40,000 for the CEO; this issue of warrants was decided by the Extraordinary General Shareholders' Meeting of 2 June 2009. In 2008, the total number of warrants issued to Directors was 57,500 (of which 50,000 for the CEO) by decision of the Extraordinary General Shareholders' Meeting of 26 June 2008.

For the remuneration of the Executive Committee, reference is made to note 32.

32. Remuneration of key management personnel

On 31 December 2009, the Executive Committee comprised six members: Mr Onno van de Stolpe, Dr Graham Dixon, Dr Andre Hoekema, Dr Chris Newton, Dr Piet Wigerinck and Mr Guillaume Jetten. The remuneration package of the members of the Executive Committee who were in function in the course of 2009 comprises:

Thousands of € (except for the number of warrants)	**31/12/09**	**31/12/08**
Short-term employee benefits (*)	2,278	2,554
Post-employment benefits	72	65
Total benefits excluding warrants	**2,350**	**2,619**
Number of warrants offered in the year	215,000	160,000

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

The above mentioned amounts also include the remuneration paid in 2009 to Leo Steenbergen who left the Group on 30 June 2009. The amounts for 2008 include the remuneration paid to all members of the Executive Committee who were in function in the course of 2008.

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

Notes

The warrants offered in 2009 to the members of the Executive Committee were offered under the Warrant Plan 2009 and the Warrant Plan 2009 (B). The conditions of these plans are set out in note 30.

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

The Executive Committee members, together with other senior managers, are part of a Group bonus scheme established in 2006 where half of the bonus is paid immediately around year end and half is deferred for three years. The deferred component is only payable in full provided that the growth in the Company share price has exceeded the growth in the Next Biotech Index over the same three year period. Where the Company share price underperforms against the index, then the payout is reduced, with no payment made if the Company underperforms by more than 10%. The value of the deferred pay varies by the percentage change in the Company's share price. To be eligible for any payment due the beneficiary must still be in the Company's employ. In 2009 the Company reversed the provision for the deferred parts of the bonuses for all beneficiaries (including the members of the Executive Committee) with €302K, while for 2008 a charge of €156K had been taken as provision for these deferred parts of the bonuses. The difference between 2009 and 2008 is partly explained by the fact that a more appropriate accounting method has been applied for the calculation of the provision for these deferred parts.

The six members of the Executive Committee (including the CEO) who were in function on 31 December 2009 were paid an aggregate amount of €1,534,974 in remunerations and an aggregate amount of €471,750 in bonuses for their performance in 2009 (the payment of another amount of €471,750 in bonuses for 2009 is deferred for 3 years and is subject to the conditions of Group bonus scheme). On 31 December 2008, the members of the then Executive Committee (comprising 6 members including the CEO) were paid an aggregate amount of €1,813,014 in remunerations and an aggregate amount of €322,212 in bonuses (with another amount of €322,212 in bonuses for 2008 being deferred for three years).

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

Only the CEO is a member of both the Executive Committee and the Board of Directors. The CEO does not receive any special remuneration for his work on the Board of Directors, as this is part of his total remuneration package in his capacity as member of the Executive Committee.

Except as mentioned in note 31, no loans, quasi-loans or other guarantees were given to members of the Board and of the Executive Committee.

One member of the Executive Committee, Mr. Leo Steenbergen, left the Group in 2009, and no special severance payments were made because of his leaving. In deviation to the relevant Warrant Plan, the Board resolved that his unvested warrants would not become void and that his warrants would remain exercisable according to the normal exercise rules for the duration of the warrants.

Transactions with non-executive directors

In connection with the compensation of independent Directors, the Annual Shareholders' Meeting (AGM) of 3 June 2008 and 2 June 2009 fixed the annual remuneration for independent Directors for the exercise of their mandate as a Director of the Company at €20,000 plus expenses and resolved to pay an additional compensation of €5,000 to the chairman of the Audit Committee of the Board of Directors for his activities as chairman of the Audit Committee. These amounts remain unchanged compared to the previous years. In 2009, a total amount of €76,667 was paid to the independent Directors as Board fees (including for chairing the Audit Committee) (2008: €61,460) and €1,144 as expenses (2008: €2,192).

The aforementioned AGMs fixed the annual remuneration for non-executive Directors who are not independent Directors and who do not represent a shareholder at €20,000 plus expenses. In 2009 an aggregate amount of €30,000 was paid to these Directors (2008: €20,000).

The aforementioned AGMs resolved that in case a Director attends less than 75% of the meetings of the Board of Directors, the annual amounts mentioned in the two paragraphs here above shall be reduced pro rata the absence score of such Director. This principle was applicable for 2009 with respect to one Director whose attendance rate was 62% (not applicable in 2008).

The aforementioned AGMs resolved that the Directors who represent a shareholder on the Board of Directors will only receive reimbursement for the expenses they incur for attending meetings of the Board of Directors and no other compensation or fees for their Board membership. There were no such Directors in 2009. In 2008, a total amount of €1,180 was paid as expenses to such Directors.

In 2009, a total of £50,000 was paid as consultancy fees to the Chairman of the Board, who did not receive any fee as compensation for his Board membership, under a consultancy agreement effective as of 1 August 2005 (2008: £50,000). In 2009, no payments were made to Valetusan Ltd. for strategic consultancy activities performed by Director Dr Rudi Pauwels (2008: €7,000). See also note 30.

In 2009, 17,580 warrants were granted to non-executive Directors (2008: 7,500 warrants).

33. Consolidated companies as of 31 December 2009

Name of the subsidiary	Country	% voting right NV (directly or indirectly through subsidiaries)	Change in % voting right previous period (2009 vs 2008)
BioFocus DPI BV	The Netherlands	100%	
BioFocus DPI (Holdings) Ltd	United Kingdom	100%	
BioFocus DPI Ltd	United Kingdom	100%	
Cambridge Drug Discovery Holding Ltd	United Kingdom	100%	
Cambridge Discovery Ltd	United Kingdom	100%	
Cambridge Genetics Ltd	United Kingdom	100%	
BioFocus, Inc.	United States	100%	
Compound Focus, Inc.	United States	100%	
BioFocus DPI, Inc.*	United States	0%	
Xenometrix, Inc.	United States	100%	
BioFocus DPI, LLC.	United States	100%	
BioFocus DPI AG	Switzerland	100%	
Discovery Partners International GmbH	Germany	100%	
Inpharmatica Ltd	United Kingdom	100%	
Galapagos SASU	France	100%	

* On 5 November 2008, BioFocus, Inc. sold 100% of the shares of BioFocus DPI, Inc. to ChemVenturs Pty Ltd.

34. Acquisition/disposal of subsidiaries

During the year 2009, no companies were acquired or disposed of.

Thousands of €	2008
DISPOSAL OF FULLY CONSOLIDATED COMPANIES	
Non-current assets	972
Current assets	1,986
Total assets	**2,958**
Equity - group share	-2,224
Minority interests	
Non-current liabilities	-57
Current liabilities	-677
Total equity and liabilities	**-2,958**
Total assets	2,958
Total liabilities	-734
Translation differences	344
Net assets	2,568
Net assets	2,568
Profit (loss) on disposal	-2,568
Sales price	
Net divestment cash out	**857**

35. Critical accounting estimates and judgments

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

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

Share based payments plans

The Group determines the costs of the share based payments plans on the basis of the fair value of the equity instrument at grant date. Determining the fair value assumes choosing the most suitable valuation model for these equity instruments, by which the characteristics of the grant have a decisive influence. This assumes also the input into the valuation model of some relevant

judgments, like the estimated useful life of the warrant and the volatility. The judgments made and the model used are specified further in note 30.

Pension obligations

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

Impairment of goodwill

Changes in management assumptions on profit margin and growth rates used for cashflow predictions, could have an important impact on the results of the Group. Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which the goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill on the balance sheet date was €33,751K (2008: €33,751K). No impairment loss was recognized during 2009 or 2008.

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

Fair valuation of net assets of subsidiary on acquisition

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

36. Financial risk management

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 2008 or 2007.

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.

Since 2005, the Group has no new derivative financial instruments to mitigate currency risks. For further information, we refer to note 22.

Categories of material financial assets and liabilities:

Thousands of €	2009	2008
Financial assets		
Cash at bank and in hand	47,391	27,316
Trade debtors	19,111	13,844
Other amounts receivable	3,651	3,163
Tax receivables	7,679	8,408
Financial liabilities		
Trade debts	15,130	13,425
Other amounts payable	961	1,728
Leasing debts	1,484	1,686
Tax payable	44	56

Notes

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

One client represented 23 percent of the trade debtors at the end of 2009. The large percentage at year-end was caused by an important milestone payment that was paid in 2010. Other clients with outstanding payables represented less than 10 percent of the total balance sheet of the Group at the end of 2009. 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 €	2009
60 - 90 days	230
90 - 120 days	122

Movement in the allowance for doubtful debts

Thousands of €	2009
Balance at the beginning of the year	**3**
Amounts written off as uncollectible	
Amounts recovered during the year	-3
Balance at the end of the year	**0**

Liquidity risk

The Group's consolidated balance sheet shows an amount of €66,868K as incurred losses. Based on its projections, management expects the Company to remain profitable in 2010. Cash needs are projected on a 3 year rolling forecast basis and are compared with expected available cash balances at the end of each period. These projections are based on realistic assumptions with regard to milestone payments to be received, taking into account the Company's past track record, including assumptions that not all new projects that are being planned will be realized, and assuming a 10% reduction in service division

revenues. On the basis of these projections and sensitivity analysis the Company expects no need for additional external funding for at least the next 2 years. The Company could also decide to disinvest from some of its present activities as a means of generating additional cash.

Market risk: interest rate risk

The Group's financial performance is not subject to any significant interest rate risk. The Company has in its portfolio a CDO for which the "mark to model" value is close to zero, and which consequently has been fully impaired. Based on the latest information, credit events that have been noted regarding this CDO have no impact on the value of the tranche in our portfolio, and the coupon payments continue to be made.

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 and GB Pounds. To limit this risk, the Group attempts to align incoming and outgoing cashflows in currencies other than EUR. In addition, contracts closed by the different entities of the Group are mainly in the functional currencies of that entity. The exchange rate risk within the Group is therefore almost exclusively caused by the intra-group transactions between entities with a different functional currency.

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

Net book value - Thousands of €	**31 December 09**	**31 December 08**
Euros - GB Pounds	998	1 452
Euros - CH Francs	260	71
CH Francs - GB Pounds	11	38

The magnitude of the amounts on 31 December 2009 is the same as these of the previous years. A reasonable change in the exchange rate of one of the functional currencies of the entities of the Group causes no material change to the Group's result.

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 €101,500 in 2009. The fees for exceptional services or special missions executed by the statutory auditor, in particular other control missions, amounted to €22,000 in 2009. 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 €108,150 in 2009. The fees paid in 2009 for exceptional services or special missions executed in this group by persons related to the statutory auditor for tax consultancy amounted to €80,252. 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.

Notes

38. Events subsequent to the balance sheet date

Galapagos announced the following after 31 December 2009:

- 11 January: Galapagos initiated a strategic alliance with Roche in COPD (chronic lung disease). Galapagos received a research access payment of €6 million from Roche and is eligible to receive discovery, development, regulatory and sales milestone payments that could potentially exceed €400 million, plus royalties upon commercialization of any products covered in the agreement.
- 12 January: Galapagos' BioFocus service division achieved success in its oncology target discovery collaboration with Ortho Biotech Oncology Research & Development, a division of Janssen Pharmaceutica N.V. (Janssen), leading to €1.6 million in milestone payments to BioFocus.
- 15 January: Galapagos reached milestones in its metabolic and inflammatory strategic alliances with Merck, entitling Galapagos to an aggregate payment of €3.6 million from Merck & Co.
- 19 January: Galapagos announced results from the first-in-human trial with metastasis candidate drug GLPG0187. The candidate drug showed good safety and a promising biomarker profile in healthy volunteers. Based on these results, Galapagos plans to initiate a second Phase I trial including cancer patients in 2010.
- 2 February: Galapagos announced the acquisition of Argenta Discovery 2009 Ltd. Together with BioFocus, this resulted in the creation of one of the world's largest drug discovery service organizations, with 390 employees, an estimated €70 million in annual turnover and significant profitability. Galapagos paid €16.5 million cash for Argenta Discovery 2009 Ltd. and increased revenue guidance to €135 million. Argenta reported revenues of €14 million and a profit of €3.5 million in 2009 and employs 140 persons.
- 18 February: Galapagos and MorphoSys expand antibody alliance in bone & joint diseases, thereby increasing the total number of programs to four.
- 22 February: Galapagos delivers third candidate drug in arthritis alliance with GlaxoSmithKline. Together with milestones achieved for other compounds in the alliance, Galapagos receives €5.7 million from GSK.
- 23 February: Galapagos successfully completes Phase I clinical trials for rheumatoid arthritis candidate drug GLPG0259. The results from the trials support scheduling a Phase II study in 2010, where the efficacy of the novel candidate drug will be assessed in RA patients.
- 5 March: Galapagos reports record revenues of €106 million and a net profit of €3 million for 2009. Management reiterates guidance for Group revenues of at least €135 million, with profitability and a positive operating result and cash flow.
- 19 March: Galapagos announces details on its orphan disease strategy, with cystic fibrosis as the first program.

Consolidated Financial Statements

GALAPAGOS NV

STATUTORY AUDITOR'S REPORT TO THE SHAREHOLDERS' MEETING ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

To the shareholders

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

Unqualified audit opinion on the consolidated financial statements

We have audited the accompanying consolidated financial statements of GALAPAGOS NV ("the company") and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium. Those consolidated financial statements comprise the consolidated balance sheet as at 31 December 2009, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated balance sheet shows total assets of 143.709 (000) EUR and the consolidated income statement shows a consolidated profit for the year then ended of 3.010 (000) EUR.

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

Consolidated Financial Statements

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

In accordance with these standards, we have performed procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. We have assessed the basis of the accounting policies used, the reasonableness of accounting estimates made by the company and the presentation of the consolidated financial statements, taken as a whole. Finally, the board of directors and responsible officers of the company have replied to all our requests for explanations and information. We believe that the audit evidence we have obtained, provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the group's financial position as of December 31, 2009, and of its results and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU and with the legal and regulatory requirements applicable in Belgium

Additional comments and information

The preparation and the assessment of the information that should be included in the directors' report on the consolidated financial statements are the responsibility of the board of directors.

Our responsibility is to include in our report the following additional comments and information which do not change the scope of our audit opinion on the consolidated financial statements:

- The directors' report on the consolidated financial statements includes the information required by law and is in agreement with the consolidated financial statements. However, we are unable to express an opinion on the description of the principal risks and uncertainties confronting the group, or on the status, future evolution, or significant influence of certain factors on its future development. We can, nevertheless, confirm that the information given is not in obvious contradiction with any information obtained in the context of our appointment.
- We draw your attention to note '2. Valuation rules' of the consolidated financial statements, which describe the valuation rules and the changes to the valuation rules. Galapagos has changed the presentation of the R&D incentives. This change is also reflected in the comparative figures for 2008.

Diegem, 29 March 2010

The statutory auditor

DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises

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

Represented by Gert Vanhees

Non-consolidated financial statements

Statutory accounts

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

The Statutory Auditor has signed an unqualified opinion relating to the statutory accounts of Galapagos NV for the year ended 31 December 2009.

GALAPAGOS NV STATEMENT OF PROFIT AND LOSS

Thousands of € on 31 December	2009	2008
Turnover	51,942	31,145
Other operating income	7,056	5,018
Operating income	**58,998**	**36,163**
Raw materials, consumables and goods for resale	-3,404	-3,557
Services and other goods	-50,111	-32,156
Remuneration, social security costs and pensions	-8,225	-7,179
Depreciation, impairment and other amounts written off on constitution costs, intangible and tangible assets	-1,397	-1,070
Other operating charges	-3,409	-1,710
Operating profit/loss (-)	**-7,548**	**-9,509**
Finance income	484	2,267
Finance cost	-319	-2,384
Result on ordinary activities before taxes	**-7,383**	**-9,626**
Extraordinary income		
Extraordinary cost	-21	-6,297
Result before taxes	**-7,404**	**-15,923**
Taxes		
RESULT FOR THE YEAR	**-7,404**	**-15,923**
Loss brought forward	-60,907	-44,984
Result to be carried forward	**-68,311**	**-60,907**

GALAPAGOS NV BALANCE SHEET ON DECEMBER 31

ASSETS

Thousands of €, on 31 December	2009	2008
Non-Current Assets	**77.294**	**77.852**
Intangible assets	1,556	1,463
Property, plant and equipment	3,331	3,983
Financial fixed assets	72,406	72,406
Current Assets	**64,465**	**39,774**
Inventories	207	241
Trade and other receivables	27,489	25,496
Cash and cash equivalents	36,769	14,037
Total Assets	**141,759**	**117,626**

EQUITY AND LIABILITIES

Thousands of €, on 31 December	2009	2008
Equity	**108,353**	**96,396**
Share capital and reserves	127,723	114,995
Share premium account	48,941	42,308
Accumulated losses	-68,311	-60,907
Liabilities	**33,406**	**21,230**
Non-Current Liabilities	**863**	**1,575**
Obligations under finance lease (non-current)	780	891
Other liabilities	83	684
Current Liabilities	**32,542**	**19,655**
Trade and other payables	24,708	18,196
Obligations under finance lease (current)	160	187
Tax, payroll and social security liabilities	1,405	1,272
Other liabilities	6,270	
Total Equity & Liabilities	**141,759**	**117,626**

Glossary

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

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

Attrition rate
The historical success rate for drug discovery and development, based on publicly known development paths. Statistically seen, investment in at least 12 target-based programs is required to ensure that at least one of these will reach a Phase III study. Most new drug R&D programs are discontinued before reaching Phase III because they are not successful enough to be approved.

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

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

Black&Scholes model
A mathematical description of financial markets and derivative investment instruments that is widely used in the pricing of European options and warrants

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

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

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

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

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

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

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

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

Contract research organization
Organization which provides drug discovery and development services

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

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

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

Discovery
Process by which new medicines are discovered and/or designed. At Galapagos, this is the department that oversees target and drug discovery research through to nomination of pre-clinical candidates.

Disease-modifying
Addresses the cause of disease and modifying the disease progression, not just the symptoms of the disease

Downstream milestones
The downstream milestones are for success at key decisions making points in the alliance, i.e. selection of a pre-clinical

candidate, start of a clinical research study, regulatory filings and approvals, and achievement of commercial sales goals. As of the date of this report, Galapagos is eligible to receive in excess of €3 billion in downstream milestones from its alliance partners. This amount was calculated based on the negotiated milestones with each partner, also taking into account that at least 12 target-based programs will be pursued and that industry average attrition rates will be achieved.

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

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

Efficacy
Effectiveness for intended use

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

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

FTE
Full-time equivalent; a way to measure a worker's involvement in a project. For example, an FTE of 1.0 means that the equivalent work of one full-time worker was used on the project.

GLPG0187
Galapagos candidate drug being developed for treatment of cancer metastasis

GLPG0259
Galapagos candidate drug being developed for treatment of rheumatoid arthritis. This compound is in Galapagos' internal RA program, which is part of an option agreement with Janssen Pharmaceutica

GLPG0555
First candidate drug from Galapagos' arthritis alliance with GlaxoSmithKline

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

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

In-/out-licensing
Receiving/granting permission from/to another company or institution to use a brand name, patent, or other proprietary right, in exchange for a fee or royalty

Intellectual property
Creations of the mind that have commercial value and are protected by patents, trademarks or copyrights

Intersegment
Occurring between the different operations of a company

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

Metabolic disease
Group of diseases that involve metabolism, the process of converting food to energy. For Galapagos' alliance with Merck, this includes the conditions: diabetes, obesity and atherosclerosis.

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

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

Mode-of-action
The specific way a (candidate) drug works in the body

Molecule collections
Chemical libraries, usually consisting of drug-like small molecules that are designed to interact with specific target classes. These collections can be screened against a target to generate initial "hits" in a drug discovery program.

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

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

Glossary

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

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

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

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

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

Outsourcing
Contracting work to a third party

Pharmacokinetics (PK)
Study of what a body does to a drug; the fate of a substance delivered to a body

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

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

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

Pre-clinical
Stage of drug research development, undertaken prior to the administration of the drug to humans. Consists of in vitro and in vivo screening, pharmaco- kinetics, toxicology, and chemical upscaling.

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

Puttable instrument
A financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset. The amount payable upon redemption is determined based on an index or other item that has the potential to increase and decrease.

R&D operations
Research and development operations; unit responsible for discovery and developing new candidate drugs for internal pipeline or as part of risk/reward sharing alliances with partners

Rheumatoid arthritis (RA)
A chronic, systemic inflammatory disease that causes joint inflammation, and usually leads to cartilage destruction, bone erosion and disability

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

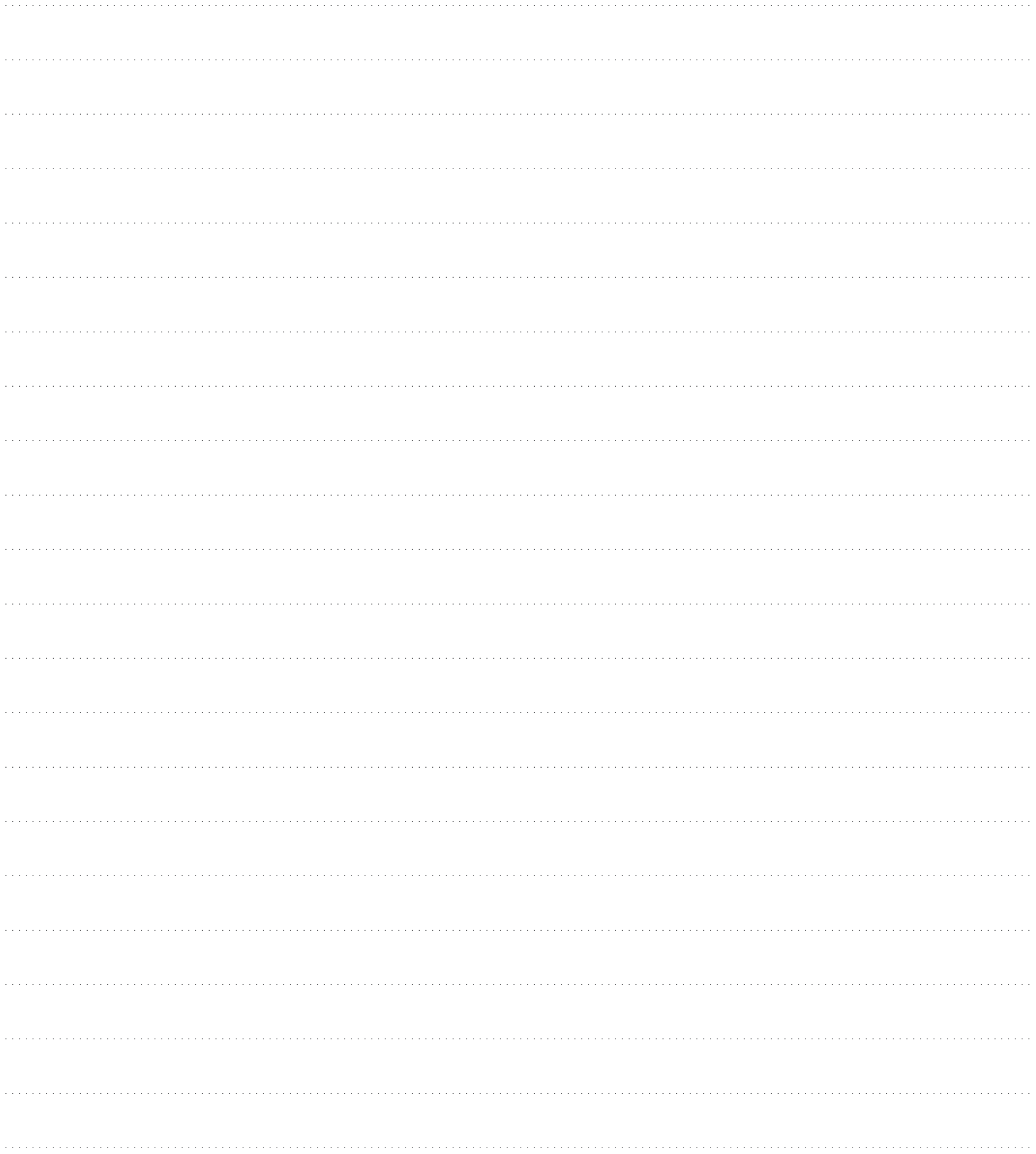
SilenceSelect®
Galapagos' proprietary collection of arrayed adenoviruses, effective in knock-down human genes in primary cells to identify novel drug targets. This technology forms the basis of Galapagos' target discovery engine.

Target
Protein that has been shown to be involved in a disease process and forms the basis of therapeutic intervention or drug discovery

Target discovery
Identification and validation of proteins that have been shown play a role in a disease process

Notes

Notes



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