Prospectus dated 14 April 2005

Galápagos

(a limited liability company incorporated under Belgian law with its registered office in Mechelen, Belgium)

Offering of up to €35 million in newly issued Shares
and
82,562 Shares newly issued after the exercise of warrants

This document constitutes a Prospectus for purposes of an offering of Shares (the Offering) and for the listing of all Shares in the capital of Galapagos NV (the Issuer) on the Eurolist by Euronext Brussels NV and Euronext Amsterdam NV. The Offering consists of a public offering in Belgium and the Netherlands and an international private placement.

The Offering comprises up to €35 million in newly issued Shares (the Base Shares) and 82,562 Shares newly issued after the exercise of warrants resulting in proceeds of €380,372 for the Issuer prior to the Closing Date of the Offering (together with the Base Shares, the Offer Shares). In relation to the Offering, the Issuer has granted an Over-allotment Option to KBC Securities NV and Kempen & Co Corporate Finance BV (together the Lead Managers), exercisable until 30 calendar days after the Listing Date to purchase up to an additional €5.25 million in newly issued Shares (the Over-allotment Shares) at the Offer Price, to cover over-allotments, if any. The listing comprises all existing and newly issued Shares, including all Shares that may be issued through the exercise of warrants pursuant to the existing warrant plans (Warrant Plans 1999 and 2002).

THE OFFERING AND SALE OF THE OFFER SHARES ARE SUBJECT TO CERTAIN RESTRICTIONS. See "*Important information, Selling restrictions*", beginning on page 4. INVESTING IN THE SHARES INVOLVES A HIGH DEGREE OF RISK. See "*Risk factors*" beginning on page 20. Due to its accumulated historical losses the Issuer is currently in a financial situation requiring compliance with the procedure set forth in article 633 of the bcc. It is expected that this situation will continue in light of the expected future losses.

Offer Price: € [ ] per Share

Before the Offering, there has been no public market for the Shares. The Price Range of the Offer Price and the maximum number of Offer Shares will be announced before the beginning of the Subscription Period. This announcement is expected to be made on 15 April 2005. The definitive Offer Price and the number of Offer Shares will be determined following the end of the Subscription Period and are expected to be announced on 29 April 2005 in a press release, an advertisement in the Daily Official List of Euronext Amsterdam NV (*Officiële Prijscourant*) and in one or more national newspapers in Belgium and the Netherlands, and in the Final Prospectus expected to be published only in the Netherlands before the Closing Date.

Subscription is open from 18 April 2005, as of 09.00 hrs CET, until 28 April 2005, 16.00 hrs CET. The Lead Managers reserve the right to close the Subscription Period at an earlier or later date and time. The Lead Managers reserve the right to change the Price Range of the Offer Price prior to the end of the Subscription Period, in which case such change will be announced in a press release, an advertisement in the Daily Official List and in one or more national newspapers in Belgium and the Netherlands, and in which case the Subscription Period will continue (at least) two Banking Days and investors may revise their orders.

Application has been made to list all existing and newly issued Shares, including all Shares that may be issued through the exercise of warrants pursuant to the existing warrant plans (Warrant Plans 1999 and 2002) on the Eurolist by Euronext Brussels NV and Euronext Amsterdam NV under the respective symbols GLPG and GLPGA. Allotment on the basis of subscription is expected to take place on 29 April 2005. It is expected that trading in the Shares will commence on or about 2 May 2005 and that the Offer Shares and if relevant, the Over-allotment Shares, will be delivered to purchasers on or about 4 May 2005 through the book-entry facilities of the Belgian central securities depository, as well as through Euroclear Bank SA/NV, as operator of the Euroclear System (Euroclear) and Clearstream Banking SA, Luxembourg (Clearstream), all in accordance with their normal settlement procedures applicable to equity securities. After the Closing Date the delivery of the Shares will be made available within the Netherlands central securities depository, Euroclear Nederland. All of the Shares will be in bearer form represented by a single global certificate lodged with the Inter-professional Securities Depositing Trust (CIK) in Belgium for safekeeping on behalf of those persons entitled to the Shares.

As of the Listing Date until the envisaged Closing Date, the Shares will be listed and traded on Euronext Brussels and Euronext Amsterdam on an "as-if-and-when-issued" basis. Investors should be aware that entering into transactions on this basis involves risks. See "*Risk factors*" and "*The Offering, listing and first trading*".

This Prospectus does not, other than under the Offering, constitute an offer to sell, or an invitation to purchase or subscribe for securities in the United States or in any State or jurisdiction other than Belgium and the Netherlands. The Shares have not been and will not be registered under the US Securities Act of 1933, as amended (the Securities Act), or with any securities regulatory authority of any State of the United States and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act (and applicable State securities laws).

Unless the context shows differently, capitalized words and expressions have the meaning as described in "*Glossary and definitions*".

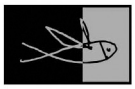
Lead Managers

KBC Securities **Kempen & Co**

Co-Manager
Fortis Bank

Selling Agent
KBC Bank

Prospectus dated 14 April 2005



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This Prospectus does not, other than under the Offering, constitute an offer to sell, or an invitation to purchase or subscribe for securities in the United States or in any State or jurisdiction other than Belgium and the Netherlands. The Shares have not been and will not be registered under the US Securities Act of 1933, as amended (the Securities Act), or with any securities regulatory authority of any State of the United States and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act (and applicable State securities laws).

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Lead Managers

KBC Securities **Kempen & Co**

Co-Manager
Fortis Bank

Selling Agent
KBC Bank

IMPORTANT INFORMATION

Responsibility for the Prospectus

The Issuer, represented by its Board of Directors, assumes responsibility for the completeness and accuracy of this Prospectus. The Issuer confirms that, to the best of its knowledge, the information contained in this Prospectus is true and accurate in all material respects, and that no information has been omitted which makes the information in this Prospectus misleading in any material respect.

Raj Parekh	Onno van de Stolpe
Chairman	Managing Director

Potential investors should rely only on the information contained in this Prospectus. Neither the Issuer, nor any of the Syndicate Members have authorized anyone to provide potential investors with information that differs from that contained in this Prospectus. The information contained in this Prospectus is true and accurate only at of the date set forth on the cover page of this Prospectus. In no circumstances shall the issue of this Prospectus imply that at any time after the date of this Prospectus the situation of the Company has remained unchanged since the date of this Prospectus, nor that the information included in this Prospectus would be true and accurate at any time after this date.

If a matter arises that may have a substantial impact on the assessment by the public of the Offering, after the BFIC and Euronext Amsterdam have approved the Prospectus but before the Closing Date, the Issuer will complete the information included in this Prospectus by means of notice in one or more national newspapers in Belgium and the Netherlands, the Daily Official List or any other admitted means of notice. This additional information will be subject to approval by the BFIC and Euronext Amsterdam. If the Issuer does not provide additional information relating to such matter, the BFIC and Euronext Amsterdam may suspend the Offering until such matter has been made public.

The consolidated annual accounts of the Issuer as at and for the years ending on 31 December 2002, 2003 and 2004, drawn up in accordance with the International Financial Reporting Standards (IFRS), have been audited by the statutory auditor Deloitte & Partners Bedrijfsrevisoren, Louizalaan 240, 1050 Brussels, Belgium, represented by Mr. Geert Verstraeten and Mr. Gert Vanhees. The auditor approved these annual accounts without reservation but with an explanatory paragraph to explain that the accounts were drawn up assuming that the Issuer would continue as a going concern, despite the fact that the Issuer had incurred substantial losses, which affected its financial situation. The auditor states that this assumption is justified only to the extent that the Issuer will continue to receive the financial support of its shareholders or is able to raise additional funding from other sources. The auditor's report on the consolidated annual accounts for the years ending on 31 December 2004, 2003 and 2002 is included in "*Index to consolidated financial information*".

The statutory annual accounts of the Issuer as at and for the years ending on 31 December 2002, 2003 and 2004, drawn up in accordance with the Belgian Generally Accepted Accounting Principles (Belgian GAAP), have been audited by the statutory auditor Deloitte & Partners Bedrijfsrevisoren, Louizalaan 240, 1050 Brussels, Belgium, represented by Mr. Geert Verstraeten and Mr. Gert Vanhees. The auditor approved these annual accounts without reservation but with an explanatory paragraph to explain that the accounts were drawn up assuming that the Issuer would continue as a going concern, despite the fact that the Issuer had incurred substantial losses, which affected its financial situation. The auditor states that this assumption is justified only to the extent that the Issuer will continue to receive the financial support of its shareholders or is able to raise additional funding from other sources.

Certain financial and statistical information in this Prospectus has been subject to rounding adjustments and to currency conversion adjustments. Accordingly, the sum of certain data may not be equal to the expressed total.

Unless the context otherwise requires, the terms “we”, “us” and “our” used in this Prospectus refer to the Issuer and its subsidiary.

Approval of the Prospectus

On 12 April 2005, the BFIC approved this Prospectus in accordance with Article 14 of the Belgian Law of 22 April 2003 concerning the public offerings of securities. On 14 April 2005, Euronext Amsterdam approved this Prospectus. The BFIC’s approval and Euronext Amsterdam’s approval do not imply any judgment on the merits or the quality of the Offering, the Shares or the Issuer, and neither do they render judgment on the position of the persons undertaking the Offering. The Issuer has arranged for a Dutch translation of the English-language Prospectus and takes responsibility for consistency between the texts in these Dutch and English versions. For the public offering in Belgium, the Dutch-language version alone is legally binding. For the public offering in the Netherlands and for the private placement with institutional investors, the English-language version alone is legally binding.

The Offering and this Prospectus have not been submitted for any kind of approval to regulatory authorities outside of Belgium and the Netherlands.

Posting this Prospectus on the internet does not constitute any offering, or an invitation to purchase negotiable securities. The text of this Prospectus can only be accessed through the websites referred herein. An electronic version may not be reproduced, or made available in any place or be printed for the purpose of circulation. The Prospectus is only legally valid in the original, printed version that is distributed, in accordance with the applicable regulations.

Legal publications

The notice required by Article 13, §1 of the aforementioned Belgian Law of 22 April 2003 will be published in the Belgian national press on 16 April 2005. All publications with regard to the Offering will be announced in a press release, in an advertisement in the Daily Official List and in one or more national newspapers in Belgium and the Netherlands.

Selling restrictions

The Offering and distribution of this Prospectus may be restricted by law in certain jurisdictions. The Issuer does not represent that the Prospectus may be lawfully distributed in jurisdictions outside Belgium and the Netherlands or that the Offer Shares may be lawfully offered in compliance with any applicable registration or other requirements in a jurisdiction outside Belgium and the Netherlands, or pursuant to any exemption available thereunder. Neither the Issuer nor the Syndicate Members assume any responsibility for such distribution or offering. Those who receive this Prospectus are required to inform themselves and to observe any applicable laws of any relevant jurisdiction including obtaining any requisite, governmental or other approval. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

No action has been (or will be) taken other than in Belgium and the Netherlands to permit an offering in any jurisdiction where action would be required for that purpose. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither the Prospectus nor any advertising or other Offering material may be distributed or published in any jurisdiction outside Belgium and the Netherlands, except in circumstances that will result in compliance with any applicable laws and regulations. This Prospectus does not constitute an offer to sell any of the Shares to, or a solicitation of an offer to buy any of the Offer Shares from, any person in any jurisdiction in which it is unlawful to make such offer or solicitation to such person. No initiatives, which would render this Offering public, may therefore be taken outside Belgium and the Netherlands.

In particular, the Offer Shares have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to US persons, except to certain persons in offshore transactions under Regulation S of the Securities Act. The Offer Shares have

not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Offer Shares or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

This Prospectus may not be supplied to the public in any jurisdiction outside Belgium and the Netherlands in which any registration, qualification or other requirements exist or would exist in respect of any public offering of the Offer Shares and, in particular, may not be distributed to the public in the United States, Canada, Japan, Australia or the United Kingdom. Any failure to comply with these restrictions may constitute a violation of US, Canadian, Japanese, Australian or UK securities laws or the securities regulations of other jurisdictions.

No Offer Shares should be offered or sold to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995. The Lead Managers should only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (FSMA)) received by it in connection with the issue or sale of any Offer Shares in circumstances in which section 21(1) of the FSMA does not apply to the Issuer and should comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Offer Shares in, from or otherwise involving the United Kingdom.

Decision to invest

In making an investment decision, investors must rely on their own examination of the Issuer and the terms of the Offering, including the merits and risks involved.

The contents of this Prospectus are not to be construed or interpreted as legal, financial, business or tax advice. Each prospective investor should consult his or her own legal, financial, business and tax advisers as to legal, financial, business or tax advice regarding an investment in the Shares, before making any investment decision and in order to determine whether or not as a prospective investor, he or she is legally permitted to purchase the Shares under applicable laws and regulations.

The Company has a limited operating and financial history upon which prospective investors may evaluate its business and prospects. Purchasers of the Shares should be aware that they may be required to bear the financial risk of their investment for an indefinite period of time. Any person into whose possession this Prospectus may come, is in particular advised to refer to “Risk Factors” in this Prospectus, which chapter identifies certain significant risks and should be read carefully by prospective investors.

The Offer Shares have not been recommended by any federal or state securities commission or regulatory authority in Belgium, the Netherlands or anywhere else. In the event of any doubt about the contents or the meaning of the information contained in this Prospectus, investors should consult an authorized or professional person who specializes in advising on the acquisition of financial instruments.

Role of the Syndicate Members

The Syndicate Members are acting exclusively for the Issuer and for no one else in relation to the Offering, the issue and listing of the Shares, and will not be responsible to anyone other than the Issuer for giving advice in relation to the Shares. The Syndicate Members or any of their affiliates may from time to time have a holding in, or may provide advice or other investment or commercial banking services in relation to, or engage in transactions involving securities in, the Issuer. They will receive customary fees and commissions for these transactions and services.

In connection with the Offering, the Lead Managers, their affiliates or their agents may, as of the Listing

Date until 30 calendar days after the Listing Date, effect transactions on Euronext Brussels, on Euronext Amsterdam, in the over-the-counter market or otherwise with a view to stabilize or maintain the market price of the Shares at levels other than those which might otherwise prevail in the open market. However, there is no obligation for the Lead Managers to do so. Such stabilization, if commenced, may be discontinued at any time and will in any event be discontinued 30 calendar days after the Listing Date.

If the Lead Managers create a short position in the Shares in connection with the Offering, they may reduce that short position by purchasing Shares in the open market. Purchases of Shares to stabilize the market price or to reduce a short position may cause the market price of the Shares to be higher than it might be in the absence of such purchases. None of the Issuer or any of the Lead Managers makes any representation or prediction as to the direction or the magnitude of any effect that the transactions described above may have on the market price of the Shares.

The Lead Managers may also elect to reduce any short position by exercising all or part of the Over-allotment Option, which the Issuer has granted to the Lead Managers. This option is exercisable as of the Listing Date until 30 calendar days after the Listing Date, and requires the Issuer to issue and offer at the Offer Price a number of Over-allotment Shares for the sole purpose of allowing the Lead Managers to cover for any over-allotments. The total number of Over-allotment Shares shall not exceed 15% of the number of Base Shares. The Issuer will create these Over-allotment Shares in an extra capital increase. The terms and conditions of the Over-allotment Option are set out in more detail in "*The Offering, Over-allotment Option and stabilization*".

The Lead Managers reserve the right to withdraw the Offering at any time until the Closing Date. In case of such withdrawal, all subscriptions will be disregarded and any subscription payments made, will be returned without interest or other compensation.

Available information

The Prospectus is available in English and Dutch. This Prospectus will be made available to investors at no cost at the registered office of the Issuer, Generaal De Wittelaan L11/A3, 2800 Mechelen, Belgium, and at the counters of the Lead Managers. Subject to certain conditions, this Prospectus is also available via the internet on the following websites: www.glpg.com and www.kbcsecurities.be. Copies of the Prospectus can also be requested via the email address documents@kempen.nl.

Copies of the Articles of Association and the financial statements of the Issuer are available to investors at no cost at the registered office of the Issuer in Belgium (Generaal De Wittelaan L11/A3, 2800 Mechelen) and at the registered office of Galapagos Genomics in the Netherlands (Archimedesweg 4, 2333 CN Leiden), or can be accessed at the Issuer's website at www.glpg.com.

In accordance with the legal provisions on this matter, the Issuer's standalone annual accounts, the annual report and the auditor's report are available for inspection at the National Bank of Belgium.

The Articles of Association, modifications to the Articles of Association and the special reports prescribed by the BCC may be inspected at the Clerk's office at the Commercial Court of Mechelen.

Starting from the date of this Prospectus until Closing Date of the Offering, price-sensitive information (as defined in Article 10, §1, 1°, b of the Belgian Law of 2 August 2002 on the supervision of the financial industry and the financial market and Article 28h of the Dutch Listing and Issuing Rules ("*Fondsenreglement*")), will be made available to investors by an announcement published in one or more national newspapers in Belgium and the Netherlands and a press release in accordance with the Euronext reporting and publication system and via other information providers in accordance with Article 6 of the Royal Decree of 31 March 2003 on the obligations of issuers of financial instruments admitted to trading on a Belgian regulated market.

Reference to market data

All references to market data, industry statistics and forecasts and other information in this Prospectus consist of estimates based on data and reports compiled by industry professionals, organizations, analysts, publicly available information or the Company's own knowledge of its sales and markets.

Industry publications generally state that the information they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on a number of significant assumptions. If any of these assumptions is incorrect, actual results may differ from the projections based on those assumptions. Galapagos has not independently verified this information or determined the reasonableness of such assumptions. In addition, in many cases Galapagos has made statements in this Prospectus regarding its industry and its position in the industry based on industry forecasts, market research and internal surveys as well as its experience. While these statements are believed to be reliable, they have not been independently verified.

Legislation and competent courts

This Offering is governed by Belgian law. The courts of Brussels will have exclusive jurisdiction over any dispute in connection with the Offering.

Forward-looking statements

This Prospectus contains forward-looking statements including, without limitation, statements containing the words "believes", "anticipates", "expects", "intends", "plans", "seeks", "estimates", "may", "will" and "continues" as well as similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, financial condition, performance or achievements of the Company, or industry results, to be materially different from any future results, financial conditions, performance or achievements expressed or implied by such forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "*Risk Factors*". Given these uncertainties, prospective investors are advised not to place any undue reliance on such forward-looking statements. These forward-looking statements speak only as at the date of this Prospectus. The Company expressly disclaims any obligation to update any such forward-looking statements in this Prospectus to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

A brief overview of Galapagos

Galapagos is a drug discovery company focused on finding new drugs against diseases that affect the joints and bones. This summary gives a brief introduction to Galapagos' technology and explains how its unique approach could help bring new drugs to the market.

The **human genome**, or blueprint for all of the cells in the human body, is made up of tens of thousands of genes. **Genes** are composed of **DNA** and contain the instructions for building all of the cell's proteins. **Proteins** control the structure and function of all of the cells that make up the human body. Before a cell can use the DNA to make protein, the DNA must first be re-written into **RNA**. The cell's machinery then uses the RNA to produce protein. Therefore, the process of making protein in the cell goes from DNA to RNA to protein (see the yellow box in Figure 1).

Nearly all diseases and disorders are caused by a disruption in the normal function of certain proteins. Therefore, the main goal of pharmaceutical companies is to design drugs that alter the activity of these proteins so that normal function returns and the cause of the disease is minimized or eliminated. One of the main obstacles in discovering new drugs is knowing exactly which of the body's thousands of proteins play a key role in a particular disease. Once these proteins are discovered, they become **targets** for drug design. Finding these targets is one of the critical steps in the drug discovery process.

In order to study proteins in human cells, Galapagos takes advantage of the distinctive properties of **adenoviruses**. Adenovirus is the virus that causes the common cold and has the capability to infect almost every type of human cell, which is the reason it is so contagious. The adenoviruses Galapagos works with have been engineered to act as a shuttle vehicle, allowing the delivery of specific pieces of DNA into human cells. Additionally, these viruses have been made **replication incompetent**, meaning they are unable to reproduce outside of the laboratory environment, and are therefore a safe vehicle for the delivery of DNA into human cells. Figure 1 shows how the viruses deliver these pieces of DNA into human cells in the laboratory, causing the cells to either make more of a certain protein (**knock-in**) or to block the production of new protein (**knock-down**).

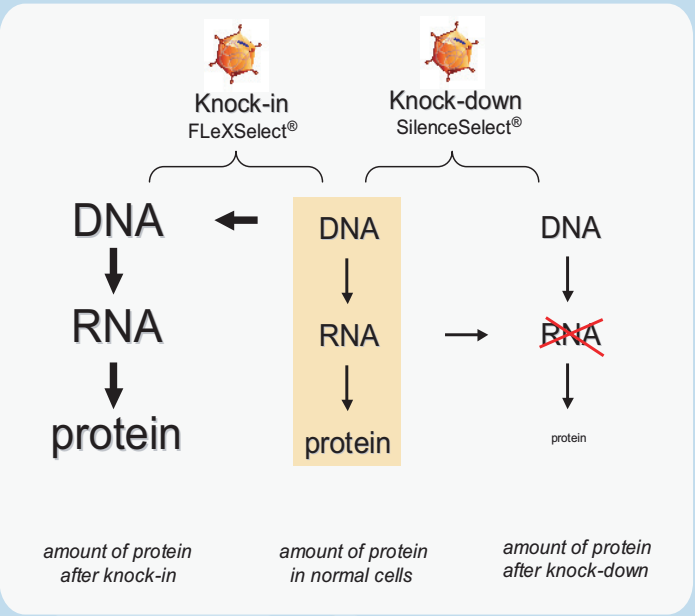

Figure 1: Comparison of a specific protein's amount before and after knock-in or knock-down.

Knock-down vs knock-in

Knock-down viruses work by making small pieces of RNA (siRNA), which bind to a specific RNA sequence that produces a particular protein. After the siRNA binds the RNA, the RNA is cut by the cell's machinery, therefore stopping the RNA from making anymore of the protein. This process is called RNA interference (RNAi) and results in a reduction in the amount of the specified protein.

For the knock-in viruses, a specific piece of DNA (which contains the instructions to produce a specific protein) is inserted into the virus. After the virus infects the cell, the cell starts to produces more of the corresponding protein.

Galapagos combines the ability to alter the amount of protein in human cells with a **high-throughput screening** method. Using this method, Galapagos is able to run many small-scale experiments simultaneously. Operating on a grid system, where each square corresponds to a small test tube with cells that have undergone a change in a specific protein, Galapagos can screen many thousands of proteins in a short period of time.

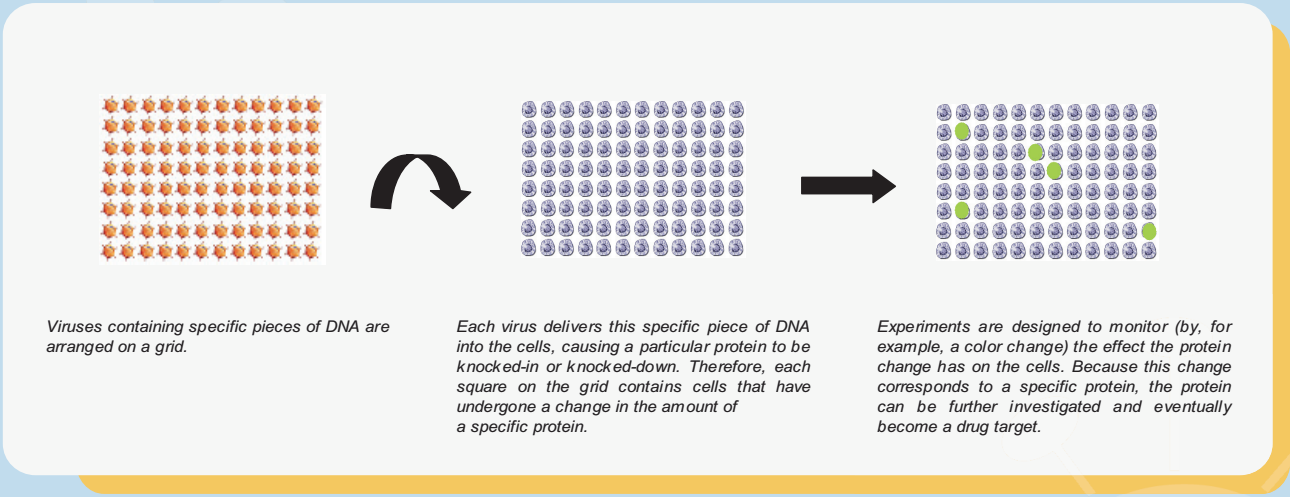

Figure 2: High-throughput screening technique: using adenoviral collections to screen human cells.

Based on their function and design, proteins are divided into several classes. Researchers in the pharmaceutical industry generally agree that certain classes of proteins respond to drugs better than other classes. These classes of proteins are referred to as **drugable** and form the basis of most drug research programs. Galapagos has constructed a focused collection of viruses that either knock-in (**FLeXSelect®**) or knock-down (**SilenceSelect®**) the drugable proteins. With these collections, Galapagos has screened human cells that are affected by diseases like osteoarthritis, osteoporosis and rheumatoid arthritis, and has identified proteins that control the disease. By further testing (validating) these proteins in more advanced studies, Galapagos has found a number of targets suitable for new drug development.

Galapagos is currently conducting drug discovery research based on the targets discovered using this technology. Once a target is validated, it is tested against large collections of chemical small molecules to identify the structures that interact (block or activate) with the target. These chemical structures are then optimized to obtain "drug-like" characteristics followed by testing of the drug candidate in the clinic. This process of drug discovery is similar to the approach taken by large pharmaceutical companies and has resulted in breakthrough medicines such as Gleevec®, a recently approved oncology product by Novartis.

Galapagos' uniqueness lies in using human cells, which gives a more realistic idea of the effect that protein might have on the disease in the human body than studying proteins in engineered cells (cell lines) and animal cells, as other companies do. Moreover, Galapagos concentrates its efforts on the drugable proteins and can efficiently screen these proteins in human cells. Galapagos believes that this unique approach to target identification and validation increases the chances of success in bringing new drugs to the market.

In addition to forming the basis of Galapagos' internal target discovery activities, these adenoviral collections and screening technologies are also available to academic institutes and pharmaceutical companies through **Galadeno**, Galapagos' services unit. Numerous partners have already applied Galapagos' technology across a number of disease areas, aiding the scientific and pharmaceutical communities to better understand the cause of disease and further progressing the development of new drugs.

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SUMMARY

This summary should be read together with, and is qualified in its entirety by, the more detailed information and the consolidated financial statements and notes thereto appearing elsewhere in the Prospectus. It should also be read together with the matters set forth under "Risk factors". This summary is not intended to be exhaustive or complete and does not contain all the information that a prospective investor should consider before making any decision with respect to the Offering.

In this Summary and the remainder of the Prospectus, Galadeno is the services business unit of the Company.

Galapagos is a biotechnology company discovering breakthrough medicines for the treatment of bone and joint diseases. We were founded in 1999 as a joint venture between Crucell and Tibotec, focused on the identification of disease modifying drug targets. We have successfully discovered and validated novel targets in the bone and joint diseases osteoarthritis, osteoporosis and rheumatoid arthritis, as well as in asthma and Alzheimer's disease. Proprietary target sets resulting from these programs are used both for our internal development programs and for early commercialization through selected out-licensing and partnering of projects during development.

Galapagos has built a unique technology platform to identify novel drug targets by their function, using collections of adenoviruses with individual human gene sequences to knock-down[1] or knock-in[2] specific human RNA in disease-mimicking cellular assays. The knock-down technology uses proprietary siRNA technology to "silence" individual genes and study the subsequent effect on human cells. SiRNA technology in general was heralded by Science Magazine as the "invention of the year" in 2002. Switching individual genes "on" or "off" enables an efficient analysis of the function of corresponding human proteins in disease processes. This information is crucial in the decision to use a selected protein as a drug target for the development of a new medicine.

We provide access to this platform through our profitable services business unit Galadeno. Galadeno has a consistent record of revenue growth and a proven track record for the discovery and validation of novel drug targets. Over the past 5 years, it has formed partnerships with leading pharmaceutical, nutraceutical and biotechnology companies.

Our strategy

Our strategy is to create an innovative drug discovery company that discovers breakthrough medicines for the treatment of bone and joint diseases. This strategy is based on disease modifying drug targets identified through functional screening in human disease models. We implement our strategy by focusing on:

- Building a profitable business unit, Galadeno;
- Building a strong intellectual property position around our technology platform and the drug targets; and
- Leveraging the targets into a pipeline of novel disease modifying drug candidates.

We believe that this combined business model of generating revenues through Galadeno and in parallel progressing drug candidates acting on our bone and joint disease targets into the clinic is the preferred road forward to create long-term value for our investors. Also, our technology platform for drug target selection has provided Galadeno with a competitive advantage in the marketplace and Galapagos with high-quality drug targets, improving the chances for successful development of novel drugs. We aim both

[1] Reduce level of expressed mRNA resulting in a decrease of the amount of the corresponding protein in the cell, an effect similar to inactivating the protein by a small molecule drug.

[2] Increase level of expressed mRNA resulting in an increase of the amount of the corresponding protein in the cell, an effect similar to activating the protein by a small molecule drug.

to progress our product candidates, and to partner selected programs at various stages during development. Any partnering will secure funding for clinical development of our own drug candidates as well as access to expertise and infrastructure. The Company anticipates that it will in-license one or more (pre-) clinical compounds in 2005 to strengthen the drug discovery pipeline and shorten the time it will take to enter the clinical development phase. This in-licensing might result in product candidates for Galapagos outside the bone and joint diseases field.

Competitive strengths

Galapagos targets multi billion markets addressing the ageing population and diseases requiring more effective drugs

In our core disease programs, we focus on the development of breakthrough medicines for the treatment of bone and joint diseases. These programs are focused on large medical markets for the ageing population with a rapidly increasing number of patients that are currently underserved: osteoarthritis, osteoporosis and rheumatoid arthritis. Historically, the underlying molecular pathology has been unclear for these diseases, and up to today we are not aware of competitive technologies that have identified targets with significant joint sparing or bone building activity, which is the opportunity and strength of Galapagos. For each of these diseases, we estimate that markets for breakthrough medicines are well over €7 billion[3]. We are progressing proprietary drug targets into drug development with the aim of bringing novel medicines into the clinic and to the market.

Galapagos' technology discovers a large number of novel targets in various disease areas

Our target discovery platform is based on adenoviruses that efficiently introduce human gene sequences into a wide variety of human cells to knock-in or knock-down specific human RNA. We use high-throughput assays that represent a selected human disease state to analyze these adenovirus collections to functionally select those proteins that have a causative effect in those models of human disease. This is a novel approach to identify and validate drug targets as it allows screening, selection and validation of disease-causing proteins in a single assay. We have successfully applied this technology in all disease areas that we have addressed. The adenoviral expression system of human gene sequences is based on Galapagos' intellectual property as well as on an exclusive license for the Crucell PER.C6 technology.
This high - throughput target discovery platform provides an important commercial advantage, as competing technologies suffer from various combinations of less efficient introduction in the cells, a short window of efficacy and high variability.

Galadeno's service activities support our drug discovery programs

We optimize the commercial benefits of the proprietary technology by also making it available to the pharmaceutical and biotechnology industry through Galadeno, which addresses the industry's demand for an efficient technology to discover and validate drug targets in human cells. Galadeno provides reagent sales of its knock-down and knock-in adenoviral collections as well as target discovery and validation services. We assist partners with the prioritization of their targets for further development. Our reagent and service offering by Galadeno is well recognized by the industry for target discovery and provides our partners with tools to discover high-quality drug targets, protein therapeutics, antibody targets, diagnostic markers as well as nutraceutical ingredients. The uniqueness of our approach is exemplified by service arrangements and reagent deals with leading biotech and pharmaceutical companies.
Galadeno's service activities provide several advantages to the Company's drug discovery activities:

- Galadeno's revenue is rapidly growing and the division is cash flow positive, funding the drug discovery activities in part;

[3] Sources: Company estimates based on Datamonitor Market Research, "Global Overview Arthritis", January 2004 and Scrip reports, "Osteoporosis management: An analysis of market dynamics and future treatments", May 2003.

- Galadeno consistently delivers novel targets in Galapagos' own disease areas; and
- Galadeno's contacts with pharmaceutical clients facilitate access for Galapagos' drug discovery programs.

Galapagos partners with leading pharmaceutical companies to bring the realization of value forward

Galapagos and Galadeno have partnered with a large number of leading pharmaceutical and biotech companies such as AstraZeneca, Bayer, Boehringer Ingelheim, Celgene, Exelixis, GlaxoSmithKline, Johnson & Johnson, Pfizer, Procter&Gamble, Vertex and Wyeth. Through their alliances with us, they obtain access to our technologies in defined disease areas. The non-exclusive partnerships have enabled us to leverage our technology and targets without limiting our own product development nor the ability to sign on additional partners. On certain deals, we have received upfront license fees and technology access payments, research funding and milestone payments, and we anticipate further research funding and milestone payments from several of these partnerships.

Galapagos has experienced management and committed investors

Galapagos has experienced management with considerable research and development, commercial and operational expertise and experience. Our management has a background in the pharmaceutical and biotechnology industries and brings the necessary experience both to progress our targets to the clinic and to successfully expand the Galadeno service business. Galapagos' directors, management team and other employees show their commitment to the Company by their warrant position of 12.5% of the fully diluted share capital as well as the acceptance by the directors and management team of a lock-up agreement.
Our Pre-IPO Shareholders have continued their strong commitment to the Company by entering into a lock-up agreement with the Lead Managers, in principle expiring 24 months after the Listing Date.

Selected key financial data in accordance with IFRS

Thousands of EUR / year ended 31 December	2004	2003	2002
Total revenues	**7,777**	**6,472**	**5,710**
Cost of goods & services sold	-1,288	-1,166	-1,256
R&D costs	-5,443	-5,378	-4,100
Other operating costs	-4,654	-4,595	-4,583
Operating results	**-3,608**	**-4,667**	**-4,229**

Table 1: Selected key financial data

Our revenues over the last 2 years increased by 36% and originated from strategic partnerships, milestone payments, contract research activities as well as reagent sales and grants and subsidies. In 2004, grants and subsidies represented 31% of the total revenues. In the future, the absolute amount and relative contribution of grants and subsidies are expected to decrease.Our R&D costs reflect our expenditure in our core disease programs and further development of the technology platform. We ended 2004 with €10.3 million in cash.

Historical losses on the statutory accounts

According to our statutory accounts per 31 December 2004, net assets amount to €9.9 million, which is below half of our share capital due to historical losses suffered. Therefore, the Board of Directors has on 6 April 2004 drawn up, in accordance with article 633 of the BCC, a report confirming its belief that a going-concern approach was justified. This report was incorporated in the statutory annual report 2003 and approved by the General Shareholders Meeting. We expect that the net proceeds of the Offering will fulfill the Issuer's need for capitalization, even though the accumulated losses at 31 December 2004 of €22.5 million were not incorporated in the statutory capital prior to the Offering. Assuming full subscription of the capital increase, it is expected that the Issuer's net assets will again fall below half of its share capital between 1 and 2 years after the closing of the Offering, upon which the procedure according to article 633 BCC will require the Shareholders Meeting to decide upon the continuation or cessation of the activities.

We estimate that, assuming full subscription of the capital increase and assuming the Shareholders Meeting decides positively on the continuation of the activities if and when the net assets fall below half of the Issuer's share capital, the net proceeds from the Offering will be sufficient to support our current operating plan in the ordinary course of business through at least the next three years, after which period an additional increase of the capital may be required to sustain our growth.

Outlook

In the next three years Galapagos intends to:

- Become a leader in the discovery of novel mechanism-of-action based therapies for bone and joint diseases;
- Maintain a prominent position in target discovery and validation through Galadeno;
- Increase the revenue base by partnering, reagent sales and services;
- Build the research and development capacity, capable of delivering one clinical candidate and two pre-clinical candidates per year from 2007 onwards;
- In-license pre-clinical compounds to strengthen the development pipeline resulting in a clinical molecule in 2006; and
- Out-license the intellectual property, including the drug targets, of the Alzheimer's disease program.

Risks

Our business is subject to a number of risks of which potential investors should be aware before making an investment in our Company. The risks are discussed in detail in "*Risk factors*". We are an early stage discovery company, and our targets and drug discovery programs are in early stage of development. We do not have any products in clinical or pre-clinical development, while industry experience learns that even after reaching the clinical development stage it takes more than 4 years before a drug becomes available on the market. It is also possible that we may never successfully develop or commercialize any of our product candidates or become profitable. As of 31 December 2004, we had an accumulated consolidated deficit of approximately €21.2 million since our inception and we will continue to incur net losses over the next several years. Consequently, we do not expect to be able to pay dividends in the next several years.

The Offering

Issuer	Galapagos NV.
Offering	Up to €35 million in Base Shares, 82,562 Shares newly issued after the exercise of warrants and up to €5.25 million in Over-allotment Shares. The Offering consists of two tranches: • Retail Tranche: a public offering to retail investors in Belgium and the Netherlands representing a maximum of 20% of the Offering; and • Institutional Tranche: a private placement with institutional investors in Belgium, the Netherlands and internationally, representing at least 80% of the Offering.
Over-allotment Option	The Issuer has granted the Lead Managers an Over-allotment Option, exercisable as of the Listing Date until 30 calendar days after the Listing Date, to require the Issuer to issue and offer at the Offer Price up to €5.25 million in Over-allotment Shares for the sole purpose of allowing the Lead Managers to cover for over-allotments, if any. The total number of Over-allotment Shares shall not exceed 15% of the number of Base Shares. The Issuer will create these Over-allotment Shares by way of an additional capital increase.
Subscription Period	Subscription is open from 18 April 2005, as of 09.00 hrs CET, until 28 April 2005, 16.00 hrs CET. The Lead Managers reserve the right to close the Subscription Period at an earlier or later date and time. The Subscription Period will be open for at least 6 Banking Days.
Offer Price	The Offer Price will be determined through a bookbuilding procedure with institutional investors within a variable Price Range that is expected to be be announced on 15 April 2005. The Offer Price is expected to be announced on 29 April 2005 (subject to early closing of the Subscription Period), in a press release, in the Daily Official List, in the Final Prospectus expected to be published only in the Netherlands before the Closing Date and in one or more national newspapers in Belgium and the Netherlands. The Offer Price will be a single price in Euro, applicable to all investors. Although the Price Range will be variable and can thus be changed during the Subscription Period, the price paid for the Offer Shares by retail investors will never exceed the upper end of the initial Price Range as announced on 15 April 2005.
Allotment	Allocation will be made at the end of the Subscription Period by the Lead Managers after consultation with the Issuer. Allocation between retail and institutional investors will be based on the size of both tranches (80% institutional, 20% retail), but a clawback mechanism is foreseen in case the Retail Tranche would not be fully subscribed. In case of over-subscription, the allocation to retail investors will be made on the basis of an objective allocation key, that will be identical for all retail investors in Belgium and the Netherlands, except for the priority allocation to Employees of the Company and the potential preferential treatment of subscriptions submitted at the branches of the Syndicate Members. With regard to the allocation to retail investors, the moment of subscription will not be relevant for the (size of) the allocation.

Payment, settlement and delivery

It is expected that payment for and delivery of the Offer Shares will be made in book-entry form through the facilities of CIK, Euroclear and Clearstream, all in accordance with their normal settlement procedures applicable to equity securities, on the Closing Date. After the Closing Date the delivery of the Shares will be made available within the Netherlands central securities depository, Euroclear Nederland.
The Offer Price must be paid by investors together with any stock exchange tax, if applicable.

Closing Date

The date on which the realization of the Offering will be established by the Board of Directors, also the date upon which payment for and delivery of the Offer Shares and over-allotted Shares, if any, will be made. This date will be published in one or more national newspapers in Belgium and the Netherlands together with the announcement of the Offer Price and the results of the Offering, and is expected to be 4 May 2005.

Lock-up agreement

The Pre-IPO Shareholders, the members of the Board of Directors and the members of the Executive Committee have agreed with the Lead Managers and Galapagos that none of them will offer, sell, and contract to sell or otherwise dispose of Shares for a period of 2 years from the Listing Date, unless the Lead Managers consent thereto, all in accordance with the applicable Euronext Amsterdam rules. See "*Principal shareholders and lock-up agreements*".

Use of proceeds

The gross proceeds to the Issuer from the Offering are expected to be in the range of €35 to €40.25 million, and will be used for research and development, working capital, capital expenditure, acquisitions if and when they present themselves and general corporate purposes. See "*Use of proceeds*".
The proceeds of the 82,562 Shares newly issued after the exercise of warrants will be paid to the warrant holders who offered these Shares in the Offering, net of the exercise price of their warrants in total amounting to €380,372 which will be paid to the Issuer.

Dividends

The Offer Shares are entitled to dividends declared, if any, in respect of profits of the financial year starting 1 January 2005 and subsequent years.

Security codes

ISIN:	BE0003818359
Security Code:	3818.35 (Belgium)
	35840 (Netherlands, *Fondscode*)
Euronext Symbol:	GLPG on Euronext Brussels
	GLPGA on Euronext Amsterdam

Timetable

The following dates are all envisaged dates, barring any unforeseen circumstances:

15 April 2005	Announcement of the Price Range
18 April 2005, 09.00 hrs CET	Start of Subscription Period
28 April 2005, 16.00 hrs CET	End of Subscription Period
29 April 2005	Allocation Date and announcement of the Offer Price
30 April 2005	Announcement of the allocation key for retail investors
2 May 2005	Listing Date and start of trading
4 May 2005	Closing Date

RISK FACTORS

The Shares that the Issuer is offering through this Prospectus involve substantial risk. Before making an investment in the Shares, you should carefully read this entire Prospectus and should give particular attention to the following risk factors. The risks that Galapagos now foresees might affect it to a greater or different degree than it currently expects. There are a number of important factors that could cause the Company's actual results to differ materially from those indicated by the forward-looking statements contained in this Prospectus. These factors include, without limitation, the risk factors listed below and other factors presented throughout this Prospectus. The risk factors listed below do not appear in any particular order.

Risks related to the Company's business

The success of the Company is uncertain due to its limited operating history, its history of operating losses and the uncertainty of future profitability.

Due in large part to the significant research and development expenditures required to identify and validate new drug targets, the Company has not been profitable and has generated operating losses since its incorporation in 1999. Currently, Galapagos' revenues are generated by its business unit Galadeno as well as by its business unit drug discovery. The combined revenue is insufficient to generate profits. As of 31 December 2004, the Company had an accumulated consolidated deficit of approximately €21.2 million and a deficit on the statutory accounts of €22.5 million. These losses were not incorporated into the share capital prior to the Offering and will therefore remain on the balance sheet. Galapagos expects to incur losses for at least the next several years and expects that these losses will actually increase as it expands its research and development activities, incurs significant pre-clinical, clinical and testing costs and possibly expands its facilities. Moreover, the Company's losses are expected to continue even if its current research projects are able to successfully develop novel drug candidates. If the time required to generate revenues and achieve profitability is longer than anticipated or if the Company is unable to obtain necessary capital, it may not be able to fund and continue its operations. Galapagos is unable to predict when, or if, it will achieve and maintain profitability.

The Company will need additional capital in the future to sufficiently fund its operations and research.

Galapagos will require additional financing in the future to fund its operations. The Company's operations require significant additional funding in large part due to its research and development expenses, future pre-clinical and clinical-testing costs and the possibility of expanding its facilities. The amount of future funds needed will depend largely on the success of the Company's research and development activities and the Company does not know whether additional financing will be available when needed, or that, if available, it will obtain financing on terms favorable to its shareholders or the Company.
Galapagos has consumed substantial amounts of capital to date and operating expenditures are expected to increase over the next several years as it expands its research and development activities. It is expected that because of these increasing expenditures and the resulting losses over the next few years, and assuming full subscription of the Offering, the net assets of the Issuer will again fall below half of its capital between 1 and 2 years after the closing of the Offering. When this happens, the procedure according to article 633 BCC will require the Board of Directors to draw up a report to be submitted to the Shareholders Meeting. Such Shareholders Meeting then has to decide upon the continuation (after incorporation of the losses into the share capital) or cessation of the activities of the Issuer. In the latter case, the Issuer will be liquiditated and investors who have bought Shares in the Offering will not recover their investment.

The Company believes that, assuming full subscription of the capital increase and assuming the Shareholders Meeting decides positively upon the continuation of the activities if and when the net assets

fall below half of the share capital, the net proceeds from the Offering will be sufficient to support the Company's current operating plan through at least the next three years (see "*Management's discussion and analysis of financial condition and results of operations*" and "*Use of proceeds*"). Nonetheless, Galapagos' future funding requirements will depend on many factors, including, but not limited to:

- Any changes in the breadth of its research and development programs;
- The results of research and development, pre-clinical studies and clinical trials conducted by the Company or its collaborative partners or licensees, if any;
- The acquisition or licensing of technologies or compounds, if any;
- Its ability to maintain and establish new corporate relationships and research collaborations;
- Its ability to receive grants or subsidies;
- Its ability to increase sales in its service division Galadeno;
- Its ability to manage growth;
- Competing technological and market developments;
- The time and costs involved in filing, prosecuting, defending and enforcing patent and intellectual property claims; and
- The receipt of contingent licensing or milestone fees from its current or future collaborative and license arrangements, if established.

To the extent that the Company raises additional funds through collaboration and licensing arrangements, it may be required to relinquish some rights to its technologies or product candidates, or grant licenses on terms that are not favorable to the Company. If adequate funds are not available, Galapagos will not be able to continue developing its products.

There is a high risk that early-stage drug discovery and development might not successfully generate good drug candidates.

At the present time, Galapagos' operations are in the early stages of drug identification and development. To date, the Company has only identified a number of potential drug targets and several chemical compound series, all of which are still in the very early stages of development and have not yet been put into pre-clinical or clinical testing. The current compound series that the Company has identified may not lead to successful drugs, and no approved drug resulting from its research may be commercially available for a large number of years, if at all. Galapagos' leads for potential drug compounds will be subject to the risks and failures inherent in the development of pharmaceutical products based on new technologies. These risks include, but are not limited to, the inherent difficulty in selecting the right drug target and avoiding unwanted side effects as well as the unanticipated problems relating to product development, testing, regulatory compliance, manufacturing, marketing and competition, and additional costs and expenses that may exceed current estimates.

The Company might not be able to commercialize its drug candidates successfully if problems arise in the testing and approval process.

Commercialization of the Company's product candidates depends upon successful completion of pre-clinical studies and clinical trials. Pre-clinical testing and clinical development are long, expensive and uncertain processes and the Company does not know whether it, or any of its collaborative partners, will be permitted to undertake clinical trials of any potential products. It may take the Company or its collaborative partners several years to complete any such testing, and failure can occur at any stage of testing. Interim results of trials do not necessarily predict final results, and acceptable results in early trials may not be repeated in later trials. A number of companies in the pharmaceutical industry, including biotechnology companies, have suffered significant setbacks in advanced clinical trials, even after promising results in earlier trials. If and when Galapagos' projects reach clinical trials, Galapagos or its collaborative partners may decide to discontinue development of any or all of these projects at any time for commercial, scientific or other reasons. Competitors and third parties may develop similar or superior products or have proprietary rights that preclude the Company from ultimately marketing its products, as well as the potential risk that its products may not be accepted by the marketplace.

If the relevant regulatory authorities do not approve products developed using the Company's technologies, the Company or its licensees will not be able to commercialize them, and it may not receive any royalty or other revenues.

The US Food and Drug Administration (FDA) must approve any pharmaceutical product before it can be marketed in the United States. Comparable authorities such as the European Agency for the Evaluation of Medicinal Products (EMEA), the European Commission and local regulatory bodies regulate pharmaceutical products elsewhere. In the approval process, a product candidate must undergo extensive testing, which will take many years and require substantial expenditures.

If the Company's competitors develop technologies that are more effective than those of the Company, its commercial opportunity will be reduced or eliminated.

The Company's business environment is characterized by rapid technological change and complexity. The changing competitive landscape is perhaps the single largest issue facing the biotech industry. Galapagos competes with other companies based on several factors, including technology, product offering, disease area, intellectual property, geographic area, and time to market. Galapagos believes that the key features of its approach to identification and validation of targets as well as the prevention and treatment of disease are unique and proprietary. For each product and disease area, however, there is a multitude of technological approaches. There are many established pharmaceutical and biotechnology companies with resources greater than those of the Company, as well as research and academic institutions that are actively working in similar areas. There can be no assurance that the Company's competitors will not succeed in developing technologies and products that are less costly or more effective than any product which is currently marketed or being developed by the Company, or which may reach the market first, or will be more successful than the services offered or products being developed by the Company.

Because most of the Company's expected future revenues are contingent upon collaborative and license agreements, the Company might not meet its strategic objectives.

Galapagos' ability to generate revenues in the short to medium term depends on its ability to enter into additional service contracts and collaborative and license agreements with third parties and to maintain the agreements it currently has in place. To date, part of the Company's revenue from the collaborative and license agreements has been related to the research phase of these agreements, which revenue is for specified periods and in certain cases partially offset by corresponding research costs, which are recorded in research and development expenses. Following the completion of the research phase of a collaborative or license agreement, additional revenue may come only from milestone payments, which may not be paid until some time well into the future, if at all. The risk is heightened due to the fact that unsuccessful research efforts by the Company or its collaborator may preclude it from receiving any contingent revenue under these agreements. Galapagos' receipt of revenue from collaborative and license arrangements is also significantly affected by the timing of efforts expended by Galapagos and its collaborators and the timing of reaching predefined milestones.

The Company's business plan contemplates that in the longer term it will need to generate meaningful revenues from royalties and licensing agreements. To date, Galapagos has not yet received any revenue from royalties for the sale of commercial drugs, and it does not know when it will receive any such revenue, if at all. Likewise, Galapagos has not licensed any lead compounds or drug development candidates to third parties, and it does not know whether any such license will be entered into on acceptable terms in the future, if at all.

If the Company's current corporate collaborations or license agreements are unsuccessful or if conflicts develop with these relationships, its research and development efforts could be delayed.

The Company's strategy depends upon the future formation and sustainability of multiple collaborative arrangements and license agreements with third parties. Galapagos relies on these arrangements for not only financial resources, but also for expertise that it expects to need in the future relating to manufacturing, sales and marketing, and for licenses to technology rights. To date, the Company has entered into

several of such arrangements with corporate collaborators; however, it does not know if such third parties will dedicate sufficient resources or if any such development or commercialization efforts by third parties will be successful.
Should a collaborative partner fail to develop or commercialize a target to which it has rights from the Company, the Company may not receive any future milestone payments associated with the resulting product. In addition, the continuation of some of Galapagos' collaborative agreements may be dependent on the periodic renewal of the alliances. They may terminate before the full term of the collaborations or upon a breach or a change of control. The Company may not be able to renew these collaborations on acceptable terms, if at all, or negotiate additional corporate collaborations on acceptable terms, if at all.

Galapagos is also a party to various license agreements that give it rights to use specified technologies in its research and development processes. Some of the agreements pursuant to which the Company has in-licensed technology permit its licensors to terminate the agreements under certain circumstances. If Galapagos is not able to continue licensing these and future technologies on commercially reasonable terms, its product development and research may be delayed.
Conflicts might also arise with respect to the Company's various relationships with third parties. If any of the Company's corporate collaborators were to breach or terminate their agreement with the Company or otherwise fail to conduct the collaborative activities successfully and in a timely manner, the pre-clinical or clinical development or commercialization of the affected product candidates or research programs could be delayed or terminated. Galapagos generally does not control the amount and timing of resources that its corporate collaborators devote to its programs or potential products. The Company does not know whether current or future collaborative partners, if any, might pursue alternative technologies or develop alternative products either on their own or in collaboration with others, including its competitors, as a means for developing treatments for the diseases targeted by collaborative arrangements with the Company. Conflicts also might arise with collaborative partners concerning proprietary rights to particular compounds. In some of the Company's collaborations, the Company has agreed not to conduct independently, or with any third party, any research that is competitive with the research conducted under the Company's collaborations.

If the Company fails to enter into new collaborative arrangements in the future, its business and operations would be negatively impacted.

Although the Company has established several collaborative arrangements and license agreements, it does not know if it will be able to establish additional arrangements, or whether current or any future collaborative arrangements will ultimately be successful. For example, recently there have been and may continue to be a significant number of business combinations among large pharmaceutical companies that have resulted and may continue to result in a reduced number of potential future corporate collaborators, which may limit Galapagos' ability to find partners who will work with it in developing and commercializing its drug targets and drug candidates. If business combinations involving the Company's existing corporate collaborators were to occur, this could diminish, terminate or cause delays in one or more of its corporate collaborations.

The Company's success is dependent on intellectual property rights held by it and third parties and its interest in such rights is complex and uncertain.

Galapagos' success will depend to a large degree on its own, its licensees' and its licensors' ability to obtain and defend patents for each party's respective technologies and the products, if any, resulting from the application of such technologies. One patent family has been issued to the Company as of the date of this Prospectus, and the Company has numerous applications awaiting approval. In the future, Galapagos' patent position might be highly uncertain and involve complex legal and factual questions. No consistent policy regarding the breadth of claims allowed in patents covering the Company's technology and its drug targets has emerged to date. Accordingly, the Company cannot predict the breadth of claims allowed in its or other companies' patents.

The degree of future protection for the Company's proprietary rights is uncertain and the Company cannot ensure that:

- It was the first to make the inventions covered by each of its pending patent applications;
- It was the first to file patent applications for these inventions;
- Others will not independently develop similar or alternative technologies or duplicate any of the Company's technologies;
- Any of the Company's pending patent applications will result in issued patents;
- The claims of issued patents will adequately protect the products to be developed;
- Any patents issued to the Company or its collaborators will provide a basis for commercially viable products or will provide the Company with any competitive advantages or will not be challenged by third parties;
- It will develop additional proprietary technologies that are patentable; or
- The patents of others will not have a negative effect on the Company's ability to do business.

The Company relies on trade secrets to protect technology where it believes patent protection is not appropriate or obtainable. However, trade secrets are difficult to protect. While the Company requires employees, collaborators and consultants to enter into confidentiality agreements, it may not be able to adequately protect its trade secrets or other proprietary information in the event of any unauthorized use or disclosure or the lawful development by others of such information.
The Company is a party to certain in-license agreements that are important to its business, and it generally does not control the prosecution of in-licensed technology. Accordingly, Galapagos is unable to exercise the same degree of control over this intellectual property as it exercises over its internally developed technology. Moreover, some of the Company's academic institution licensors, research collaborators and scientific advisors have rights to publish data and information to which the Company has rights. If Galapagos cannot maintain the confidentiality of its technology and other confidential information in connection with its collaborations, then its ability to receive patent protection or protect its proprietary information will be impaired. In addition, some of the technology the Company has in-licensed relies on patented inventions developed using US government resources. For additional information concerning the Company's intellectual property, see "*The Company, Patents and intellectual property*".

If a dispute arises regarding the infringement or misappropriation of the proprietary rights of others, such dispute could be costly and result in delays in the Company's research and development activities.

The Company's success will also depend, in part, on its ability to operate without infringing on or misappropriating the proprietary rights of others. There are many issued patents and patent applications filed by third parties relating to technology, products or processes that are similar or identical to those of the Company or its licensors, and others may be filed in the future. There can be no assurance that Galapagos' activities, or those of its licensors, will not infringe patents owned by others. The Company believes that there may be significant litigation in the industry regarding patent and other intellectual property rights, and the Company does not know if it or its collaborators would be successful in any such litigation. Any legal action against the Company's collaborators or the Company claiming damages or seeking to enjoin commercial activities relating to the affected products, its methods or processes could:

- Require its collaborators or the Company to obtain a license to continue to use, manufacture or market the affected products, methods or processes, which may not be available on commercially reasonable terms, if at all;
- Prevent the Company from using the subject matter claimed in the patents held by others;
- Subject the Company to potential liability for damages;
- Consume a substantial portion of its managerial and financial resources; and
- Result in litigation or administrative proceedings that may be costly, whether the Company wins or loses.

If the Company or its licensees are unable to obtain any necessary licenses from third parties for use of their intellectual property on acceptable terms, the Company or its licensees may be unable to develop or market products based on its technologies.

Galapagos may be unable to earn revenues from products based on its technologies or from its own products if a third party does not grant the Company or its licensees a necessary license or offers a license only on unacceptable terms. Before the Company can market some of its products, it may need to obtain licenses from third parties who have patents or other intellectual property rights. For example, in the patent context, others have filed, and in the future are likely to file, patent applications covering technologies that Galapagos may wish to use or products that are similar to products that may be developed using its technologies. If these patent applications result in issued patents, the Company may need to obtain a license from the proprietors to use their patented technology. These licenses may not be available, or may not be available on acceptable or commercially reasonable terms. Without these licenses, Galapagos may be required to alter its technologies or potential products, or to avoid or stop certain activities. The Company's licensees may face similar problems.

If product liability lawsuits are successfully brought against the Company, it may incur substantial liabilities and may be required to limit commercialization of its products.

The testing and marketing of medical products entail an inherent risk of product liability. If Galapagos cannot successfully defend itself against product liability claims, it may incur substantial liabilities or be required to limit commercialization of its products. The Company currently does not have product liability insurance and its inability to obtain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of pharmaceutical products it develops, alone or with corporate collaborators. Galapagos or its corporate collaborators might not be able to obtain insurance at a reasonable cost, if at all. While under various circumstances the Company is entitled to be indemnified against losses by its corporate collaborators, indemnification may not be available or adequate should any claim arise.

The Company has no experience in conducting clinical trials and manufacturing. The Company's lack of experience and need to rely on third parties may delay its clinical trials.

Galapagos has no experience in conducting the clinical trials necessary to obtain regulatory approval. Consequently, the Company may encounter problems in clinical trials that would cause the Company or the appropriate regulatory authorities to delay, suspend or terminate these trials. These problems could include the inability to conduct clinical trials at preferred sites, or the failure to enroll sufficient patients or begin or successfully complete clinical trials in a timely fashion, if at all. Galapagos also intends to use third parties to conduct clinical trials on its behalf and any failure of these third parties to perform under their arrangements with Galapagos in a timely manner may delay or terminate clinical trials. A delay or termination of clinical trials would result in a delay or inability to obtain the regulatory approval necessary for commercial distribution of potential products.

The Company's research and development efforts will be seriously jeopardized if the Company is unable to attract and retain key employees and relationships.

Being a small company with only 66 employees as of the date of this Prospectus, the Company's success depends on the continued contributions of its principal management and scientific personnel and on its ability to develop and maintain important relationships with leading academic institutions, scientists and companies in the face of intense competition for such personnel. In particular, Galapagos' research programs depend on its ability to attract and retain highly skilled chemists and other scientists. If the Company loses the services of certain personnel, including, in particular, members of its management team, its research and development efforts could be seriously and adversely affected. Although Galapagos generally has not experienced problems retaining key employees, its employees can terminate their employment with Galapagos at any time. The Company also expects to encounter difficulty in attracting enough qualified personnel as its operations expand and the demand for these professionals increases, and this difficulty could impede significantly the achievement of its research and development objectives.

The Company may be subject to damages resulting from claims that the Company or its employees or scientific consultants have wrongfully used or disclosed alleged trade secrets, proprietary information or confidential intellectual property of their former employers.

A number of Galapagos' employees or scientific consultants were previously employed at biotechnological or pharmaceutical companies, including its competitors or potential competitors. Although no claims against the Company are currently pending, it may be subject to claims that these employees or scientific consultants or the Company have inadvertently or otherwise used or disclosed trade secrets or other proprietary information or confidential intellectual property of their former employers. Litigation may be necessary to defend against these claims. Even if Galapagos is successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. If the Company fails in defending such claims, in addition to paying money claims, it may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work or scientific consultants could hamper or prevent Galapagos' ability to commercialize certain product candidates, which could severely harm its business.

The Company's information technology systems could face serious disruptions that could adversely affect its business.

Galapagos' information technology and other internal infrastructure systems, including corporate firewalls, servers, leased lines and fiber connection to the internet, face the risk of systemic failure that could disrupt its operations. Although the Company has disaster recovery plans in place, its internal infrastructure systems might be vulnerable to damage and interruption. A significant disruption in the availability of its information technology and other internal infrastructure systems could cause interruptions in its service to customers, delays in its research and development work or the loss or delay of client relationships.

If the Company uses biological and hazardous materials in a manner that causes injury or violates laws, it may be liable for damages.

The Company's research and development activities involve the controlled use of potentially harmful biological materials as well as hazardous materials, chemicals and various radioactive compounds. Galapagos cannot completely eliminate the risk of accidental contamination or injury from the use, storage, handling or disposal of these materials. In the event of contamination or injury, the Company could be held liable for damages that result, and any liability could exceed its resources. The Company is subject to laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. The cost of compliance with, or any potential violation of, these laws and regulations could be significant. Currently the Issuer's subsidiary in the Netherlands, Galapagos Genomics BV, operates under an environmental management act permit that was issued in 1998 to Crucell. Possibly, a new permit must be applied for in the near future.

The Company is exposed to credit risk on accounts receivable from certain of its counterparties.

None of Galapagos' trade receivable accounts are covered by collateral or credit insurance, and Galapagos therefore bears the risk that one of its counterparties will be unable to pay against their trade receivable accounts. In the event that any of the Company's large counterparties are unable to pay against their trade receivable accounts, the Company could suffer a decline in proceeds and profitability. Although Galapagos has procedures to limit its exposure to credit risk from its counterparties, there is no assurance that it will be able to limit its potential loss of proceeds from clients who are unable to pay in a timely manner.

If ethical, legal and social issues related to the use of genetic technology and animal testing negatively affect regulatory approval, patentability or market acceptance of the Company's core technologies and of the products developed using these technologies, the Company would not be able to generate revenues from those products or its technologies.

The commercial success of Galapagos' core technologies and any potential product resulting from these technologies will depend in part on market acceptance of these technologies and resulting products. The

use of genetic technology and the necessary animal testing in some of its research and development could generate negative publicity for the Company and public expressions of concern could result in stricter governmental regulation. Any of these factors could delay the successful development of potential products.

The Issuer has not paid dividends since the start of its operations in 1999, and does not expect to pay dividends on the Shares in the foreseeable future.

The payment of dividends in the future will depend, among other things, upon the Issuer's earnings, capital requirements, including but not limited to a legally required reserve equal to the amount of capitalized development costs, and Galapagos' operating and financial condition. Currently, the Issuer does not expect to pay dividends on the Shares in the foreseeable future.
Furthermore, the Issuer's general reserve must be sufficient for any dividend payment. There can be no assurance that the Issuer will generate sufficient earnings to allow it to pay dividends, and if the Issuer does, the Shareholders Meeting of the Issuer may elect to reinvest instead of paying dividends. See also "*Description of the Shares and corporate structure, Dividend policy*".

Risks related to the Offering

The Offer Price will be considerably higher than the net asset value per Share.

Investors purchasing Shares in the Offering will pay a price per Share that will in any case be higher than the par value of the Shares (€5.45 per share) and that therefore will substantially exceed the value of Galapagos' assets after subtracting liabilities (€1.67 per share). See "*The Offering, Offer Price*" for a description of the pricing procedure, which will be based on a bookbuilding with institutional investors.

Dilution resulting from the exercise of outstanding warrants in the future and possible future capital raises could adversely affect the price of the Shares.

The dilution resulting from the exercise of outstanding warrants could adversely affect the price of the Shares. See also "*Management and employees, Warrant plans*".
In addition, the Issuer may decide to raise capital in the future through public or private (convertible) debt or equity financings by issuing Shares or preferred financing shares, debt or equity securities convertible into Shares, or rights to acquire these securities, and exclude or limit the preferential subscription rights pertaining to the then outstanding Shares. If the Issuer raises significant amounts of capital by these or other means, it could cause dilution for its existing shareholders.

The Company may allocate the net proceeds from this Offering in other ways than initially indicated to cope with the changing business environment or opportunities.

The Company will have significant flexibility in applying the net proceeds of this Offering and could use these proceeds for purposes other than those contemplated at the time of the Offering.

There has been no prior public market for the Shares, investors may not be able to sell the Shares at or above the Offer Price and there may not be an active, liquid trading market for Galapagos' Shares.

Prior to the Offering, there has been no public market for the Shares, and an active public market for the Shares may not develop or be sustained after the Offering. Investors may not be able to sell their Shares quickly or at the market price if trading in the Company's Shares is not active. The Offer Price will be determined following a bookbuilding procedure as described in "*The Offering, Offer Price*" and on the basis of discussions between the Lead Managers and the Company and may not be indicative of future market prices, which may fall below the Offer Price.
An active trading market for Galapagos' Shares may not develop following this Offering.

The market prices for securities of biotechnology companies in general have been highly volatile and may continue to be highly volatile in the future.

The following factors, in addition to other risk factors described in this section, may have a significant impact on the market price and volatility of the Shares:

- Announcements of technological innovations or new commercial products or collaborations by Galapagos' competitors or Galapagos itself;
- Developments concerning proprietary rights, including patents;
- Developments concerning its collaborations;
- Publicity regarding actual or potential medical results relating to products under development by its competitors or the Company;
- Regulatory developments in Europe, the United States and other countries;
- Litigation; or
- Economic, monetary and other external factors.

The Company expects that its interim results of operations will fluctuate, and this fluctuation could cause the market price of its Shares to fall, causing investor losses.

Galapagos' interim operating results have fluctuated in the past and are likely to do so in the future. These fluctuations could cause the market price of its Shares to fluctuate significantly or decline. Some of the factors that could cause its operating results to fluctuate include:

- The timing of entering into and the expiration of license agreements and co-development arrangements;
- The success rate of its own and its licensees' discovery efforts leading to royalties and other payments;
- The timing and willingness of its licensees to commercialize products which would result in royalties and other payments; and
- General and industry specific economic conditions, which may affect its own and its licensees' research and development expenditures.

A large portion of the Company's expenses is relatively fixed, including expenses for personnel, facilities and equipment. There is no direct link between the level of its expenses and its revenues. Accordingly, if revenues decline or do not grow as anticipated, Galapagos may not be able to correspondingly reduce its operating expenses and may suffer losses accordingly. Due to the possibility of fluctuations in its revenues and expenses, the Company believes that period-to-period comparisons of its operating results are not a good indication of its future performance. The Company's operating results in some periods may not meet the expectations of stock market analysts and investors. In that case, the market price of its Shares would probably fall.

If securities or industry analysts do not publish research or reports about the Company, or if they change their recommendations regarding the Shares adversely, the Share price and trading volume could fall.

The trading market for the Shares will be influenced by the research and reports that industry or securities analysts publish about the Company or its industry. If one or more of the analysts who cover Galapagos, or its industry, downgrade the Shares, the market price of the Shares would likely fall. If one or more of these analysts ceases coverage of the Company or fails to regularly publish reports on the Company, the Company could lose visibility in the financial markets, which in turn could cause the market price of the Shares or the trading volume to fall.

If the Company's shareholders sell substantial amounts of the Shares after the Offering, the market price of the Shares may fall.

If shareholders sell substantial amounts of the Shares, the market price of the Shares may fall. These sales might also make it more difficult for the Issuer to issue or sell equity or equity-related securities in the future at a time and price that the Issuer deems appropriate. Also see "*Principal shareholders and lock-up agreements*".

Galapagos will incur increased expenses as a result of being a public company.

As a public company, Galapagos will incur significant legal, accounting and other expenses that it did not incur as a private company. For example, as a result of becoming a public company, the Company hired additional independent board members, created an Executive Committee and adopted additional policies

regarding corporate governance. In addition, Galapagos will incur increased costs associated with investor relations and public company reporting requirements in Belgium, as well as listing costs.
The Company also expects these new rules and regulations to make it more difficult and expensive for the Company to obtain director and officer liability insurance, and it may be required to accept low policy limits and coverage or incur substantial costs to obtain adequate coverage.

If Galapagos' largest shareholders choose to act together, they may be able to control Galapagos' management and operations, acting in their best interests and not necessarily in those of other shareholders.

Following completion of the Offering, some of Galapagos' Pre-IPO Shareholders may together have the ability to influence or determine decisions requiring approval by shareholders. They may exercise this ability in a manner that advances their best interests and not necessarily those of other shareholders. The Company is not aware of the existence of any agreement to act together or cooperate in such a manner except for the agreement among the Pre-IPO Shareholders in the lock-up agreement whereby they will consult each other and those willing to sell will act together if the Lead Managers would consent to a sale of Shares prior to the end of the 2 years lock-up period.

The anti-takeover provisions in the Company's Articles of Association and the laws of Belgium may prevent a beneficial change in control.

The Articles of Association authorize the Board of Directors to take the following actions in the event of a public takeover: (i) to increase the Issuer's capital in one or more occasions as from the date of the notification by the BFIC to the Issuer of a public takeover offer on the Shares and (ii) to acquire Shares representing up to 10% of the Issuer's capital.
Under Belgian law, public takeover bids on 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. Furthermore, in the event that an individual or a company intends to acquire the joint or exclusive control of the Issuer through one or several transactions and the price of the contemplated transfer includes a control premium, the acquirer must offer to all other shareholders the opportunity to sell their shares at the highest price offered by the acquirer for Shares during the 12 months preceding the acquisition of control of the Issuer. The acquirer must give the other shareholders this opportunity within 30 days after its acquisition of control either (i) in the form of a public takeover bid or (ii) pursuant to an undertaking to maintain the stock price.
All these measures and provisions may have the effect of substantially discouraging a takeover bid by a third party.

As the Shares will be listed and traded on Euronext Brussels and Euronext Amsterdam on an "as-if-and-when-issued" basis as of the Listing Date until the envisaged Closing Date, Euronext Brussels and Euronext Amsterdam may annul all transactions effected in the Shares if the Offer Shares are not issued on the envisaged Closing Date.

As of the Listing Date until the envisaged Closing Date, the Shares will be listed and traded on Euronext Brussels and Euronext Amsterdam on an "as-if-and-when-issued" basis. Investors that wish to enter into transactions in the Shares prior to the envisaged Closing Date, whether such transactions are effected on Euronext Brussels, on Euronext Amsterdam or otherwise, should be aware that the Closing Date may not take place on 4 May 2005, or at all, if certain conditions or events are not satisfied or waived or do not occur on or prior to such date. Such conditions include the receipt of officers' certificates and legal opinions and such events include the suspension of trading on Euronext Brussels or Euronext Amsterdam or a material adverse change in the Issuer's financial condition or business affairs or in the financial markets. Euronext Brussels and Euronext Amsterdam have indicated that they will annul all transactions effected in the Shares if the Offer Shares are not issued on the envisaged Closing Date. Euronext Amsterdam has indicated it cannot be held liable for any damage arising from the listing and trading on an "as-if-and-when-issued" basis as of the Listing Date until the envisaged Closing Date.

THE COMPANY

The reader is advised to read the "A brief overview of Galapagos" before reading this section. In addition, see "Glossary and definitions, Business glossary and definitions", which explains most terminology.

Introduction

Galapagos is a biotechnology company focused on the identification of disease modifying drug targets and the subsequent development of breakthrough medicines based on these targets. It has a novel approach to drug discovery combining genome-wide knock-in and knock-down of human proteins with cell based assay systems to analyze human biological functions. The technology has two pillars: (i) a proprietary target discovery platform of adenoviruses containing human gene sequences and (ii) functional cellular assays that mimic human diseases. This combination has enabled Galapagos to identify and validate novel drug targets in a substantial number of major diseases. Other approaches such as positional cloning and expression studies have often been based on the association of human gene sequences and the proteins they encode with disease states. In contrast to this, the heart of the Galapagos target discovery system is not a gene association, but the ability to directly link a specific protein with the cause of a disease by functionally analyzing collections of human proteins in well-accepted disease models using primary human cells. These assays lead directly to individual proteins that can be used as drug targets with the aim of developing medicines to control the disease. With this technology, the Company has successfully discovered and validated novel drug targets in osteoarthritis, osteoporosis, rheumatoid arthritis, Alzheimer's disease and asthma.

The Company's proprietary drug targets are the cornerstones of its drug discovery programs. Based on (i) the existence of large markets with high unmet medical needs, (ii) the close linkage between the disease areas, and (iii) the availability of relevant disease models, Galapagos has decided to focus on the bone- and joint- diseases osteoarthritis, osteoporosis and rheumatoid arthritis. Targets outside these disease areas are selectively out-licensed. In January 2005, the Company announced an alliance with GlaxoSmithKline on its asthma targets for drug discovery. In addition, the Company anticipates to partner its Alzheimer's disease program in 2005.

The Company's business model is to create long-term value in drug discovery in its chosen core disease areas. In parallel to the proprietary drug discovery programs, the target discovery technology is leveraged in fee-for-service activities for the pharmaceutical and biotech industries through its business unit Galadeno, bringing funding and expertise to support its long-term goals. Galadeno has been profitable on a "fully-loaded" basis since 2002. Galadeno has secured partnerships with top tier pharmaceutical and biotech partners and plans to continue marketing its technology platform and partnering its target portfolio. Recent corporate alliances with GlaxoSmithKline, Vertex and Wyeth underscore the Company's value proposition in identification and validation of unique targets. Since June 2004, Galadeno has been operating as a business unit of Galapagos with independent strategic and financial planning.

Concise history

Galapagos was founded in 1999 as a joint venture between Crucell (formerly IntroGene, a biotechnology company incorporated in the Netherlands and listed on Euronext Amsterdam since October 2000) and Tibotec (a pharmaceutical research and development company incorporated in Belgium and a subsidiary of Johnson & Johnson). The collaboration was the result of an IntroGene program to use adenoviral technology for functional genomics applications in 1998. The combination with Tibotec's robotics and data management capabilities enabled the development of a high-throughput target discovery and validation platform. From the start, Galapagos operates a hybrid business model, combining internal discovery programs with service activities. The joint venture operated until 2002 when the Company raised €23.4 million in a private placement. We refer to the "*Description of the Shares and corporate structure, History of share capital*" for further details on this private placement.

Galapagos' strategy

The Company's strategy is to create an innovative drug discovery company that develops breakthrough medicines for the treatment of bone and joint diseases. In line with this strategy, its business model contains the building blocks to maximize the present and near-term revenues of its target discovery technology, while preserving the long-term value of the development of novel drugs. The Company focuses on:

- Building a profitable business unit Galadeno;
- Building a strong intellectual property position around its technology platform and the drug targets; and
- Leveraging the targets into a pipeline of novel disease modifying drug candidates.

Executing this strategy will meet the following goals:
- Maintaining a prominent position in target discovery and validation; and
- Becoming a leader in the development of novel therapies for bone and joint diseases.

Maintaining a prominent position in target discovery and validation

Galadeno addresses the industry's demand for effective discovery and validation of drug targets in human systems, offering the following tools and services:
- Adenoviral collections targeting the human genome, including siRNA based protein knock-down (SilenceSelect) and cDNA based protein knock-in (FLeXSelect) libraries;
- Production of custom adenoviruses expressing siRNA and cDNA constructs; and
- Target discovery screening and validation services, including assay design using primary human cells.

Galadeno assists partners with the prioritization of their therapeutic targets for further development. Galadeno's products are of proven value in the industry to discover novel drug targets, protein therapeutics, antibody targets, diagnostic markers as well as nutraceutical ingredients, as a result of which its platform has been partnered successfully with pharmaceutical and biotech companies like AstraZeneca, Boehringer Ingelheim and Pfizer. Galapagos intends to maintain the prominent position of Galadeno as the innovative target discovery engine and this division will remain an important driver for its near-term growth.

Becoming a leader in the development of novel therapies for bone and joint diseases

Galapagos' long-term strategy is to develop breakthrough medicines based on novel "mechanism-of-action" therapies for the treatment of the following bone and joint diseases:
- Osteoarthritis;
- Osteoporosis; and
- Rheumatoid arthritis.

Galapagos has decided to focus its drug discovery efforts on these diseases as these:
- Address large markets with high underserved medical needs that are growing because of the ageing population. Focusing on diseases that affect mainly the elderly and that are currently underserved provides a multi-billion euros market opportunity;
- Are closely linked which provides synergy with regard to expanding disease expertise in the Company and in future product development, including design of clinical trials; and
- Have relevant *in vitro* disease models requiring the use of primary human cells and long-term knock-in or knock-down of the protein, providing a competitive advantage for Galapagos in the discovery of targets using its technology platform.

The proprietary targets identified by Galapagos for these three diseases are now progressing through drug discovery with the aim of bringing novel drugs into the clinic and onto the market. Future approval of novel drugs in each of the three bone and joint diseases will require extensive clinical studies and regulatory expertise. Furthermore, an extensive marketing and sales organization will be needed to capture the mar-

ket potential of the new drug. Galapagos therefore intends to partner its programs during pre-clinical or clinical development, including at the point where a clinical effect of the drug has been shown in humans. With this approach, Galapagos will obtain adequate funding for its total drug development program, gain access to expertise and infrastructure, and secure long-term value of the products.

In the next three years[4] Galapagos drug discovery intends to:
- Become a leader in the discovery of novel "mechanism-of-action" based therapies for bone and joint diseases;
- Build the research and development capacity, capable of delivering one clinical candidate and two pre-clinical candidates per year from 2007 onwards;
- In-license pre-clinical compounds to strengthen the development pipeline that will result in a clinical molecule in 2006; and
- Out-license the intellectual property, including the drug targets, of the Alzheimer's disease program.

Industry background

In order to sustain growth, each major pharmaceutical company needs to bring new drugs to the market each year. However, traditional drug discovery methodologies have fallen short of this goal. Consequently, the pharmaceutical industry faces a product pipeline gap it cannot close by the current in-house development efforts. In addition, expiration of patents on a large number of blockbuster drugs puts pressure on the industry to fill the pipeline with innovative new drugs. As pricing pressure builds on follow-on products against known targets, premium pricing requires breakthrough medicines based on new mechanism-of-action targets with disease modifying activity. The development of such drugs is dependent on the discovery of the key disease causing proteins.

This situation creates a need for tools that identify and successfully validate novel targets that form the basis for the discovery of new medicines. Indeed, pharmaceutical companies are increasingly looking for opportunities to expand their product development pipeline, through both in-licensing of (pre-) clinical drug candidates as well as partnering with biotechnology companies in selected disease programs.

Drug discovery process

The drug discovery process can be divided into several phases. Figure 1 shows an overview of these phases and the main activities within these phases. In addition, the figure shows rough estimates of the durations of the phases, based on historical statistics. It should be noted that not all borders between the phases are strictly defined. Activities in certain phases could extend into adjacent phases and activities in adjacent phases could be executed in parallel instead of sequentially.

[4] Under the assumption the Shareholders Meeting of the Issuer decides positively upon the continuation of the activities if and when the Issuer's net assets fall below half of its share capital. This is expected to take place between 1 and 2 years after the closing of the Offering, assuming the Offering is fully subscribed.

Product development

	Target discovery	Hit identification	Lead identification	Lead optimisation	Preclinical studies	Investigational New Drug application
• **Activities**	• Identification of a target (a human protein that plays a key role in a disease process) • Validation of the disease-modifying potential of the target	• Identification of a compound that modulates the activity of the target	• Characterisation of structure-activity relationship of compounds designed around the hit • Optimisation of affinity and selectivity of the compound • Early assessment of ADME (absorption, distribution, metabolism and excretion) properties by computer simulation	• Optimisation of the lead into a molecule with drug-like characteristics • Optimisation of drug characteristics like ADME properties, toxicity, bioavailability and solubility	• Assessment of safety and biological efficacy in laboratory and animal studies • Patenting of compound usually takes place in this phase • Optimisation of pharmacokinetic properties	• Obtainment of approval from competent authorities to initiate trials in humans
• **Typical duration**	• 1 – 4 years	• 0.5 years	• 1 years	• 1.5 years	• 1.5 years	• 1 month

Clinical trials

	Investigational New Drug application	Phase I studies	Phase II studies	Phase III studies	New Drug Application	Sales (and Phase IV studies)
• **Activities**	• ...	• Trials in less than 100 healthy volunteers • Assessment of safety • Establishmenet of safe dosage for future trials • Investigation of the drug's absorption, distribution in the body and elimination from the body	• Trials in up to several hundreds of patients • Assessment of efficacy and optimal dosage	• Trials in several hundred to several thousand patients • Statistically significant affirmation of efficacy, dosage and safety • Continued monitoring for possible adverse effects • Comparison with other existing treatments or placebo • Study of combination with other existing treatments	• Obtainment of approval from competent authorities to market the new drug	• Marketing • Prescription of the treatment by physicians • Continued monitoring for possible side effects • (Possible additional research to support marketing efforts and develop extensions of the product) • (Possible Phase IV studies to evaluate long-term or combination therapies' effects)
• **Typical duration**	• ...	• 1 year	• 1 – 2 years	• 1.5 – 3 years	• 0.5 – 2 years	• 10 years

Figure 1: Indicative overview of the drug discovery process

Traditional drug discovery

Most marketed drugs today have been discovered through a traditional drug discovery process that involves screening compounds in disease models. Understanding the intracellular processes underlying the disease is important to increase the success of drug screening. Lacking this, it is necessary to screen large numbers of randomly selected compounds in order to obtain a desired change in a disease model. While this approach has successfully produced drugs, it has a number of disadvantages:

- Inefficient: it is labor-intensive, time-consuming and inefficient at identifying targets;
- Lack of productivity: it results in relatively few new drug candidates;
- Lack of information: it produces limited information about the intracellular processes to guide target selection and subsequent drug development; and
- Risk of side effects: it has a higher chance of producing drug candidates with a high risk of serious side effects.

Recent advances in genomics

Recent technological advances such as the Human Genome Project (sequencing the entire human genome), spurred the hope that knowledge of the entire human DNA sequence would provide an understanding of the role of the genes and corresponding proteins in diseases, and therefore lead to targets for drug discovery. Sequence data in themselves, however, generally do not provide information about the function of the genes, let alone their role in a particular disease.

Genomics technologies focus on those genes that may be responsible for changes in the behavior of cells under disease conditions. Technologies like “expression profiling”, “micro-arrays”, “genetic linkage” and “gene chips” have turned up large numbers of genes that can be correlated with diseased versus healthy individuals. A shortcoming of these technologies, however, is that a causative link between gene function and disease is not established.

Galapagos’ approach

Galapagos has built focused collections of arrayed adenoviruses that either knock-down or knock-in individual proteins. It studies in high-throughput the effect of individual proteins in relevant disease models. The adenovirus enables the use of primary[5] human cells in the cellular disease assays. The Company has constructed a collection of over 18,000 individual adenoviruses that deliver siRNAs for human protein knock-down or cDNAs for human gene knock-in. This collection harbors those genes that are of most pharmaceutical interest, the so-called drugable genome.

Galapagos’ collections are well accepted by the industry for target discovery and target validation, offering these unique properties:

- Efficient delivery of knock-ins and knock-downs into human cells;
- Comprehensive gene collections focused on the human drugable genome;
- Formatted for automated, high-throughput analysis; and
- Proven track record in disease biology driven identification and validation of novel drug targets.

Galapagos employs the collections of arrayed adenoviruses in combination with assay systems mimicking various human diseases. Galapagos has industrialized the process of drug target identification by functional and high-throughput screening of the drugable genome in human cells. It is able to look at the effect of switching a gene on or off in a gene selective way with high-throughput and using primary human cells and associated assays for various diseases, leading to the identification of proteins that play a role in the specific disease of interest. By further validating these proteins in more advanced studies, Galapagos is able to identify novel targets that are responsible for the desired effect in the cellular assay.

[5] Primary human cells closely reflect the *in vivo* situation and are preferred by the industry for target discovery over animal cells, transformed human cell lines or model organisms such as C. *elegans* (worm) or *Drosophila* (fruitfly).

It is known that the vast majority of diseases have a genetic basis and that diseases can be managed by therapeutic intervention at the appropriate point in a biological pathway or process. Galapagos' technology increases the ability to identify the optimal point to intervene in a pathway in order to develop more effective drugs for that disease. The Company's technology allows for the identification of drug targets using biological methods rather than relying on the extensive process of traditional drug discovery methods.

The Company has designed its screening programs using a "critical-path" methodology that is fundamentally different from conventional genomics technologies. Galapagos functionally identifies potential targets by first designing assays for disease-relevant biology. By further validating these proteins in more advanced studies, Galapagos is able to identify validated targets that regulate key disease pathways and that can causally change a disease process when manipulated by a drug.

With this approach, the Company is able to rapidly analyze virtually all of the drugable genome and select pharmaceutically tractable protein targets directly by their ability to regulate key disease biology. In this way, Galapagos aims to reduce the risk of failure in drug discovery by entering only highly validated, high-quality targets into development, which are, to the best of its knowledge, not available to competitors. Galapagos believes this provides a significant and substantial competitive advantage in its core disease programs.

Technology

Adenoviral technology

In order to study proteins in human cells, Galapagos takes advantage of adenoviruses. This virus has been engineered to act as a shuttle vehicle, allowing the delivery of specific pieces of DNA into human cells. It has been made "replication incompetent", meaning it is unable to reproduce in any cell type, other than the PER.C6 cell line which is used for the production of the virus. Because the virus cannot reproduce in other cell types, it will minimally interfere with the human cell behavior when used in human cell based assays, but instead increase expression of RNA coded for by the DNA that was inserted in the viral genome. The advantages of using the Galapagos proprietary adenoviruses for target discovery are:

- Efficient delivery of the human DNA into any human cell, which allows the use of primary cell types in the design of screening assays;
- Long-term expression of the human DNA, lasting up to 2 or 3 weeks after introduction in the cell of the DNA by the virus, which is a requirement in certain cellular disease models that need long-term presence of the knock-in or knock-down effect (by example the differentiation assays that form the basis of the bone and joint discovery programs); and
- Reproducibility of the system that can be easily scaled up and automated to enable high-throughput screening of large adenoviral collections in arrayed format.

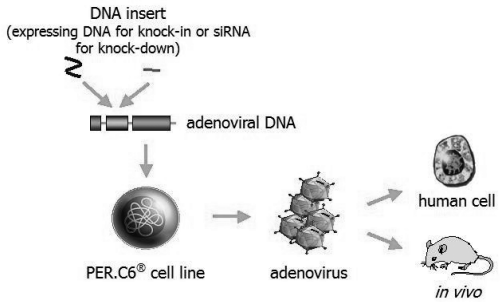


Figure 2: Adenoviral technology

As shown in figure 2, for the knock-down viruses a short piece of DNA is inserted into the virus, which, upon infection of a cell by the virus, causes the cell to make a small strand of RNA (siRNA) that specifically "silences" the expression of the targeted gene by reducing the RNA of the gene as well as the amount of corresponding protein in the cell. For the knock-in viruses, a human gene (a "cDNA") is inserted in the virus, so that upon infection of a cell by the virus, this cell starts to produce (more of) the corresponding protein.

High-throughput assay development

Cellular assays are the basis for the "functional" discovery of novel targets. The assays are designed around key disease pathways using primary human cells. In the assays, cells in wells of microtiter plates are infected with the arrayed collections of knock-down and knock-in adenoviruses, whereby cells in a well are infected with one specific adenovirus, followed by the detection of any change in cellular behavior or phenotype. Galapagos has automated this process and the high-throughput analysis takes place in an arrayed set-up of the adenoviral collections using 96- or 384-well based plate systems. Assays that have been configured for this platform model a disease biology as close as possible and include reporter based, proliferation, differentiation and ELISA assays. These are fully automated and are supported by an integrated laboratory information management system (LIMS) to ensure seamless project management from project concept to drug target identification. Using this platform, Galapagos can functionally screen each of over 130,000 individual adenoviruses in complex cell based assays in less than three months.

Bioinformatics

The bioinformatics team has built extensive expertise in scientific data management. Around a set of proprietary databases containing information on potential drug targets, the Company has built tools to support its drug target identification and validation work. This comprises:

- Software to integrate and report experimental data;
- Bioinformatic algorithms and statistical methods to support target validation experiments; and
- Procedures to make third party (public domain as well as private) information readily accessible.

These tools help the Company in the consolidation of knowledge on the role of potential drug targets and the selection of targets progressing into drug discovery research. As most of the databases and tools have been built in-house, Galapagos has control over these and can adapt the systems for future needs towards drug discovery, without compromising support for current business activities.

Medicinal chemistry and biochemistry

The initial chemistry activities have been outsourced with BioFocus in the UK. Galapagos is expanding its medicinal chemistry group to support its internal drug discovery programs. Galapagos has initiated the construction of a chemistry laboratory to become available for the medicinal chemistry group by autumn of 2005. The Company has established a biochemistry group, whose task is to provide biochemical and cellular assays to drive medicinal chemistry programs. This group has extensive expertise in screening adenovirus- as well as compound-libraries in cell-based assays.

In vivo disease models and safety pharmacology

Galapagos has selected pre-clinical proof-of-principle animal models for its core therapeutic areas. This work is conducted in-house or outsourced to academic and commercial organizations running certain specific models. Safety assessment in animal models is intended to include mutagenicity, toxicology and safety pharmacology. The Company plans to outsource these assays to contract research organizations, similar to customary pharmaceutical companies practice.

Clinical development

The Company has recruited Dr. Gustaaf Van Reet, who headed Janssen Pharmaceutica, as VP Corporate Development. Dr. Van Reet will be instrumental in building a core clinical group to progress pre-clinical candidates through the various stages of development. This group is scheduled to source most activities

from contract research organizations to secure a flexible access to development activities. With this clinical group, Galapagos aims to be well-positioned to in-license additional compounds for further (pre-) clinical development.

Company structure

Business unit Galadeno

Galadeno was established as a separate business unit to offer adenoviral tools and services to meet the industry's ongoing target discovery and validation needs. Galadeno sells adenoviral constructs either individually or in sets, and carries out gene function studies on contract using sophisticated disease models. These reagents and screening services have been applied in target identification and validation programs through several external partnerships with pharmaceutical and biotechnology companies.

Products

Galadeno markets the siRNA knock-down viruses under the brand name "SilenceSelect", and the gene knock-in viruses under the brand name "FLeXSelect". The SilenceSelect collection contains viruses directed against over 4,700 transcripts, corresponding to an estimated 3,700 drugable genes. This collection is scheduled to be expanded over time, to include other classes of genes of interest to the Company as well as to partners. The FLeXSelect collection contains almost 2,000 full-length human genes. An additional library of knock-in viruses containing gene sequences from placenta tissue is specifically aimed at broad genome-wide knock-in screens, and is marketed as "PhenoSelect". These collections of adenoviruses are array-formatted for automated, high-throughput use. Galadeno also offers de novo custom production of adenoviral vectors under the brand name "AdenoSelect" containing either knock-down or knock-in sequences specifically requested by the customer.

Overview of SilenceSelect knock-down collection, targeting 4,700 transcripts			
Kinases	1,121	Nuclear Hormone Receptors	67
GPCRs	455	PDEs	40
Proteases	717	Receptors	396
Ion channels	358	Cytochrome P450	80
Phosphatases	313	Other drugables	266
Transporters	264	Enzymes	626

Table 2: The SilenceSelect collection

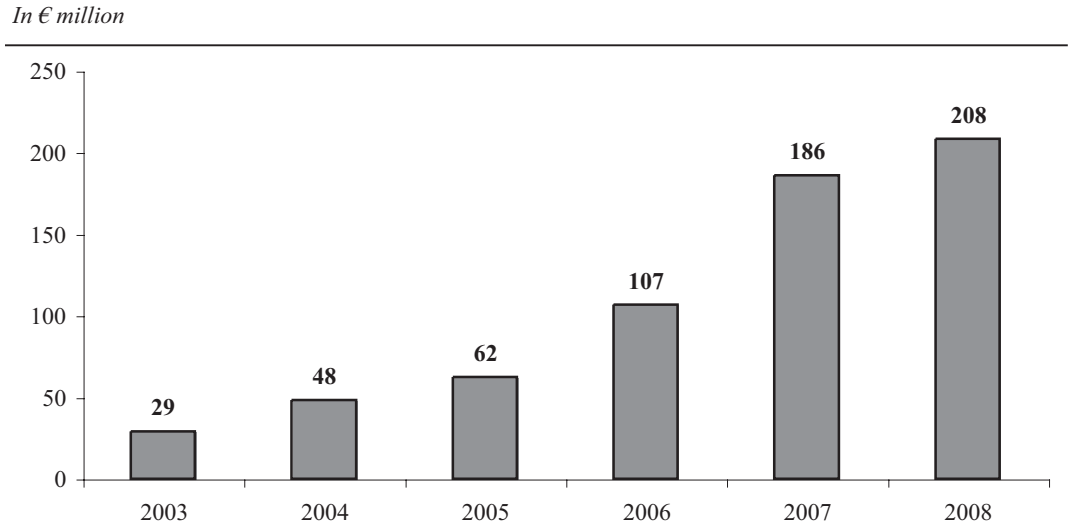
Services

Galadeno offers contract research services based on the production of custom adenoviruses as well as design of disease models in cellular assays together with high-throughput screening of SilenceSelect and FLeXSelect collections to discover novel protein targets. Galadeno can turn around production of custom adenoviruses to the customer in 3 months, whereas it can provide results from an assay screen with SilenceSelect and FLeXSelect within a 6-9 month timeframe. Proteins identified in these screens are further validated through a series of increasingly complex disease models. Through this process, the number of possible disease-causing proteins is narrowed down to a small number of proteins that have been shown to regulate the disease pathology in functional studies and are therefore of potential interest for drug development.

Market description

The market for these functional genomics technologies is significant and is expected to remain so for at least the next decade. The trend is continuing towards pharmaceutical companies outsourcing their target discovery activities as they are focusing on drug discovery based on validated targets. With 2002 revenues

at around €720 million, Scope[6] forecasts the functional genomics market to become more dominant in the future and to increase to around €1.7 billion by 2007. According to Scope, the industry is expected to grow at a rate of around 18 percent per annum until 2007. The functional genomics industry is highly fragmented but is seeing increased consolidation in the form of alliances and acquisitions with the action being primarily concentrated in the US and Europe. Sales of siRNA products in particular are growing rapidly. From an estimated $38 million (€29 million at an exchange rate of 1.3 $/€) in sales in 2003, BioWorld[7] projects that the worldwide market for siRNA products will grow to $271 million in 2008 (€208 million at a constant exchange rate of 1.3 $/€). Galadeno is active in the broad functional genomics market but also more specifically in the faster growing market for siRNA products. Therefore, and because the market is very diversified and limited or no financial information is available on the other participants in this market, the market share of Galdeno nor that of other participants can be reliably estimated.



Source: BioWorld

Figure 3: Worldwide sales for siRNA products

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Galadeno's market position

The adenoviral technology platform used by Galadeno has the ability to identify and validate targets through knock-down and knock-in of drugable genes, both in *in vitro* and *in vivo* cellular systems. The ability of the Company's viruses to deliver human DNA sequences to cultures of primary human cells is a crucial technological and commercial advantage. These primary cells closely reflect the *in vivo* situation and are preferred for target discovery over other cell types. Competing technologies to introduce genes into cells suffer from various combinations of inefficient transfection, a short window of efficacy and high variability. Adenoviral expression of the human DNA sequences have shown long-lasting effects, measured in weeks instead of hours or days (as is the case for competing technologies), which allows the study of a far broader range of therapeutically important effects.

Revenue is generated by sales of adenoviruses, as sets from the collection or individually, and from advanced contract research services in target discovery and validation, including design and validation of cell based screening assays. Galadeno's products and services have a significant track record in the marketplace, which shows potential for significant sales growth in a new and growing market sector. Galadeno has recently recruited Mr. Cris McReynolds, who will, as a director of business development, operate out of California to further develop Galadeno's position in the US market.

[6] Scope Marketing & Information Solutions "The Global Functional Genomics Industry", November 2002.
[7] BioWorld "RNAi Report 2005 Market Developments, Opportunities and Challenges", 2004.

Competitors

A number of biotechnology companies (Ambion, Dharmacon, Qiagen) offer siRNA oligonucleotides corresponding to genes in the human genome, both in (drugable) collection format as well as on gene-by-gene, custom basis. The drawback of companies providing oligonucleotide or plasmid-based siRNA and gene reagents lies in the delivery limitations that are inherent to that approach. Nonetheless, the strength of these companies lies in their distribution channels, technical support network, as well as their sales and marketing infrastructure. Viral delivery of human gene sequences has significant advantages over transfection technologies, which Galadeno believes provides it with a strong competitive edge. Competing companies in the viral delivery field (MP Biomedicals) do not presently offer arrayed collections of viruses expressing siRNA or cDNA. Several companies (Xantos, Cenix Bioscience) compete with Galadeno in providing functional screens for target discovery and validation, but the Company believes that it has a superior technology platform and its track record in signing on corporate partners is superior to these competitors.

The markets in which Galadeno operates are intensely competitive and undergo continuous change. Competitors are numerous and vary widely in market position, size and resources. Competition depends on the market, client and geographic area involved, which include a broad spectrum of reagent and services providers (see "*Risk factors*"). Galadeno has demonstrated that it can compete effectively in its markets by signing service deals, sales of reagents and obtaining payments of milestones.

Business unit drug discovery

Over the past two years Galapagos has used the knock-in and knock-down adenoviral vector technology to discover and validate novel small molecule drugable targets in osteoarthritis, osteoporosis, rheumatoid arthritis, Alzheimer's disease and asthma. Potential drug targets have been identified for all of these disease areas. Patent applications have been filed on all protein targets identified in Galapagos' programs, securing intellectual property protection on the use of these proteins as targets for drug discovery in the diseases.

Status Galapagos drug discovery

Disease area	Clinical goal	Human primary cell model	Targets validated	Hit identification programs	Hit-to-lead programs	Animal model programs
Osteoporosis	Increase bone formation	Mesenchymal precursor cells	10 *	2		
Rheumatoid arthritis	Prevent and stop joint destruction	Synovial fibroblasts	14 **	1	2	
Osteoarthritis	Stimulate anabolic repair	Articular chondrocytes	14	1		
Alzheimer's disease	Reduce β-amyloid production	Hek293 and SH-SY5Y-cell lines (no primary cells possible)	17			2***

* An additional 70 targets in the validation process
** An additional 160 targets in the validation process
*** Target for which Fast Follower molecules are available

Table 3: Galapagos' current proprietary drug discovery pipeline

Galapagos' aim is to use the drug targets discovered in its bone and joint disease programs to build a pipeline of new chemical entities to treat these diseases. As Galapagos will likely not be able to pursue all of these targets and the corresponding drugs through clinical development, projects will also be partnered and licensed at various stages during development. Additionally, Galapagos aims to out-license the intellectual property generated in its Alzheimer's disease program.

Table 3 shows Galapagos' current proprietary drug discovery pipeline. All programs have successfully completed the lengthy process of target identification and have generated a substantial number of vali-

dated targets. Galapagos' most advanced program in its core disease area is the rheumatoid arthritis program for targets I & II, currently progressing through lead identification.

Fast follower approach

In its osteoporosis and Alzheimer's disease discovery programs, Galapagos has identified several targets for which there are already molecules that are, or have been, in the clinic, but for different therapeutic indications. Several of these molecules have already been validated by Galapagos for the new indication based on the target information using Galapagos' cellular disease models. These molecules provide potential licensing opportunities that can greatly shorten the time to the clinic, as these have already successfully passed pre-clinical development. Alternatively, the molecules are attractive starting points for medicinal chemistry to design related compounds for the targeted diseases as it is believed that these have a lower risk profile and a higher chance of making it to the clinic than novel identified compounds resulting from screening. This strategy currently allows Galapagos to advance fast follower molecules against certain targets it identified for Alzheimer's disease directly into animal model programs as presented in table 3.

As it will be 2007 before the first drug candidates based on Galapagos' proprietary targets are anticipated to enter the clinic, it will be important to strengthen Galapagos' pipeline in the meantime by selectively in-licensing compounds. This in-licensing strategy might result in product candidates for Galapagos outside the bone and joint diseases. It will enable Galapagos to build the clinical expertise and infrastructure for internal projects as well as accelerate the development of Galapagos into a biotech company with a balanced and well-filled pipeline. With the recruitment of Dr. Gustaaf van Reet, the Company is well-positioned to build a pre-clinical and clinical team and has the necessary expertise in seeking and executing the in-licensing of candidate drugs.

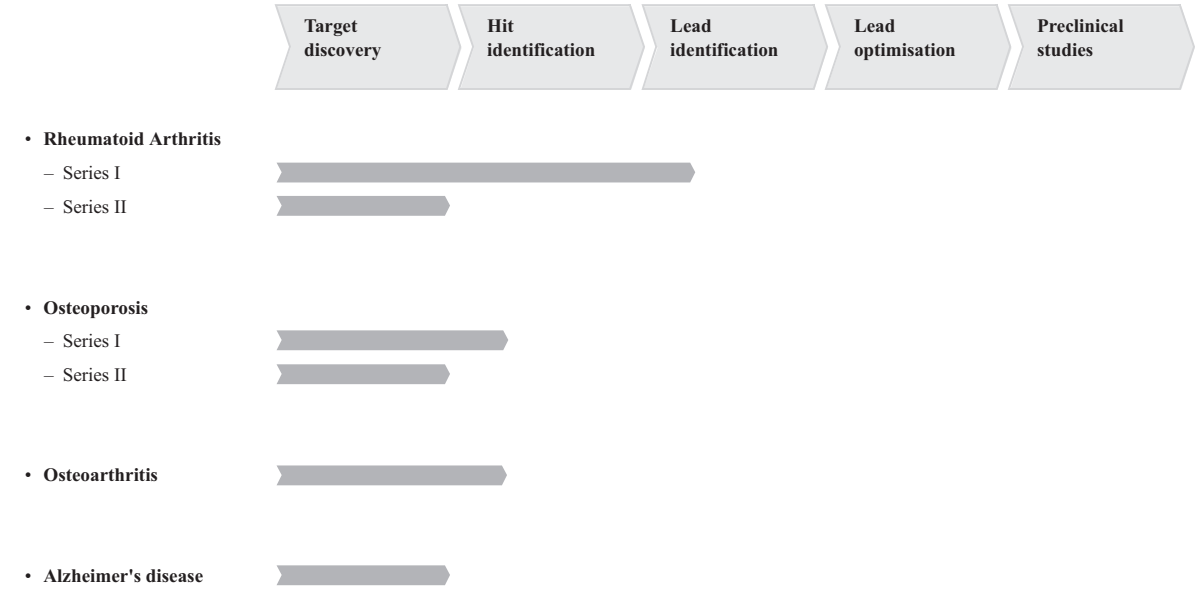


Figure 4: Drug discovery pipeline as of March 2005

Rheumatoid arthritis

Rheumatoid arthritis is a chronic disease whose hallmarks are joint destruction and inflammation leading to progressive disability. Production of collagenolytic proteases by the hypertrophic synovium (the pannus, an aggressive invasive tissue) is widely recognized to be the major cause of joint, cartilage and bone destruction. The focus of Galapagos' rheumatoid arthritis target discovery program is to identify novel targets whose modulation significantly diminishes the erosive activity of the pannus and where the medicine

has the potential to have a better safety profile and ease of use than the currently available anti-TNF biopharmaceuticals.

Program description

Rheumatoid arthritis was the first target validation program to deliver validated targets at Galapagos. In 2004, Galapagos initiated a drug discovery program aimed at identifying orally, bioavailable small molecule inhibitors for three proprietary kinase targets. For strategic reasons, Galapagos outsourced compound screening for the initial phase of this work. In July 2004, Galapagos therefore entered into a service agreement with BioFocus to perform hit identification and hit-to-lead work. This collaboration is free of milestone and royalty payments and all intellectual property arising from the collaboration vests with Galapagos. Three targets were screened against a focused kinase specific library and several series of low nano- or micromolar hits have been identified and validated using the Company's cellular models. Hits have now entered a hit-to-lead program at BioFocus.

Market description[8]

The autoimmune diseases, such as rheumatoid arthritis, are receiving increasing attention in the pharmaceutical industry as progress is made in the understanding of immune and inflammatory processes. It is predicted that the annual value of the market for drugs used to treat autoimmune disease is currently over €7 billion and will exceed €14 billion in the next few years. Rheumatoid arthritis is one of the more common and difficult to treat autoimmune diseases and there is a great deal of interest in the discovery of novel drugs to treat this condition.

Non-steroidal anti-inflammatory drugs (NSAIDs) have been the mainstay of the treatment of rheumatoid and other forms of arthritis. However, NSAIDs relieve the symptoms of arthritis such as pain and swelling without changing the course of underlying disease. There have been considerable efforts to develop drugs that modify disease progression and these have met with variable success. Immunosuppressants and anti-metabolite drugs are effective but have dose-limiting adverse effects.

During the last few years however, basic research efforts have significantly progressed the understanding of autoimmune disorders such as rheumatoid arthritis. The disease is considered to be caused by increased chemotactic and immunostimulatory activity within the joints of sufferers resulting in an influx of inflammatory cells. The presence of activated immune cells increases local levels of cytokines and other inflammatory mediators propagating this process and supporting pannus proliferation and neovasculaturization, cartilage and bone erosion and eventual joint destruction.

One of the most exciting developments in the management of rheumatoid arthritis has been the introduction of the anti-TNF biopharmaceuticals. These drugs represent a real step forward in the development of anti-inflammatory therapies, although an increased incidence of rare diseases has been reported related to the general immuno-suppressive activity of these agents. They are also limited to intravenous dosing, which is not preferable for a chronic disease.

Galapagos' market position

The aim of Galapagos' drug discovery program in rheumatoid arthritis is to find a therapeutic that is orally available and inhibits the wide-range of triggers that cause the disease. Galapagos' proprietary drug targets interact with the synoviocytes. Inhibition of these targets in human synoviocytes *in vitro* prevents matrix destruction induced by a cocktail of inflammatory cytokines. This approach holds the promise to reduce and even stop joint destruction. The added advantage over the anti-TNF therapies is that it will be an oral therapy that likely will have less immunosuppressive activity. The resulting therapeutic approach is therefore expected to be complementary to, as well as an improvement over, existing therapies.

Osteoarthritis

Osteoarthritis is the most common form of arthritis. It is a degenerative disease characterized by joint destruction and loss of articular cartilage. For years, scientists thought that osteoarthritis was simply a dis-

[8] Sources: Company estimates based on Datamonitor Market Research, "Global Overview Arthritis", January 2004

ease of "wear and tear" that occurred in joints as people got older. In the last decade, however, research has shown that there is more to the disorder than ageing alone. The production, maintenance, and breakdown of cartilage, as well as bone changes in osteoarthritis, are now seen as a series or cascade of events.

Program description

The focus of Galapagos' osteoarthritis program has been to identify disease modifying therapies for early osteoarthritis. The strategy has been to identify genes that stimulate anabolic repair processes (chondrogenesis) in affected joints. Galapagos' proprietary drug targets that resulted from this program target the chondrocytes. Inhibition of these targets in human chondrocytes *in vitro* leads to a net production of stable cartilage without significant increase in catabolic activity and should therefore be able to prevent and repair early damage to the cartilage in patients. One of these targets has entered drug discovery and a compound screen has been initiated.

***Market description*[9]**

It is expected that with the ageing of the population, more individuals will be prone to develop osteoarthritis. As mobility of seniors is of high importance in order to maintain a high quality of life, preventing the severity of osteoarthritis is seen as immense clinical need over the next decade. Given a market of already reaching €7 billion and the absence of a disease modifying treatment, the potential of a disease modifying medicine is well in excess of that number.

Many osteoarthritis patients have pain that persists despite the use of simple pain relievers. Some of these patients use NSAIDs instead. Health care providers are concerned about long-term NSAID use because of possible serious side effects. None of the currently available therapies prevent osteoarthritis or even reverse or block the disease process. Present treatments act by relieving the symptoms. Researchers are looking for drugs that would prevent, slow down or reverse joint damage, such as growth factors or other natural chemical messengers. These potential medicines may be able to stimulate cartilage growth or repair.

Galapagos' market position

The aim of Galapagos' osteoarthritis project is to find an orally available small molecule therapeutic that stimulates the production of stable cartilage in the joints that is safe for chronic use over an extended period.
Galapagos' osteoarthritis research has resulted in the discovery of a number of targets. Inhibition of these targets in the chondrocytes *in vitro* leads to a net production of stable cartilage. Therefore drugs targeting these targets may be able to prevent and repair early damage to the cartilage. The Company's therapeutic approach aims to prevent and stop cartilage degradation at an early stage of the disease. The resulting therapeutic approach is therefore expected to be superior to existing therapies.
In view of (i) the difficulty of identifying patients in early stage osteoarthritis and (ii) the size and expense of the clinical trials, Galapagos prefers to enter into a strategic partnership with a large pharmaceutical company prior to entering into pre-clinical development for the osteoarthritis program. In collaboration with TNO in Leiden, Galapagos is developing small animal models for early stage human osteoarthritis reading out a relevant clinical end-point that could prove valuable in progressing compounds into pre-clinical development.

Osteoporosis

Osteoporosis is an age-related disorder characterized by low bone mass and structural deterioration of bone tissue, leading to porous bones and an increased risk of fracture. Bone is a dynamic tissue, with bone being removed (resorbed) and added (formed) throughout one's lifetime. Osteoporosis develops when bone resorption occurs too quickly or if formation occurs too slowly. One out of every two women

[8] Sources: Company estimates based on Datamonitor Market Research, "Global Overview Arthritis", January 2004

over 50 and one in every four men over 50 will have an osteoporosis-related fracture in their lifetime. The most common cause of osteoporosis in women is loss of estrogen, which occurs at menopause.
Current therapies for osteoporosis include estrogen and selective estrogen receptor modulators, which inhibit osteoclast (the cells that remove bone) formation, and bisphosphonates, which inhibit osteoclastic bone resorption.

Program description

It is generally accepted that bone anabolic therapy is required to increase bone formation and reduce the fracture rate. Therefore, Galapagos has chosen to focus its research efforts on targets that induce the formation of bone. Galapagos' osteoporosis program has identified a number of targets with the potential to increase osteoblast mediated bone formation. One of these targets has moved into compound validation, where inhibitors of the target have demonstrated activity in a bone mineralizing assay and a rat organ culture model of bone formation. Two further targets have entered drug discovery and will be screened against compound collections shortly.

Market description[10]

Osteoporosis is a major public health threat for 44 million Americans. In the US today, 10 million individuals already have osteoporosis and 34 million more have low bone mass, placing them at increased risk for this disease. Of the 10 million Americans estimated to have osteoporosis, 8 million are women. Estimated direct expenditures (hospitals and nursing homes) in the US for osteoporosis and related fractures are €11 billion each year. Worldwide sales of osteoporosis drugs were well over €7 billion in 2004. A number of products are currently approved for the treatment of postmenopausal osteoporosis. Most of these drugs are known as anti-resorptives because they inhibit bone loss by blocking the action of osteoclasts.

Galapagos' market position

In contrast to the existing therapies that aim to preserve current bone mass, Galapagos' proprietary targets have been shown to be able to induce bone formation in *in vitro* functional studies. The therapeutics that act on such targets should therefore be complementary, if not superior, to the existing drugs as they will potentially be able to add bone mass to individuals with brittle bones and so not only stop the progression of the disease but induce healing of the bone.

Competitors

Galapagos drug discovery is developing products targeting very large markets. Because each of Galapagos' core disease areas has an estimated market value of €7 billion or more, one should expect severe competition in bringing drugs into these treatment markets. Competition comes from the large pharmaceutical companies like Abbott, Amgen, GMS, Eli Lilly, GlaxoSmithKline, Johnson & Johnson, Merck, Novartis, Procter & Gamble, Roche, Pfizer, Schering-Plough and Wyeth as well as from specialized biotechnology companies like ProStrakan. These companies have projects targeting these markets in various stages of development, however are applying different approaches: small molecule drugs, antibodies and protein therapeutics. Several of these companies are developing compounds based on the same targets. In view of the large interest of pharmaceutical companies in getting access to targets of Galapagos and discussions with these companies regarding their drug development programs, the Company believes that the number of competitors in terms of bringing truly innovative drugs to the market is relatively small. Most companies focus on developing products based on classical disease pathways and targets, while Galapagos' approach, *i.e.* screening the human drugable genome to discover novel drug targets, could result in novel treatment methods. Galapagos has filed patent applications aimed at protecting the function of the drug targets that it has identified and validated, thereby limiting the probability for competition for drugs acting via these targets. Due to the fact that the osteoporosis, osteoarthritis, and rheumatoid arthritis markets are large, most major pharmaceutical companies have discovery pro-

[10] Market data are based on data published on the website of the National Osteoporosis Foundation, www.nof.org and Scrip reports, "Osteoporosis management: An analysis of market dynamics and future treatments", May 2003.

grams in one or more of these areas. For Galapagos this is a potential advantage as it allows more opportunity for partnerships. Galapagos intends to partner certain programs at certain stages of development with companies that are well-positioned in this market and who will be able to progress the product to the market in the shortest time.

Non-core disease areas

Alzheimer's disease is a neurological disorder clinically characterized by the progressive loss of intellectual capacities leading to cognitive impairment and ultimately to full dementia. Genetic studies have identified that amyloid β peptides originating from processed amyloid β precursor protein (APP) are involved in both early and late-onset Alzheimer's disease. Most pharmaceutical and academic research effort is focused on perturbed APP processing by the enzymes (β- or γ-secretase) responsible for generation of amyloid b peptide. Targeting these pathways has generated pre-clinical and phase I compounds. To date to our knowledge no compounds targeting β- or γ-secretase enzymes have reached phase II or III clinical trials. The Alzheimer's disease program at Galapagos has identified novel targets on the APP processing pathway that regulate amyloid β levels and that are not β- or γ-secretase enzymes.
In view of the difficulty of designing and executing clinical trials for Alzheimer's disease and the complexity of the disease, the Company aims to partner the Alzheimer's disease program with a pharmaceutical or biotech company.

Strategic alliances and partnerships

The Company's revenue structure has included service activities, reagent sales, collaborative research funding, milestone payments, royalty agreements and grants. Through these means, Galapagos has been able to generate revenue that has contributed to its internal discovery programs. The interactions with partners have enabled Galapagos to further develop its technology platform and to focus its internal program on creating long-term value. The Company has secured partnerships with the following companies in the past 18 months:

Partnerships with access to targets

- *GlaxoSmithKline – partnered the asthma program.* GlaxoSmithKline has licensed targets from the asthma program and entered into a three-year research alliance with Galadeno. Under the terms of the agreement, Galapagos has received an upfront payment for target licensing and technology access and research funding, and is eligible for milestone payments on targets taken into development by GlaxoSmithKline;
- *Wyeth – access to osteoporosis program.* Wyeth has obtained rights to evaluate and license targets from the Galapagos knock-down osteoporosis program. The first milestone payments were obtained in October 2004;
- *Boehringer Ingelheim – Infectious disease screen with SilenceSelect.* Boehringer has purchased the SilenceSelect collection for an infectious disease target discovery screen. The milestone payment for licensing of the identified targets was obtained in November 2004;

Partnerships for screens

- *Bayer – Atherosclerosis screen with SilenceSelect and FLeXSelect*. Bayer has contracted the development of an atherosclerosis assay and the subsequent screening with the SilenceSelect and FLeXSelect collections;
- *Degussa – Nutraceutical screen*. Degussa has contracted the screening of proprietary extract collections in arthritis assays;
- *Vertex – Access to kinase collection of SilenceSelect.* Vertex has purchased a subset of the SilenceSelect library to perform screens for their internal disease programs;

Reagent supply agreements

- *AstraZeneca – Reagent supply agreement.* A global agreement for the purchase of adenoviruses from either the Company's collections or custom made, with a commitment to order at least a certain number of reagents; and
- *Celgene – Reagent supply agreement.* Celgene has purchased access to the SilenceSelect and FLeXSelect collections for target discovery in cancer and inflammatory diseases.

The Company has no other significant contracts. In 2004, the largest customer represented approximately 20% of the total revenues. The Company has not made significant investments for specific client contracts.

Patents and intellectual property

Introduction

The Company's success and ability to compete depend in large part on its ability to protect its proprietary technology and information and to operate without infringing the intellectual property rights of others. The Company relies on a combination of patent, trademark and trade secret laws, as well as confidentiality, assignment and licensing agreements, to establish and protect its proprietary and intellectual property rights. Galapagos' policy is to actively seek patent protection of its intellectual property in the United States and Europe, as well as in other jurisdictions as appropriate. In addition to using external advisors, the Company has dedicated internal resources to managing and overseeing its intellectual property rights.

Strategy and procedures

In partnering projects, the Company has been very careful to limit the partners' exclusivity to the combination of the cellular assay and the gene library screened. Patent applications filed on the partnered projects relate to the gene function specific for the particular disease under study and does not prevent this gene being claimed in the future for the treatment of other diseases. Galapagos is free to partner all combinations of assays and libraries not previously partnered.

Galapagos' policy is to continue to file patent applications to protect inventions and improvements to inventions that are commercially important to the development of its business. The Company seeks European, United States and other international patent protection as may be appropriate for a variety of technologies, including: new target discovery methodologies and other research tools, target molecules that are associated with disease states identified in the Company's screens, and lead compounds that can affect disease pathways. Galapagos also intends to seek patent protection or rely upon trade secret rights to protect other technologies that may be used to discover and validate targets and that may be used to identify and develop novel drugs.

Galapagos has built an intellectual property portfolio aimed at protecting its technology platform as well as the useful inventions relating to the drug targets that such technology has identified and validated. Procedures have been put in place to protect adequately the intellectual property assets of the Company:

- All research activities are recorded in laboratory notebooks according to a standard operating procedure. The notebooks are subject to internal audits on a regular basis to verify compliance with these operating procedures;
- All management and employees have signed a contract that assigns all their inventions to Galapagos and that includes a confidentiality agreement;
- All research activities are monitored by the project leaders, the management, and the IP manager in order to identify patentable subject matter. Inventions are filed as early as possible to establish a priority date. Active research is pursued during the priority year in order to further enable the claims. During this priority year or thereafter, the Company may abandon the application for strategic reasons or if the invention does not procure the desired results; and

- The patent portfolio is reviewed by the management on a quarterly basis. Martin Savitzky Esq., counsel to the intellectual property law firm of Synnestvedt & Lechner, represents Galapagos in patent matters in the United States, while the firm of Arnold & Siedsma represents Galapagos in patent matters in all other countries.

Patents and freedom to operate

At the inception of Galapagos in 1999, the Company obtained royalty-free, fully paid-up exclusive licenses to intellectual property owned by IntroGene (the predecessor of Crucell) and Tibotec, the founding parent companies, for use within the field of functional genomics. The licensed intellectual property includes 16 patents and patent applications from Crucell and 3 from Tibotec. The portfolio licensed from Crucell includes a series of patents covering the use of PER.C6 technology for the production of recombinant adenoviruses. These licenses were renewed by means of two separate agreements in May and June 2001 with minor modifications as a result of the private placement that took place during 2002 (see "*Related party transactions*"). These licenses are not linked to the continued shareholdership of Crucell and Tibotec in Galapagos. Their term is the latter of (i) the term of the Crucell respectively Tibotec patents or (ii) 6 March 2017.

The Company focused initially on developing its technology platform and securing patents claiming inventions discovered during this process. Presently, the Company has one family of issued patents ("High-throughput screening of gene function using libraries for functional genomics applications": US 6,340,595; US 6,413,776; EP 1022335; NZ 508995; AU 756605) covering the construction of recombinant adenoviral libraries and their use in an arrayed format for functional genomics applications. These patent applications were filed between June 1998 and July 1999, and last 20 years as from the filing date. The Company's patent estate also includes patent families corresponding to the following pending published patent applications:

- WO 02/24933 claims adenoviral vector modifications that enable gene delivery into T-cells, B-cells and Mast cells, all of which are cell types that are resistant to gene delivery using standard transfection technologies;
- WO 03/020931 claims the use of certain siRNA expression vectors for *in situ* production of gene specific siRNA, leading to the knock-down of the corresponding gene product; and
- WO 04/094636 claims the specific siRNA sequences contained in Galapagos' SilenceSelect protein knock-down library.

Additionally, through target discovery and validation research in its core disease area, the Company has made multiple inventions on the functions of certain gene products and their role in disease processes. The Company has filed multiple patent applications, all of which are still under examination, to protect these inventions: seven in Alzheimer's disease, six in osteoporosis, two in rheumatoid arthritis and one in osteoarthritis.

Prior to the private placement in 2002, the Company's US patent attorneys conducted a freedom to operate study with respect to the adenoviral vector technology used by Galapagos for over-expression and knock-down of human genes for functional genomics applications. This study did not uncover any third party granted patents having claims that would be infringed by Galapagos' activities.

The Company continued to monitor the patent landscape with respect to its core technologies and in mid-2003 identified US patent application SN 10/195,034, and its PCT US02/22010 counterpart, which claims certain aspects of the knock-down technology, and which if granted as claimed, would likely cover aspects of the siRNA knockdown technology applied by Galapagos. In mid-December 2003, the Company secured from Ambion Inc. (the exclusive licensee) a non-exclusive sub-license to these patent applications, which sub-license is limited to the Company's present uses of the claimed knock-down technology in combination with adenoviral vectors. This sub-license may need to be renewed prior to its expiration date in mid-December 2008.

In January and February 2005, the 2002 knock-down freedom to operate study was updated by the Company's US patent attorneys. Although the study concluded that no granted US or European patent included valid claims that presently cover Galapagos activities, due to the complexity of the siRNA patent landscape, Galapagos will continue to monitor the progress of those US and European patents and applications noted in the study to be of potential concern to Galapagos.

Grants and subsidies

Galapagos has received and is receiving grants under three programs:

- *Instituut voor de aanmoediging van Innovatie door Wetenschap en Technologie in Vlaanderen ("IWT")*: Galapagos has obtained four IWT grants in Belgium. The largest project was "Construction and screening of adenoviral expression cDNA libraries for the discovery and validation of new therapeutic targets" (1999, €2.7 million). The other IWT grants are: "Functional characterization of G-protein coupled receptors (GPCRs) and kinases" (2001, €2.6 million), "Identification of therapeutic targets for rheumatoid arthritis, osteoarthritis and osteoporosis" (2002, €1.2 million) and "A hunt for novel Alzheimer's disease drug targets" (2003, €1.4 million). The grants cover between 40 and 60% of the project costs.
- *Technologische Samenwerking* ("TS"): in this Dutch government program of the Ministry of Economic Affairs, technology collaborations between Dutch and academic institutes or (foreign) companies are eligible for a grant on research costs. The following TS grants were obtained: "New drug targets by construction and screening of an adenoviral library containing defined full-length genes" (1999, €1.3 million), "Development of a knockdown technology, applicable for target discovery *in vitro* and *in vivo* validation" (2001, €1.4 million), "Drug target validation using novel proteomics approaches"(2002, €1.6 million) and "Development of a technology platform for target discovery and validation in early osteoarthritis" (2004, €1.0 million). The grants cover between 37.5 and 60% of the project costs.
- *Wet ter Bevordering van Speur- en Ontwikkelingswerk* ("WBSO"): under this program, the Company receives an annual reduction of up to 40% in the wage tax and social security payments levied with respect to its researchers in the Netherlands. These grants are reported on the face of the profit and loss accounts by means of monthly provisions.

The Company has been granted a total of €13 million in subsidies since its inception, of which €11 million has already been recognized as revenues. However, due to strategic choices and changes in its research programs, not all of the remaining subsidies will be received by the Company. The granted subsidies are subject to periodic reporting on the status of the project in relation to the original plan. If the Company decides to terminate research on certain projects, this affects the level of subsidies related to such project. Galapagos will continue to submit for funding only those projects that are in line with the strategic direction of its research program.

The reduced target discovery activities of Galapagos, however, might affect the level of subsidy for future projects. This has been reflected in an anticipated 17% decrease of grant income in 2005. The Company's budget has accordingly been adjusted to €2 million in grant income in 2005. Galapagos will try to secure maximum grant funding for its drug discovery as well as its Galadeno activities by Belgian, Dutch and EU sources.

Litigation

Neither the Company, nor any of its subsidiaries, are involved in any litigation or arbitration proceedings which have had, during the 12 months preceding the date of this Prospectus, or which, to the best of the Company's knowledge, may have, a material effect on its financial condition and/or results of operations nor is the Company aware that any such proceedings are pending or threatened.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis of the current financial condition and results of operations should be read in conjunction with the historical financial statements of Galapagos, audited by Deloitte & Partners Bedrijfsrevisoren as of and for the years ending 31 December, 2004, 2003 and 2002 and related notes, included in this Prospectus under "Index to consolidated financial information". "General outlook" also includes certain pro-forma management figures for the Galadeno business unit which are based on management estimates. These pro-forma management figures have not been derived from audited consolidated financial statements and hence are not audited by Deloitte & Partners Bedrijfsrevisoren.

This discussion contains forward-looking statements concerning Galapagos' operations, economic performance and financial condition. These forward-looking statements include statements concerning future revenues, expenses and capital expenditures and possible changes in the industry and competitive environment. Because these forward-looking statements involve risks and uncertainties, Galapagos' actual results may differ materially from the results expressed or implied in these statements. See also "Important information, Forward-looking statements" and "Risk factors".

All financial figures in this discussion are based on reports drawn up according to IFRS standards. Certain figures mentioned in the text paragraphs of this chapter have been rounded and may not conform to the exact total, which is set out in the tables herein.

Overview

Galapagos NV was incorporated in 1999 under the laws of Belgium with its statutory seat in Mechelen, Belgium, and has a 100% participation in Galapagos Genomics BV, based in Leiden, the Netherlands.

Since its inception in 1999, Galapagos has developed a hybrid business model in which it combines its proprietary disease programs with service activities for pharmaceutical and biotechnology partners. Galapagos has built a promising drug target and discovery pipeline and a profitable service division.

Galapagos has identified and validated drug targets in five disease areas:
- Three bone and joint diseases:
    - osteoarthritis;
    - osteoporosis;
    - rheumatoid arthritis;
- Asthma; and
- Alzheimer's disease.

The progression of targets into drug discovery and the subsequent pre-clinical and clinical phases of development require large financial and operational resources and the Company has therefore decided to focus on the bone and joint disease programs. The asthma program, including the validated target set, has been out-licensed to GlaxoSmithKline, while the targets in the Alzheimer's disease area are scheduled to be out-licensed in 2005.

During the fourth quarter of 2004, the Company was able to close a number of important deals and reached several milestones in existing collaborations, which resulted in €2.2 million revenues in 2004 and €0.8 million in deferred revenues:
- Strategic partnership with GlaxoSmithKline in asthma, with a substantial upfront payment for target licensing and technology access, as well as a 3-year research commitment;
- SilenceSelect discovery deal with Celgene;
- SilenceSelect reagent deal with Vertex;

- Custom reagent deal with Genentech;
- Milestone payment in osteoporosis collaboration with Wyeth;
- Milestone payment in cardiovascular collaboration with Bayer;
- Target licensing milestone in collaboration with Boehringer Ingelheim; and
- SilenceSelect patent sub-license agreement with Invitrogen.

As a result of the deal closings, Galapagos increased its revenues for 2004 to €7.8 million from €6.5 million in 2003. At the same time, the Company has been able to maintain its expenses at approximately the same level as the previous year. Galapagos ended the year 2004 with a cash position of €10.3 million.

Galapagos' disease programs have all yielded validated targets in 2004. The Company's most advanced drug discovery project focuses on progressing three targets in its rheumatoid arthritis program. These targets belong to the "kinase" target class and have yielded promising small molecule hits. Kinases have proven to be good drug targets, with as an example Gleevec, a recently approved oncology product from Novartis, which is based on a kinase target. The Company recently entered two targets identified in its osteoporosis program and one target from its osteoarthritis program into drug discovery.

Summary key consolidated financial figures 2002-2004

The key figures set out below should be read in conjunction with the Company's consolidated financial information and the notes thereto included in this Prospectus in "Index to consolidated financial information".

Sources of revenue

Galapagos has been able to generate revenues from:
- Partnership revenues in discovery programs consisting of upfront, research and milestone payments;
- Contract research services;
- Sales of research reagents including:
    - Adenoviruses from its SilenceSelect and FLeXSelect collections, individually, as sets or as the complete collection;
    - Adenoviruses as custom knock-in or knock-down reagents through its AdenoSelect program;
- Out-licensing of targets resulting in up-front and milestone payments;
- Sub-licensing of Galapagos' intellectual property; and
- Grants and subsidies.

Revenue recognition rules

- Sales of research reagents are recognized as product revenue when shipped;
- Contract research and development services are recognized as service revenues at fair value as such services are rendered. These services are usually in the form of a defined number of the Company's full-time equivalent at a specified rate per FTE;
- Sales from the Company's target discovery and development business typically comprise multiple elements combined in one or more license agreements. The elements in such multiple element arrangements are accounted for as follows:
    - Upfront non-refundable license fees are only recognized in the income statement as revenue at fair value when products were delivered and/or services were rendered in a separate transaction and the Company has fulfilled all conditions and obligations under the related agreement. In case of continuing involvement of the Company, the upfront fee would not be regarded as a separate transaction and the upfront non-refundable license fees will be deferred at fair value over the period of the collaboration;
    - Library and technology access fees are recognized as license revenue over the period in which access is granted;
    - Fees charged for the delivery of library information are recognized as license revenue when

delivered, only if the Company has no continuing involvement in the use of the information, otherwise revenue is recognized similarly as upfront non- refundable license fees;
  - Fees for options to negotiate or license are recognized as license revenue at fair value, over the option period unless the Company has no continuing involvement with the licensed targets, in which case such fees are recognized as license revenue when earned; and
  - Technical milestone payments are recognized as license revenues when earned, unless the Company has continuing involvement in the development, in which case the technical milestone revenue is ratably recognized over the remaining period of the collaboration;
- Royalties are recorded as license revenue when earned; and
- The Company receives operational grants from certain governmental agencies, which support the Company's research and development efforts in defined projects. These grants generally aim to partly reimburse approved expenditures incurred as defined in research and development efforts of the Company and are recorded as grant income.

CONSOLIDATED INCOME STATEMENT	2004	2003	2002
Thousands of EUR / year ended 31 December			
Product revenue	2,789	2,815	2,727
License revenue	1,918	426	65
Service revenue	522	1,014	113
Research collaborations	150	264	113
Income from government grants	2,398	1,953	2,692
Total revenues	**7,777**	**6,472**	**5,710**
Cost of goods & services sold	-1,288	-1,166	-1,256
Gross profit	6,489	5,306	4,454
Research & development costs	-5,443	-5,378	-4,100
Sales and marketing costs	-134	-102	-62
General and administrative costs	-4,520	-4,493	-4,521
Operating profit/loss	**-3,608**	**-4,667**	**-4,229**
Finance income cost	40	86	-92
Taxes	-21	-85	-64
NET PROFIT/LOSS FOR THE PERIOD	**-3,589**	**-4,666**	**-4,385**
Weighted average number of ordinary Shares in issue ('000)	**23,754**	**23,754**	**19,387**
Basic Loss per Share (EUR)	-0.15	-0.20	-0.23
Weighted average number of ordinary Shares in issue ('000), taking into account the 4:1 reverse stock split	**5,939**	**5,939**	**4,847**
Basic Loss per Share (EUR) taking into account the 4:1 reverse stock split	-0.60	-0.79	-0.90

Table 4: Consolidated income statement

Revenues

Total revenues increased from €5.7 million in 2002 to €7.8 million in 2004. This growth reflects the increasing interest in Galadeno's product offering. Galadeno has been able to develop strong working relationships with several leading pharmaceutical companies, which have become a source of repeat business for Galadeno. Depending on the nature of the contract, the repeat business can take the form of committed payments of fully loaded FTE costs, the payment of technical milestones that have been provided in the contract and the continuing sale of research reagents. In order to further increase revenues, the Company combines a competitive pricing policy with increased marketing efforts.

Income from grants and subsidies fluctuated between €2.0 million and €2.7 million over the period 2002-2004. In 2004, grants and subsidies represented 31% of the total revenues. The Company has been awarded a total of €13 million in grants and subsidies since its inception. A total of €11 million has already been recorded as revenues. However, not all of the remaining grants and subsidies will be actually received, due to strategic choices and changes in its research programs. These grants generally take the form of rebates or refunds of specific expenses incurred in connection with approved scientific research activities. Even though the level of grant income might diminish as the Company moves from biology research into drug development, Galapagos will try to secure maximum grant funding from Belgian, Dutch and EU sources. Galapagos will submit for funding only those projects that are in line with the strategic direction of its research program.

Operating costs and expenses

Galapagos expenses consist of three important components:

- Costs of goods and services sold, which are related to the sale of products (reagents) and services by the Galadeno business unit. These costs have remained stable over the last few years;
- Research and development costs, primarily to support the Company's technology development, target identification and drug discovery activities. These costs mainly consist of personnel costs, but also include the costs for laboratory disposables, subcontracting expenses and depreciation charges. The importance of this subcontracting has increased over the last year as Galapagos is moving its targets into drug discovery, and initially these activities are outsourced to specialized contract research organizations; and
- General and administrative costs, which have stabilized at €4.5 million over the last few years. They consist primarily of costs of professional services (such as financial, legal, intellectual property and accounting), patent-related fees, salaries and other personnel-related expenses (including stock-based compensation), general expenses and lease and leasehold improvement payments.

Personnel costs are the largest individual component of Galapagos' operating costs.

PERSONNEL COSTS	2004	2003	2002
Thousands of EUR / year ended 31 December			
Wages and salaries	4,221	4,163	4,049
Social security costs	796	860	793
Pension costs	159	112	126
Other costs	324	249	195
Total	**5,500**	**5,384**	**5,163**

Table 5: Overview of personnel costs

Total personnel costs have remained relatively stable during the last three years. The increase in 2004 does not take into account the fact that near the end of 2004, 15 employees (mainly laboratory personnel) were made redundant. This was a necessary step to make the shift from a biology based technology company into product based drug discovery. The cost of this redundancy program was limited, as the Company managed to outplace 6 of these 15 employees.

Total operating costs have been carefully managed. As a consequence, the costs increased at a slower rate than the increase in revenues, resulting in a decrease of the operating loss in 2004 to €3.6 million. Within this cost structure, no supplier accounts for more than 10% of the total operating costs nor more than 15% of the total operating costs excluding personnel costs.

Net results

The year 2004 closed with a consolidated net loss of €3.6 million. This loss has been added to the accumulated consolidated deficit, which stood at €21.2 million by the end of 2004.

Cash flow statement

CONSOLIDATED CASH FLOW STATEMENT	2004	2003	2002
Thousands of EUR / year ended 31 December			
Result from operations	-3,608	-4,667	-4,229
Adjustments for:			
Depreciation of property, plant and equipment	763	782	701
Amortization of intangible fixed assets	240	203	188
Impairment loss on intangible assets	93	0	0
Write-off of inventory	0	107	0
Operating cash flows before movements in working capital	**-2,512**	**-3,575**	**-3,340**
(Increase)/decrease in inventories	51	-70	-105
(Increase)/decrease in receivables	844	-437	-1,293
Increase/(decrease) in payables	-936	1,460	-505
Cash used in operations	***-2,553***	***-2,622***	***-5,243***
Interest paid	-157	-155	-277
CASH FLOWS FROM OPERATING ACTIVITIES	-2,710	-2,777	-5,520
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	-103	-279	-1,130
Purchase of and expenditures in intangible assets	-45	-261	-211
Net cash used in investing activities	**-148**	**-540**	**-1,341**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares		11,354	11,461
Repayment of finance lease obligations	-106	-98	-90
Interest received and other financial income	202	256	185
Net cash used in financing activities	**96**	**11,512**	**11,556**
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**-2,762**	**8,195**	**4,696**
Movement in cash and cash equivalents			
At start of the year	13,036	4,841	145
Increase/(decrease)	-2,762	8,195	4,696
At the end of the year	**10,274**	**13,036**	**4,841**

Table 6: Consolidated cash flow statement

In 2002, the Issuer's capital was increased by €27.9 million in several steps, partly by incorporation of a convertible loan (€4.5 million) and partly in cash. Of the cash amount, €12.0 million was paid-up in 2002, while the remainder of €11.4 million was paid up in 2003. The costs related to the capital increases (€0.8 million in total) were deducted from the proceeds.

Due to the increasing revenues and the strict cost control, the cash burn from the operating activities has decreased substantially in 2003 and 2004, as compared to 2002. Also, the cash used for investment activities was lowered during this period as the laboratories in both facilities, Mechelen and Leiden, were fully

equipped for their activities at the time. Consequently, the capital raised in 2002 in combination with revenue income has been sufficient to fund the operations. The Company has a strict debtor follow-up system in place, which also has a positive influence on the annual cash burn.

Balance sheet

CONSOLIDATED BALANCE SHEET	2004	2003	2002
Thousands of EUR / year ended 31 December			
Assets			
Intangible assets	447	735	677
Property, plant and equipment	2,625	3,284	3,786
Working capital assets	2,267	3,162	2,762
Cash and cash equivalents	10,274	13,036	4,841
Total assets	**15,613**	**20,217**	**12,066**
Equity and liabilities			
Capital and reserves	31,557	31,552	20,182
Accumulated losses	-21,190	-17,601	-12,935
Non-current liabilities	1,413	1,519	1,617
Current liabilities	3,833	4,747	3,202
Total equity and liabilities	**15,613**	**20,217**	**12,066**

Table 7: Consolidated balance sheet

Galapagos has a limited amount of fixed assets. Intangible fixed assets are mainly capitalized development costs (related to the SilenceSelect library) and licenses. They have decreased over the last few years because of regular amortization of intangible assets. The average amortization period varies from 4 to 10 years. Tangible fixed assets are mainly composed of laboratory equipment and installations. They have also decreased over the last few years since the laboratories at both sites were fully equipped for the activities at the time and have required limited additional investments.

Working capital assets and liabilities fluctuate strongly because milestone fees and fees from research services are strongly concentrated and not necessarily spread out over the period of the contract.

Off-balance sheet commitments

The Company has off-balance sheet commitments related to the rent for the buildings occupied by Galapagos in Mechelen and Leiden. At 31 December 2004, these commitments amounted to €1.9 million, the payment of which will be spread over the next 9 years. See also "*Index to consolidated financial information*".

Taxation

Since its inception, Galapagos has not made profits and thus has not paid corporate taxes. Its accumulated losses amounted to €21.2 million at 31 December 2004. These losses can be off-set against future profits if and when they are made. However, no deferred tax assets were recorded so far because it was not probable that sufficient taxable profits would exist in the foreseeable future.

Recent business developments

This section highlights the major events that occurred since January 2005 until the date of the Prospectus.

On 29 March, TNO Pharma and Galapagos announced a multi-target characterization collaboration. In this project, TNO Pharma will apply their expertise and experience in protein chemistry to further characterize Galapagos' proprietary disease targets.

On 31 March, Galapagos announced the appointment of Gustaaf Van Reet as Vice President Corporate Development. Dr. Van Reet will be responsible for the in-licensing of product candidates and building a pre-clinical and clinical group at Galapagos. He will also be a member of the Executive Committee.

On 12 April, Galapagos announced the appointment of Andre Hoekema as Managing Director of Galadeno. Dr. Hoekema will be responsible for Galadeno, including financial, operational and strategic planning. He will also be a member of the Executive Committee.

On 15 April, the Cystic Fibrosis Foundation Therapeutics and Galapagos expect to announce a target discovery and validation agreement with a value of €1.3 million. Galapagos will use its SilenceSelect and FLeXSelect collections in combination with its functional screening technologies to identify novel proteins that are regulators of key molecular pathways in cystic fibrosis.

General outlook

With respect to the expectations for 2005 given hereunder, there can be no assurance that such expectations will occur due to a number of factors including, among others, general economic and business conditions, industry trends, availability and the terms of funding available, competition, currency fluctuations, failure to achieve the expected research and development results, cancellation of orders, the loss of key personnel, availability of suitably qualified personnel on commercially reasonable terms and other factors, some of which referred to elsewhere in this Prospectus. See "Risk factors".

Galapagos has shown a steady increase in revenues and number of partners since its inception. It believes that this will continue in 2005. Galapagos anticipates a continuing acceptance of its target discovery platform as superior technology in the market place and therefore sees an opportunity for a further revenue increase in Galadeno. This will only partly offset the increase in drug discovery costs incurred in the development of novel drugs. In these programs, the Company combines internal development with selected strategic partnering in order to manage the development costs but keep substantial ownership of its programs. With the expansion of the drug discovery activities, the operating costs are expected to increase substantially in 2005 to approximately €16 million, mainly due to increased personnel costs and outsourced drug discovery activities. The Company anticipates to gradually increase its headcount to approximately 80 people for the Dutch and Belgian entities together in 2005.

Drug discovery business

The Company foresees opportunities for an increase in the drug discovery business revenue for 2005 as compared to 2004. Revenue growth for Galapagos' drug discovery activities will be created by out-licensing of targets and by strategic partnering of some of its research and development programs. Galapagos will invest heavily in drug discovery capabilities in 2005, recruiting additional personnel, expanding laboratory space and creating a medicinal chemistry group. This will position the Company as a partner for a strategic alliance with a pharmaceutical partner in one of its core disease areas. Separately, Galapagos plans to out-license the targets identified in the Alzheimer's disease program, which should contribute to the revenues in 2005. The Company also anticipates that it will in-license one or more (pre-)clinical compounds in 2005 to strengthen the drug discovery pipeline and shorten the time it will take to enter the clinical development phase. This in-licensing might result in product candidates for Galapagos outside the bone and joint diseases, which is the focus of its core disease programs. In the budget for 2005, €1.5 mil-

lion has been allocated for in-licensing. Galapagos is in discussions with several biotechnology and pharmaceutical companies regarding the in-licensing of clinical and pre-clinical compounds.

Galadeno

In order to underpin the relevance of the hybrid business model, the Company has prepared pro-forma management accounts, which are used only for the purpose of providing an estimate of the profitability of Galadeno. These proforma management figures have not been derived from audited consolidated financial statements and hence have not been audited.

Galadeno business unit pro-forma management accounts	2004	2003	2002
(unaudited)			
Thousands of EUR / year ended 31 December			
Total revenues	**4,850**	**4,370**	**3,164**
Personnel cost	1,122	1,474	1,244
Disposables & lab fees	368	640	488
Other operating costs	882	817	789
Operating expenses	**2,372**	**2,931**	**2,521**
Result	**2,478**	**1,439**	**643**

Table 8: Galadeno pro-forma management accounts

These management accounts have been derived from the historic management figures for Galapagos, using the following assumptions:

- Revenue has been estimated on a contract-by-contract basis. Contracts that would have been allocatable to the service business have been regarded as such. Inter-segment sales to the drug discovery business unit have not been included;
- Personnel charges have been allocated partially based on time sheet registrations and estimates of management toward the necessary support services for the service business unit;
- Disposables have been allocated as an estimate of average use per member of the laboratory personnel. The assumption has been made that the same usage applies for screening activities with regard to the service activity as with regard to the first stages of the drug discovery business unit; and
- Other costs have been allocated as a percentage of total.

The Company forecasts Galadeno's 2005 revenues to be substantially higher than those in 2004. The growth of Galadeno's service business will be driven by the continuation of initiatives started in 2004, namely allocation of more resources to sales and marketing and a competitive pricing policy. Galadeno projects that the majority of these revenues will be achieved through the sale of reagents together with target discovery and validation services.

The largest individual component of Galadeno's operating costs is personnel costs. The Company does not believe that a significant increase in the number of employees for Galadeno is necessary in 2005. The existing facilities and equipment are adequate to handle the expected growth in Galadeno's business in 2005. All other costs are assumed to rise modestly.

Development of consolidated results of operation

As described above, the Company sees opportunities for increased revenues in 2005 at the drug discovery unit while its forecast for the revenues of Galadeno in 2005 is substantially above those of 2004. At the same time, the operating costs are expected to grow to approximately €16 million. This is partly due

to the expected increase in personnel costs, higher outsourced drug discovery expenses and the in-licensing of pre-clinical compounds. Because of these higher costs, the net loss is expected to be substantially higher than the €3.6 million recorded in 2004.

Development of cash position

With the expansion of the drug discovery activities, the Company is anticipating an increase of the burn rate to over €7 million in 2005. With the cash position of €10.3 million as per 31 December 2004 and anticipated gross proceeds of €35 million from this Offering (excluding proceeds from the possible exercise of the Lead Managers' Over-allotment Option), the Company will end 2005 with an expected cash position of €36 million. The Company believes that, assuming full subscription to the capital increase and assuming that the Shareholders Meeting will decide positively upon the continuation of the activities if and when the Issuer's net assets fall below half of its share capital (which is expected to take place between 1 and 2 years after the Offering), the net proceeds from the Offering will be sufficient to support the Company's current operating plan through at least the next three years.

In accordance with the Euro.NM Amsterdam Listing Rules, Galapagos will publish quarterly reports for each quarter after the Closing Date of the Offering until 31 December 2005 (being the quarters ending 30 June and 30 September 2005).

MANAGEMENT AND EMPLOYEES

Galapagos currently employs 65 people, including the members of the Executive Committee ("*Directiecomité*"). It's Executive Committee, currently comprising six members, is responsible for the operational and strategic management of the Company and the implementation of the Company's strategy developed and agreed with the Board of Directors. The composition, organization and operation of the Board of Directors, are described in "*Board of Directors and corporate governance*".

Executive Committee

The Executive Committee currently comprises six members:

Onno van de Stolpe, Ir – Chief Executive Officer

Mr. Van de Stolpe co-founded Galapagos in 1999 while he was Managing Director Genomics at IntroGene (now Crucell). Prior to joining IntroGene in 1998, he was Managing Director of Molecular Probes Europe. He established this European headquarters after joining Molecular Probes in the US. Previously, he worked for the Netherlands Foreign Investment Agency in California where he was responsible for recruiting biotech and medical device companies to locate in the Netherlands. Van de Stolpe started his career as a Manager Business Development at MOGEN in Leiden. He received his MSc degree from the Agricultural University in Wageningen.

Graham Dixon, PhD – Chief Scientific Officer

Dr. Dixon joined Galapagos on 15 November 2004. Prior to joining Galapagos, Dr. Dixon was CSO of Entomed in France. From 2002 to 2003, he was CSO at F2G in the UK. From 1994-2002, Dr. Dixon had various research & development management positions at Zeneca and AstraZeneca. He started his professional career with Dow and later DowElanco. He has a PhD in Biochemistry from the University of Swansea in the UK.

Dirk Pollet, PhD – Vice President Business Development

Dr. Pollet joined Galapagos in September 2000, from GlaxoWellcome (Stevenage, UK) where he was Director Molecular Diagnostics focusing on pharmacogenetics. Previously, he was Business and Product Development Manager at Innogenetics (Ghent, Belgium), playing a major role in the development of innovative diagnostics. He received his PhD degree in Biochemistry from the University of Antwerp. He is a Director at Galapagos since November 2000 and will step down as a board member after the Closing of the Offering, but will continue to be a member of the Executive Committee.

Gustaaf van Reet, PhD – Vice President Corporate Development

Dr. Van Reet joined Galapagos in March 2005 after a long career with Johnson & Johnson. Most recently he was VP of the J&J Development Corporation. Dr. Van Reet joined Janssen Pharmaceutica in 1972 as a scientist and he has had various positions within the company leading to President of the Janssen Research Foundation and Managing Director of Janssen Pharmaceutica. He was also Vice Chairman of the Executive Committee of the Janssen Group. He holds a degree of engineering in Applied Biological Sciences and a PhD in Agricultural Sciences from the University of Leuven and studied Law at the University of Antwerp. He is a qualified Belgian and European Patent Attorney.
Dr. Van Reet is working at Galapagos at a term of approximately 20 hours per week. He also performs services to other firms, including board memberships of Vivactis, and 4ASA and a series of board memberships in not-for-profit organizations such as VIB, AIC, FlandersBio and the Denayer Institute.

Andre Hoekema, PhD – Managing Director Galadeno

Dr. Hoekema joined Galapagos in March 2005 from Invitrogen Corporation, where he was Managing Director of Corporate Development Europe. He brings 20 years of biotech experience from positions at

Molecular Probes Europe (Managing Director), Crucell (Director of Business Development), DSM Life Sciences, MOGEN (Research and Project Management) and Genentech, (R&D). Dr. Hoekema has a PhD degree from Leiden University and is the inventor of over 20 series of patent applications, resulting in 15 patents issued in the US.

Vicky Gwosdz, MSc – Head of Finance

Ms. Gwosdz joined Galapagos in October 2004. Ms. Gwosdz was finance manager for the Cash Services division of Group4 Falck. From 2002 to 2003, Ms. Gwosdz was financial controller at Océ Interservices, the coordination center of the Océ Group. She started her career as financial auditor with KPMG and PwC. She has a Masters Degree in Applied Economic Sciences from the Limburg University in Diepenbeek. She holds various guest lecturing assignments at universities and institutions in Belgium and the Netherlands.

Organizational chart

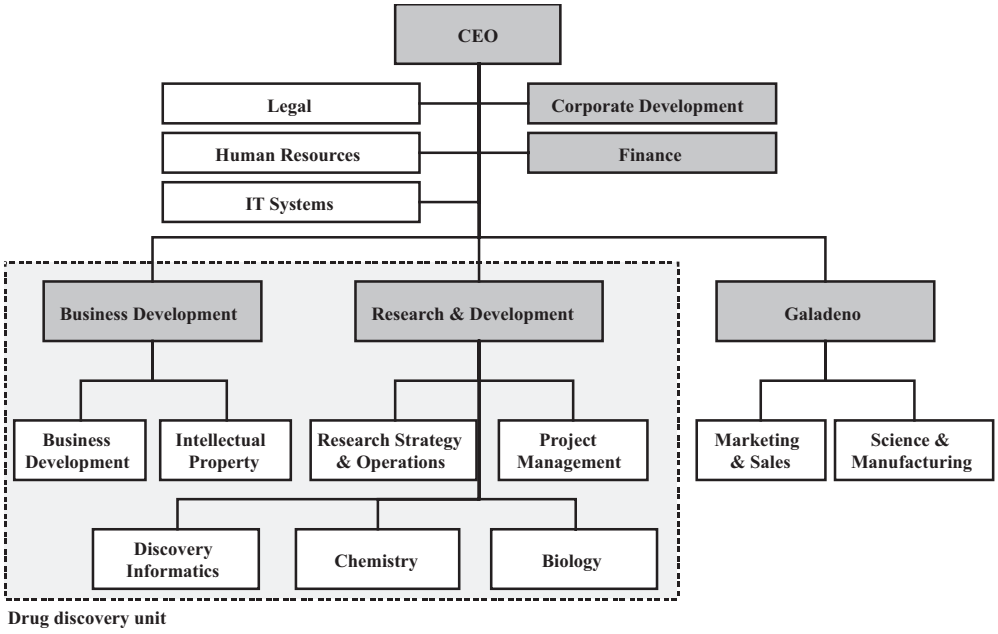


Figure 5: Organizational structure of Galapagos

Employees and headcount evolution

At the end of 2004, the Company employed 64 people (full time employed equivalent), 47 in Galapagos NV (Mechelen, Belgium), and 17 in Galapagos Genomics BV (Leiden, the Netherlands).

Total number of employees at year end	2000	2001	2002	2003	2004
FTE					
Galapagos NV (Mechelen, Belgium)	28	41	57	55	47
Galapagos Genomics BV (Leiden, the Netherlands)	13	22	31	28	17
Total	**41**	**63**	**88**	**83**	**64**

Table 9: Headcount evolution

The Company's headcount increased strongly from 2000 to 2002, stabilized in 2003 and declined substantially in 2004. This reduction was due to the operational restructuring process in order to align the organization for the transition of the Company from a genomics to a drug discovery organization. Galapagos has now initiated a significant recruitment effort for personnel in the drug discovery division, especially in the domain of medicinal chemistry. The Company expects that the total number of employees will rise to approximately 80 by the end of 2005.

Warrant plans

In 1999, 2002 and 2005 the Company approved five warrant plans (together hereafter referred to as the "Warrant Plans") allowing the Company's personnel and management to participate in the Company's growth and development. None of the Warrant Plans requires a consideration by the beneficiary. The Shareholders Meeting explicitly empowered the Board of Directors to grant the warrants within the framework of the Warrant Plans. The grant of warrants to members of the Board of Directors as remuneration for duties that fall within the scope of their office as directors was at every occasion decided or ratified by the Shareholders Meeting. In case the Board of Directors decides to grant warrants to one of its members as a remuneration for special assignments that do not fall within the scope of their office of directors, the Board of Directors has to comply with the legal provisions with respect to conflict of interests. The sections below summarize the most important provisions of the Warrant Plans.

Warrant plans 1999

At the Extraordinary Shareholders Meeting of 21 December 1999, two warrant plans were established: one warrant plan was specifically set in favor of the directors, management and personnel of the Issuer ("Warrant Plan Belgium 1999") whereas the second warrant plan was established in favor of the management and personnel of the Issuer's Dutch subsidiary ("Warrant Plan Netherlands 1999").

Warrant Plan Belgium 1999

Pursuant to the Warrant Plan Belgium 1999, a total number of 549,341 warrants were issued to and subscribed by the Issuer. At the date of this Prospectus, an aggregate number of 242,154 warrants have been granted to directors, management and personnel of the Issuer, of which 217,554 warrants are still outstanding. 307,187 warrants were not granted. On 1 March 2002 the Extraordinary Shareholders Meeting decided that no further warrants could be granted under the 1999 plan.

The warrants have a term of eight years. The warrants can be exercised at the latest on 15 December 2009. Each vested warrant entitles the warrant holder to subscribe for one ordinary share. However, by decision of the Extraordinary Shareholders Meeting of 29 March 2005, the provisions of the Warrant Plan Belgium 1999 were modified to reflect that four warrants will entitle the warrant holders to subscribe for one Share at an exercise price of €4.00 per Share.

Warrants granted under this plan have been fully vested and can be exercised.

Warrant Plan Netherlands 1999

There are currently no more warrants outstanding under the Warrant Plan Netherlands 1999.

Warrant plans 2002

At the Extraordinary Shareholders Meeting of 1 March 2002, one warrant plan was approved in favor of the directors, management and personnel of the Issuer ("Warrant Plan Belgium 2002") and a second warrant plan in favor of management and personnel of the Issuer's Dutch subsidiary ("Warrant Plan Netherlands 2002").

Warrant Plan Belgium 2002

Pursuant to the Warrant Plan Belgium 2002, a total number of 3,013,000 warrants were issued to and subscribed by the Issuer. At the date of this Prospectus, an aggregate number of 3,013,000 warrants have been granted to directors, management and personnel of the Issuer (grants from 2002 to 2005), of which 2,687,646 warrants are still outstanding.

The warrants have a term of eight years. The warrants can be exercised at the latest on 1 February 2012. According to the original provisions of the Warrant Plan Belgium 2002, each vested warrant entitled the warrant holder to subscribe for one ordinary share Class D. Since the different classes of shares of the Issuer were cancelled by decision of the Extraordinary Shareholders Meeting of 29 March 2005, the provisions of the Warrant Plan Belgium 2002 were modified to reflect that four warrants will entitle the warrant holder to subscribe for one Share.

The exercise price of the warrants is determined by the Board of Directors at the moment the warrants are offered to a beneficiary, in accordance with the specific exercise price provisions in the Warrant Plan Belgium 2002. If the Issuer's shares are not listed, the exercise price per share equals at least the real value of one ordinary share as established by the Board of Directors upon affirmative advice of the statutory auditor. Furthermore, the exercise price per share must equal at least (i) €4.00 and (ii) the book value of the existing shares as set out in the most recently approved annual accounts prior to the date of the offer of the warrants.
The warrants cannot be exercised before the end of the third calendar year following the offer. Between the beginning of the fourth calendar year following the offer and the fourth anniversary of the offer, the warrant holder can only exercise 60% of the offered warrants.

In the event of termination of the warrant holder's employment or service relation for any reason other than retirement or illness or disability (in which case the warrants must be exercised within three months) after the third calendar year following the year in which the warrants are offered, the warrant holder must exercise its warrants within three months as of the first day of the fourth calendar year following the offer of warrants. If such termination occurs before the end of the third calendar year following the year in which the warrants were offered, a part of the warrants will automatically become void:

- 90% if the termination occurs before the first anniversary of the offer of warrants to the beneficiary;
- 80% if the termination occurs before the second anniversary of the offer of warrants to the beneficiary;
- 60% if the termination occurs before the third anniversary of the offer of warrants to the beneficiary; and
- 40% if the termination occurs after the third anniversary of the offer of warrants to the beneficiary, but before the end of the third calendar year.

In the event of termination due to retirement or illness or disability, the warrants must be exercised within three months. In the event of death of the warrant holder, the warrants shall be transferred to the person(s) entitled and must be exercised within three months. Except in the event of death of a warrant holder, the warrants are not transferable.

Warrant Plan Netherlands 2002

Pursuant to the Warrant Plan Netherlands 2002, a total number of 500,000 warrants have been issued to and subscribed for by the Issuer. At the date of this Prospectus, the Issuer has granted an aggregate number of 482,595 warrants pursuant to this Warrant Plan Netherlands 2002, of which 482,595 warrants are still outstanding. The 17,405 warrants that were not granted have been cancelled on 29 March 2005.

The exercise period of the warrants amounts to four years, which exercise period starts as from the date of the offer. A vested warrant entitles the holder of such warrant to subscribe for one ordinary share class D of the Issuer. Since the different classes of shares of the Issuer were cancelled by decision of the Extraordinary Shareholders Meeting of 29 March 2005, the provisions of the Warrant Plan Netherlands 2002 were modified to reflect that four warrants will entitle the warrant holder to subscribe to one Share.

The exercise price of the warrants is determined by the Board of Directors at the moment the warrants are offered to a beneficiary, in accordance with the specific exercise price provisions in the Warrant Plan Belgium 2002. If the Issuer's shares are not listed, the exercise price per share equals at least the real value of the ordinary shares as established by the Board of Directors upon affirmative advice of the statutory auditor, multiplied by 1.17. Furthermore, the exercise price must equal at least €4.68.

Overview of the outstanding warrants under the Warrant Plans 1999 and 2002

Date of the offer	Exercise price	Expiry date	Outstanding at the date of this Prospectus	Outstanding as at 31 December 2003
22 December 1999	4.00	21 December 2007	217,554	223,554
6 March 2002	4.00	5 March 2010	1,715,796	2,005,521
6 September 2002	4.00	5 September 2010	74,600	102,100
1 February 2003	4.00	31 January 2011	96,750	108,750
15 June 2004	4.00	1 February 2012	133,000	
22 July 2004	4.00	1 February 2012	30,000	
31 January 2005	6.76	1 February 2012	637,500	
Total			**2,905,200**	**2,469,925**

Table 10: Overview of Warrant Plans Belgium 1999 and 2002

The moments of exercise for the Warrant Plans Belgium 1999 and 2002 after the warrants become exerciseable were not specified, so that warrant holders are free to exercise their warrants throughout a year.

The exercise price of the warrants offered on 31 January 2005 was based on a valuation report drawn up by the Board of Directors and certified by KPMG Bedrijfsrevisoren, Spoorweglaan 3, 2610 Wilrijk, Belgium. The Board of Directors' report was based on discounted cash flows, while KPMG's certification also referred to other valuation metrics such as intrinsic value per Share, the price per Share of the last capital increase and the evolution of the biotech index. To the resulting valuation of €2.40 per Share before the 4:1 reverse split or €9.64 after the reverse split, a discount of 30% was applied to take into account the illiquidity of the shares at the time they were granted.

Date of the offer	Exercise price	Expiry date	Outstanding at the date of this Prospectus	Outstanding as at 31 December 2003
4 March 2002	4.68	3 March 2006	356,000	356,000
4 March 2003	4.68	3 March 2007	33,500	30,000
23 December 2003	4.68	22 December 2007	93,095	96,595
Total			**482,595**	**482,595**

Table 11: Overview of Warrant Plan Netherlands 2002

The moments of exercise for the Warrant Plan Netherlands 2002 after the warrants become exercisable were not specified, so that warrant holders are free to exercise their warrants throughout a year.

Warrant Plan 2005

At the Extraordinary Shareholders Meeting of 29 March 2005, a new warrant plan was approved, subject to the condition precedent of the realization of the Offering, in favor of certain directors of the Issuer (Raj Parekh, Onno van de Stolpe, Wilson Totten, Barry Ross, and Ferdinand Verdonck), management and personnel of the Issuer and the Issuer's subsidiary ("Warrant Plan 2005"). Warants under this plan will only be granted to the directors by the General Shareholders Meeting. The exercise period of the warrants

amounts to eight years. The exercise price of the warrants will be decided as at least (a) the closing price of the last day preceding the date the warrants are offered, 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.

This warrant plan contains a minimum of 125,000 warrants (the "Initial Warrants") and a maximum of 500,000 warrants for the employees, directors and consultants of the Company. The exact number of warrants to be created in excess of 125,000 (the "Additional Warrants") is to be determined in accordance with the number of issued Offer Shares and Over-allotment Shares. The number of Additional Warrants to be created is neither to exceed 375,000 nor 3.4% of the entire share capital of the Issuer calculated on a fully diluted basis, however excluding the minimum of 125,000 Initial Warrants. Each warrant entitles the beneficiary to subscribe to one Share of the Issuer subject to the provisions of the Warrant Plan 2005.

Exercise and lock-up restrictions

Article 501 BCC states that, in the event of a capital increase through a contribution in cash, any warrant holder may exercise its warrants and participate as a shareholder to the capital increase if that right is also given to the existing shareholders. Prior to the Extraordinary Shareholders Meeting of 29 March 2005, the warrant holders were informed of the envisaged capital increase. Before publication of this Prospectus, the members of the Executive Committee and the Board of Directors have agreed through a separate agreement not to exercise their outstanding warrants during 24 months from the Listing Date, while four other senior managers have agreed not to exercise their outstanding warrants during 6 months from the Listing Date.

The other personnel members are not restricted in exercising their warrants, except for the limitations included in the Warrant Plans. The warrants issued under the Warrant Plan 1999 can all be freely exercised. The total number of warrants still outstanding under this plan equals 217,554, but only 36,600 are held by others than the members of the Executive Committee and the 4 senior managers described in the previous paragraph, who have agreed to a lock-up of these warrants. The warrants issued under the 2002 Warrant Plans can be freely exercised at the capital increase relating to the Offering but the shares thus acquired by personnel that have warrants under the Warrant Plan Belgium 2002 can only be freely transferred after 31 December 2005 in accordance with the exercise conditions of the Warrant Plan Belgium 2002. The warrants issued under the Warrant Plan Netherlands 2002 can be freely exercised at any moment and the Shares thus acquired can be freely transferred. Of the 482,595 warrants outstanding under this plan, 347,700 are held by warrant holders who have not signed the lock-ups as described above.

In order to avoid a substantial backflow of the related 96,075 shares (4 warrants for one new Share) immediately after the Offering, the Lead Managers have offered to the warrant holders the possibility to offer their shares as part of the Offering itself. As most of the warrant holders have reacted positively to this offer (26 employees and 14 former employees), of these 96,075 Shares, 82,562 will be offered as part of the Offering.

PRINCIPAL SHAREHOLDERS AND LOCK-UP AGREEMENTS

The table below sets out a list of all Pre-IPO Shareholders who, at the date of this Prospectus have an interest in the share capital of the Issuer. It also reflects the change to the shareholdings of the Pre-IPO Shareholders in the event of the exercise of the outstanding warrants of the directors, personnel and management of Galapagos.

Shareholders	Number of shares	Percentage	Number of Shares after exercise of warrants	Percentage
Abingworth	1,264,222	21.3%	1,264,222	18.6%
Crucell	1,236,097	20.8%	1,236,097	18.2%
Tibotec	1,113,964	18.8%	1,113,964	16.4%
Apax	1,106,194	18.6%	1,106,194	16.3%
Burrill	790,139	13.3%	790,139	11.6%
AlpInvest	427,938	7.2%	427,938	6.3%
Non-executive Directors	0	0.0%	60,174	0.9%
Executive Committee	0	0.0%	490,974	7.2%
Senior managers	0	0.0%	75,800	1.1%
Personnel	0	0.0%	220,000	3.2%
Total	5,938,554	100%	6,785,502	100.0%

Table 12: Shareholding structure prior to the Offering

The shareholder structure after the Offering will depend on the Offer Price, whether or not the Over-allotment Option is exercised, whether or not warrants are exercised and the degree to which personnel, management and directors participate in the Offering. A number of scenarios can be developed. In each case, the potential participation of the personnel, management and directors in the Offering is disregarded because it would not substantially change the shareholding structure and it would have no effect on the dilution for the Pre-IPO Shareholders.

Below, two scenarios are presented based on the assumption that €35 million is raised in the Offering and €5.25 million is subscribed after exercise of the Over-allotment Option. As the Offer Price is not yet known, nor the Price Range that will be used, two purely hypothetical prices are used to illustrate the potential changes to the shareholding structure, respectively €8.00 and €12.00 per Share.

Shareholders	Number of Shares	Percentage	Number of Shares after exercise of warrants	Percentage
Abingworth	1,264,222	11.4%	1,264,222	10.3%
Crucell	1,236,097	11.2%	1,236,097	10.1%
Tibotec	1,113,964	10.1%	1,113,964	9.1%
Apax	1,106,194	10.0%	1,106,194	9.1%
Burrill	790,139	7.1%	790,139	6.5%
AlpInvest	427,938	3.9%	427,938	3.5%
Existing warrants	-	0.0%	764,387	6.3%
New shares in free-float	5,113,812	46.3%	5,113,812	41.9%
New warrants	-	0.0%	401,770	3.3%
Total	11,052,366	100.0%	12,218,523	100.0%

Table 13: Hypothetical shareholding structure at Offer Price €8.00

Shareholders	Number of Shares	Percentage	Number of shares after exercise of warrants	Percentage
Abingworth	1,264,222	13.5%	1,264,222	12.1%
Crucell	1,236,097	13.2%	1,236,097	11.8%
Tibotec	1,113,964	11.9%	1,113,964	10.6%
Apax	1,106,194	11.8%	1,106,194	10.6%
Burrill	790,139	8.4%	790,139	7.5%
AlpInvest	427,938	4.6%	427,938	4.1%
Existing warrants	-	0.0%	764,387	7.3%
New shares in free-float	3,436,728	36.7%	3,436,728	32.8%
New warrants	-	0.0%	344,749	3.3%
Total	9,375,282	100.0%	10,484,418	100.0%

Table 14: Hypothetical shareholding structure at Offer Price €12.00

As of 31 December 2004, there are no shareholder loans outstanding.

To the knowledge of the Company, there will be no shareholders agreements between the Pre-IPO Shareholders effective after the Offering, except for the agreement among the Pre-IPO Shareholders in the lock-up agreement whereby they will consult each other and those willing to sell will act together if the Lead Managers would consent to a sale of Shares prior to the end of the 2 years lock-up period.

Lock-up agreement in respect of Tibotec and Crucell

Each of Tibotec and Crucell have irrevocably undertaken to the Lead Managers and Issuer that, with respect to the Shares held by them at the date hereof, until 2 years following the Closing Date, none of them shall, directly or indirectly sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant (whether by way of warrant, convertible or exchangeable security or otherwise) any option to subscribe for or purchase any security in the share capital of the Issuer, or otherwise transfer or dispose of any securities in the Issuer's share capital or enter into any swap or any other transaction, of whatever kind, which directly or indirectly leads to a total or partial transfer to one or more third parties of any interest in the Issuer's share capital, legal or economic, or which in any way whatsoever fixes, limits or transfers any risk arising from the possibility of price movement, up or down, in respect of such an interest, whether any such swap or transaction described above is to be settled by delivery of shares or other securities, in cash or otherwise, or agree to do or announce any of the aforementioned things. During the first year of the aforementioned lock-up period, these lock-up obligations can only be waived with prior written consent by Euronext Amsterdam. Whilst during the first year of the aforementioned lock-up period, under the Euronext regulations the lock-up obligations only relate to 80% of the interest in the Issuer of Tibotec and Crucell individually, any transactions which fall within the scope of these lock-up obligations during this period (and thus relating to 100% of their interest in the Issuer), are subject to the prior written consent by the Lead Managers which consent will not be withheld in the event of a public bid for the total share capital of Galapagos (which waiver will solely apply to the tendering of the securities under such bid). During the second year of this lock-up period, these lock-up obligations can only be waived with the prior written consent of the Lead Managers which consent will not be withheld in the event of a public bid for the total share capital of Galapagos (which waiver will solely apply to the tendering of the securities under such bid).

Lock-up agreement in respect of Abingworth, AlpInvest, Apax and Burrill

Each of Abingworth, AlpInvest, Apax and Burrill have irrevocably undertaken to the Lead Managers and the Issuer that, with respect to the Shares held by them at the date hereof, until 2 years following the

Closing Date, none of them shall, directly or indirectly sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant (whether by way of warrant, convertible or exchangeable security or otherwise) any option to subscribe for or purchase any security in the share capital of the Issuer, or otherwise transfer or dispose of any securities in the Issuer's share capital or enter into any swap or any other transaction, of whatever kind, which directly or indirectly leads to a total or partial transfer to one or more third parties of any interest in the Issuer's share capital, legal or economic, or which in any way whatsoever fixes, limits or transfers any risk arising from the possibility of price movement, up or down, in respect of such an interest, whether any such swap or transaction described above is to be settled by delivery of shares or other securities, in cash or otherwise, or agree to do or announce any of the aforementioned things. During the aforementioned lock-up period, these lock-up obligations can only be waived with the prior written consent of the Lead Managers which consent will not be withheld in the event of a public bid for the total share capital of Galapagos (which waiver will solely apply to the tendering of the securities under such bid).

Lock-up agreement in respect of the members of the Board and the Executive Committee

Each of members of the Board of Directors and the Executive Committee have irrevocably undertaken to the Lead Managers and the Issuer that, with respect to the Shares held by them at the date hereof, until 2 years following the Closing Date, none of them shall, directly or indirectly sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant (whether by way of warrant, convertible or exchangeable security or otherwise) any option to subscribe for or purchase any security in the share capital of the Issuer, or otherwise transfer or dispose of any securities in the Issuer's share capital or enter into any swap or any other transaction, of whatever kind, which directly or indirectly leads to a total or partial transfer to one or more third parties of any interest in the Issuer's share capital, legal or economic, or which in any way whatsoever fixes, limits or transfers any risk arising from the possibility of price movement, up or down, in respect of such an interest, whether any such swap or transaction described above is to be settled by delivery of shares or other securities, in cash or otherwise, or agree to do or announce any of the aforementioned things. During the first year of the aforementioned lock-up period, these lock-up obligations can only be waived with prior written consent by Euronext Amsterdam. Whilst during the first year of the aforementioned lock-up period, under the Euronext regulations these lock-up obligations only relate to 80% of the interest in the Issuer of the members of the Board of Directors and the Executive Committee individually, any transactions which fall within the scope of these lock-up obligations during this period (and thus relating to 100% of their interest in the Issuer), are subject to the prior written consent by the Lead Managers which consent will not be withheld in the event of a public bid for the total share capital of Galapagos (which waiver will solely apply to the tendering of the securities under such bid). During the second year of this lock-up period, these lock-up obligations can only be waived with the prior written consent of the Lead Managers which consent will not be withheld in the event of a public bid for the total share capital of Galapagos (which waiver will solely apply to the tendering of the securities under such bid).

Lock-up agreement in respect of certain other managers of Galapagos

Each of Mr. Peter Tomme, Mr. Jan Van der Schueren, Mr. Helmuth van Es and Mrs. Andrea Grant have irrevocably undertaken to the Lead Managers and the Issuer that, with respect to the Shares held by them at the date hereof, until 6 months following the Closing Date, none of them shall, directly or indirectly sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant (whether by way of warrant, convertible or exchangeable security or otherwise) any option to subscribe for or purchase any security in the share capital of the Issuer, or otherwise transfer or dispose of any securities in the Issuer's share capital or enter into any swap or any other transaction, of whatever kind, which directly or indirectly leads to a total or partial transfer to one or more third parties of any interest in the Issuer's share capital, legal or economic, or which in any way whatsoever fixes, limits or transfers any risk arising from the possibility of price movement, up or down, in respect of such an interest, whether any such

swap or transaction described above is to be settled by delivery of shares or other securities, in cash or otherwise, or agree to do or announce any of the aforementioned things. During the aforementioned lock-up period, these lock-up obligations can be waived with the prior written consent by the Lead Managers which consent will not be withheld in the event of a public bid for the total share capital of Galapagos (which waiver will solely apply to the tendering of the securities under such bid).

Lock-up agreement in respect of Issuer

The Issuer itself has undertaken with the Lead Managers that, for a period of 365 days following the Closing Date, it will not issue, offer, sell, contract to sell, grant any option to purchase or otherwise dispose of, any Shares (or any securities convertible into or exchangeable for Shares or which carry rights to subscribe or purchase Shares) or enter into a transaction (including a derivative transaction) having an effect on the market in the Shares similar to that of a sale or publicly announce any intention to do any of such things or deposit any Shares (or any securities convertible into or exchangeable for Shares or which carry rights to subscribe or purchase Shares) in any depositary receipt facility, without the prior written consent of the Lead Managers, other than (i) Shares to be issued upon exercise of warrants to purchase or subscribe for Shares, or upon conversion of securities convertible into Shares, in each case, outstanding on the date hereof, (ii) any Shares or rights convertible into or exchangeable for Shares, or which carry rights to subscribe or purchase Shares, issued in connection with any merger or acquisition, corporate transaction or in-licensing activity involving the Company after the date of the underwriting agreement as described in “The Offering” and (iii) the issue of the Over-allotment Shares.”

RELATED PARTY TRANSACTIONS

The Issuer has the following contractual relationships with directors, shareholders or companies in which certain of the Pre-IPO Shareholders own or have owned an interest during the last three years:

- Non-compete undertaking from Crucell:

  The Issuer and Crucell agreed that Crucell shall refrain from activities in the field of functional genomics, except if a third party who is engaged in the field of functional genomics acquires direct or indirect control of Crucell. This non-compete obligation applies to Crucell until 31 March 2008. The non-compete obligation applies for the geographic areas of Asia, Europe and the US. No consideration was paid for this undertaking.

- License agreement between Tibotec and the Issuer dated 28 May 2001:

  The Issuer, Tibotec and Crucell entered into a license agreement dated 15 September 1999. The parties agreed to terminate this agreement and enter into separate new license agreements. The Issuer entered into the license agreement dated 28 May 2001 under which Tibotec granted a non-exclusive worldwide royalty-free license under the Tibotec Intellectual Property relating to, inter alia, a method for the rapid screening of analyses, means and methods for drug discovery and the phenotypic characterization of cells, and methods for assaying high specific protease activity. The term of this agreement is the latter of (i) the term of the Tibotec patents or (ii) 6 March 2017. The Issuer paid a consideration of €454 thousand for this agreement which was capitalized.

- Research and commercial license agreement between Crucell and the Issuer dated 6 June 2001:

  Under this agreement Crucell granted a sole and exclusive worldwide license to the Issuer under the Crucell patents and know how for, inter alia, identifying, making and using products and services in the field of identification and/or validation of the biological functions of human and non-human genes, and/or genes (fragments) of proteins and/or fragments of proteins transcribed from such genes. The term of this agreement is the latter of (i) the term of the Crucell patents or (ii) 6 March 2017. The Company paid a consideration of €454 thousand for this agreement which was capitalized.

- Services agreement for alteration works to be performed in the laboratories of Galapagos Genomics BV by Facility Services Crucell Holland BV entered into between Crucell and Galapagos Genomics BV dated 3 November 2004:

  Under this agreement Crucell agreed to make amendments to the leased property for the benefit of Galapagos Genomics BV. The costs (estimated at €39,570) shall be borne by Galapagos Genomics BV. After termination of the lease Galapagos Genomics BV must reimburse €5,000 to Crucell for reparation works.

- Services agreement between Crucell and Galapagos Genomics BV dated 15 August 2002, supplemented by an agreement dated 5 March 2004:

  In addition to the lease of the property occupied by Galapagos Genomics BV, Crucell agreed that Galapagos Genomics BV may use certain facilities of Crucell described in the agreement (including company restaurant, laboratory facilities, the library, meeting rooms and require assistance of the technical services department) at specified rates.

- Ratification agreement for the lease of office and laboratory facilities between Crucell and Galapagos Genomics BV dated February 2002:

  In this agreement Crucell and Galapagos Genomics BV document and ratify their contractual agreement relating to the lease of office and laboratory facilities at Archimedesweg 4, 2333 CN Leiden, the Netherlands. Crucell agrees to sub-lease a certain section of the building to Galapagos Genomics until 31 December 2003 at the latest. Galapagos Genomics BV undertakes to deliver the building section,

upon termination of the agreement, to Crucell clean and without damages to the building and its lease hold improvements.

- Supplemental agreement to the ratification agreement for the lease of office and laboratory facilities between Crucell and Galapagos Genomics BV dated 1 November 2004 and amended 7 March 2005:

  This (amended) agreement documents new conditions for the termination of the lease agreement as set out in the ratification agreement dated February 2002. Under the (amended) supplemental agreement, the lease automatically continues for periods of one year as of 1 January 2004. However, the lease may be terminated subject to a six month written notice, starting from 31 March 2007.

- The Issuer has closed several contracts in the normal course of business with Johnson & Johnson. In the period between 2002 and 2004 €1.2 million was recognized as revenue in these contracts.

- Before the Offering, independent directors received board meeting fees amounting to €1.5 thousand per board meeting. For the new post-Offering contracts this has been adjusted to an annual fee of €20 thousand.

- A consultancy contract was closed with the Chairman of the Issuer, Dr. Parekh, amounting to a monthly consulting fee of £8,666.

There are no loans outstanding between the Issuer and any member of its Board of Directors or the Executive Committee.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Board of Directors

General provisions with regard to the Board of Directors

The Board of Directors consists of a maximum of 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.

An independent director is a director who is independent in accordance with article 524 of the BCC and in accordance with the requirements set out in the Belgian Corporate Governance Code, except as far as the latter Code is concerned that independent directors of the Company may also own warrants which represent the right to acquire Shares.

The directors are elected by the Shareholders Meeting for a maximum period of four years. Each director can at any time tender his resignation or be dismissed before the end of his mandate by decision of the Shareholders Meeting, taken with normal majority. Directors can be re-elected.

The Shareholders Meeting decides whether the directors are remunerated for the exercise of their mandate as directors. Nevertheless, all directors are reimbursed for the expenses reasonably incurred during the exercise of their mandate as a director.

The Board of Directors is authorized to take all actions which are necessary or useful to fulfill the corporate purpose of the Issuer, with the exception of those actions which are explicitly reserved for the Shareholders Meeting by law or under the Articles of Association.

A meeting of the Board of Directors may be called by the Chairman, by two directors or by the CEO. A meeting is validly held if an attendance quorum of at least half of the present or represented members of the Board of Directors is met. If a meeting is postponed for lack of quorum, a second meeting of the Board of Directors may validly deliberate and decide on the agenda items of the first meeting if at least two directors are present or represented at the second meeting.

Decisions of the Board of Directors are taken by normal majority. Blank and invalid votes are not included in the calculation of the votes cast. If the votes are tied, the Chairman of the Board of Directors has a casting vote.

On 29 March 2005, the Board of Directors approved a charter of the Board of Directors which, together with the charters of the committees of the Board of Directors, sets out the principles pursuant to which the Board of Directors and its committees operate. Such charters are part of the general corporate governance charter which the Board of Directors established in accordance with the provisions of the Belgian Corporate Governance Code, except for the fact that directors may be offered warrants of the Issuer and that the individual remuneration of the CEO is not disclosed. The charters will be made publicly available at the Issuer's website and an updated version will be published after every modification made to them.

On 29 March 2005, the Board of Directors further agreed to subscribe to an improved directors' liability insurance, including prospectus liability coverage. The improved directors' liability insurance will provide for a more comprehensive coverage, including for prospectus liability, for claims directed to the Issuer, and the members of its Board of Directors and its Executive Committee since the Issuer shall acquire the capacity of a company that calls upon public savings. This Board's decision was taken in compliance with the terms of Article 523 BCC

On 29 March 2005, the Board of Directors also agreed to conclude guarantee agreements between the Issuer and each of the members of its Board of Directors and Executive Committee. Pursuant to these guarantee agreements the Issuer shall indemnify the beneficiaries for any liability arising out of claims from third parties originating from acts or omissions performed by the beneficiaries in the exercise of their duties as member of the Board of Directors or member of the Executive Committee. The indemnification does not apply (i) when the liability is covered by the directors liability insurance policy, (ii) when the liability is the result of any act or omission by a beneficiary acting in bad faith or with gross negligence in performing his or her duties, or (iii) for criminal sanctions imposed on the beneficiary. This Board's decision was taken in compliance with the terms of Article 523 BCC

Composition of the Board of Directors

Board members are elected on the basis of their knowledge and with a view to obtaining a good balance of skills such as finance, sector knowledge, operational experience, strategic thinking, ability to assess business models, etc. The Board consists of the following directors:

Name	Position	Dependent/ Independent	Executive/ Non-executive	Age	Other Mandates
Raj Parekh	Chairman	Dependent	Non-executive	44	Member of the board of directors of: - Akubio (Cambridge, UK) - Celldex (Princeton, US) - Chroma Therapeutics (Oxford,UK) - Parekh Enterprises (Oxford, UK)
Onno van de Stolpe	CEO	Dependent	Executive	45	None
Ferdinand Verdonck		Independent	Non-executive	62	Member of the board of directors of: - Banco Urquijo (Madrid, Spain) - Dictaphone Corporation (Stratford, US) - Groupe SNEF (Marseille, France) - Degussa (Antwerp, Belgium) - Santens (Oudenaarde, Belgium) - Laco Information Services (Diegem, Belgium) - Phoenix Funds (Hartford, US)
Barry Ross		Independent	Non-executive	56	Member of the board of directors of: - InPharmatica (London, UK) - BioImage (Copenhagen, Denmark) - Kreatech (Amsterdam, The Netherlands)
Wilson Totten		Independent	Non-executive	49	Member of the board of directors of: - ProStrakan (Scotland)
Laurent Ganem		Dependent	Non-executive	46	Member of the board of directors of: - Hybrigenics (Paris, France) - IDM (Paris, France) - Neuro3D (Mulhouse, France) - Synt:em (Nimes, France) - Neurotech (Paris, France) - Newron (Milan, Italy) - Biolipox (Stockholm, Sweden)
Harrold van Barlingen		Dependent	Non-executive	39	Member of the board of directors of: - BioXell (Milan, Italy) - Curacyte (Leipzig, Germany) - Avantium (Amsterdam, The Netherlands)

Table 15: Composition of the Board of Directors

Raj Parekh, PhD - Entrepreneur in Residence at Abingworth Management

Dr. Parekh is currently Entrepreneur in Residence at Abingworth, a UK venture capital company. He co-founded Oxford GlycoSciences (OGS) in 1988, was Chief Scientific Officer and Senior Vice President of Research and was instrumental in the flotation of the company in 1998, its listing on NASDAQ and its recent merger with Celltech. He joined Galapagos' Board of Directors in April 2004. (Address: Jermyn Street 38, SW1Y6DN, London, UK).

Onno van de Stolpe, Ir - CEO of Galapagos

Mr. Van de Stolpe founded Galapagos in 1999 while he was Managing Director Genomics at IntroGene (now Crucell). Prior to joining IntroGene in 1998, he was Managing Director of Molecular Probes Europe. He established this European headquarters after joining Molecular Probes in the US. Previously, he worked for the Netherlands Foreign Investment Agency in California where he was responsible for recruiting biotech and medical device companies to locate in the Netherlands. Van de Stolpe started his career as a Manager Business Development at MOGEN in Leiden. He received his MSc degree from the Agricultural University in Wageningen. He joined Galapagos' Board of Directors in February 1999. (Address: Borzestraat 50/2, 2800 Mechelen, Belgium).

Ferdinand Verdonck – Director of Corporations

Mr. Verdonck is currently on the board of several companies, including Banco Urquijo (Spain) and Dictaphone (USA). His professional experience is based on his work, mainly in financial services.
most recently as the managing director of Almanij and earlier with Lazard Frères and also in manufacturing (Bekaert NV). His responsibilities entailed board participation in publicly traded and privately-held companies in many countries. He holds a law degree from the KU Leuven and degrees in economics from KU Leuven and the University of Chicago. He will join Galapagos' Board of Directors after the Offering. (Address: Nederpolder 7, 9000 Gent, Belgium).

Wilson Totten, MD - CEO of ProStrakan

Dr. Totten is CEO of ProStrakan, a company formed by the recent merger of Strakan and Proskelia. Until 2004, he was Group R&D Director at Shire where Dr. Totten was responsible for research and drug development, and involved in all commercial aspects. Before joining Shire in 1998, he was Vice President of Clinical R&D with Astra Charnwood from 1995 to 1997. Before that Dr. Totten was Director of Drug Development for Fisons Pharmaceuticals and Medical Director at 3M Health Care. He joined Galapagos' Board of Directors in September 2004. (Address: Woolton Hill, Newbury RG209UZ, Berks, UK).

Wilson Totten has in the course of 2004 assisted the Company as advisor in assessing potential commercial transactions for which he received €4,500 in total. Both the Board of Directors and Wilson Totten are convinced this does not prejudice his independence as a director.

Barry Ross, PhD – Consultant

Dr. Ross is an independent scientific and business advisor. Previously he served as CEO and Scientific Director of the Affymax Research Institute in Palo Alto. He held a number of senior research positions in the pharmaceutical industry including Director, Group Research Strategy and Alliances at GlaxoWellcome. He received his PhD in Organic Chemistry from Imperial College of Science and Technology, London. He joined Galapagos' Board of Directors in April 2003. (Address: Garthmead, Annables Lane Harpenden, AL5 3PL Herts, UK).

Laurent Ganem, MD – Managing Director Apax Partners

Dr. Ganem became a partner of Apax Partners in 1994, in charge of investments in Healthcare and Biotechnology. He began his career in the US at Baxter International. Then, back in France, he founded a company specializing in Life Science Technology Transfers where he was General Manager until 1993. Laurent is a graduate of the Paris University of Medicine. He also obtained an MBA from Columbia

University, New York. He joined Galapagos' Board of Directors in March 2002. (Address: Rue des Beaux 3bis, 75006 Paris, France).

Harrold van Barlingen, PhD – Investment Manager AlpInvest Partners

Dr. Van Barlingen heads the Life Sciences Investments activities at AlpInvest Partners, one of the largest private equity investors worldwide. Previously, he was at the Boston Consulting Group, where he worked as a consultant in management and strategy. Prior to BCG, Van Barlingen headed the Benelux office of the Lewin Group (a Quintiles subsidiary); an international firm specialized in the field of health economy. He holds a MSc in Medical Biology and a PhD in the area of cardiovascular diseases, both from the University of Utrecht. He will join Galapagos' Board of Directors after the Offering. (Address: PO Box 75304, 1070 AH Amsterdam, The Netherlands).

After the Closing Date of the Offering, the former directors Ronald Brus (CEO of Crucell and director since June 1999), Stephen Bunting (Managing Director of Abingworth and director since March 2002) and Steven Burrill (Managing Director of Burrill and director since March 2003) and Dirk Pollet (Vice-President Business Development and director since November 2002) will resign from the Board.

The last 5 years the members of the Board of Directors have not been convicted for any violation of the (Dutch) Act Economic Delicts (*Wet Economische Delicten*), nor have they been involved in any bankruptcy or legal moratorium of a company on which they had influence, with the exception of Mr. Verdonck who has been involved as a director and shareholder in the involuntary liquidation of Xpert Safety NV, which was declared bankrupt on 28 February 2000.

As some of the members of the Board of Directors are, for example as a board member, involved in other life sciences companies, which might today or in the future compete and/or collaborate with Galapagos, or could be potential merger and acquisition candidates, this might result in a conflict of interest.

Committees

At its meeting of 29 March 2005, the Board of Directors approved the establishment of an Executive Committee, an Audit Committee and a Nomination and Remuneration Committee and approved the charters for these committees and appointed the members of these committees.

Executive Committee

The Executive Committee currently consists of six people, who not need to be a director. The executive director and CEO, Onno van de Stolpe, is Chairman of the Executive Committee.

The Executive Committee consists of six members:
- Onno van de Stolpe, CEO;
- Graham Dixon, Chief Strategy Officer;
- Dirk Pollet, Vice President Business Development;
- Gustaaf van Reet, Vice President Corporate Development;
- Andre Hoekema, Managing Director Galadeno; and
- Vicky Gwosdz, Head of Finance

The Executive Committee is a corporate body within the meaning of article 524bis of the BCC. It may exercise the powers delegated to it by the Board of Directors. However, such powers may not include the general policy or other matters which are reserved for the Board of Directors on the basis of legal provisions or the Articles of Association or the corporate governance charter adopted by the Issuer.

The tasks of the Executive Committee include the following matters:
- The research, identification and development of strategic possibilities and proposals which may contribute to the Company's development in general;

- The drafting and development of policy guidelines to be approved by the Board of Directors;
- The Company's 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 the Company.

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

The Executive Committee prepares quarterly reports for the Board of Directors. These management reports, sent to all directors within 15 days after the end of each quarter, give an overview of the most important events, a financial overview, an evaluation of the status of the budget and business plan and an overview of the policy the Executive Committee wishes to implement during the next quarter.

Besides the quarterly management reports, the Executive Committee immediately informs the Board of Directors of matters which may influence the Board of Directors' risk management policy (such as potential litigation, relations with major customers, and all facts which may substantially impact the market price of the Shares).

Audit Committee

The Audit Committee consists of three directors:
- Ferdinand Verdonck, Chairman;
- Barry Ross; and
- Raj Parekh.

All members of the Audit Committee are non-executive directors, the majority of whom are independent. The chairman is an independent non-executive director. All members dispose of the relevant expertise, especially in financial matters, to fulfill their task efficiently.

The members of the Audit Committee are appointed by the Board of Directors in order to develop long-term audit procedures relating to all the Company's activities. This task consists more specifically of:
- Follow up on financial reporting and verification of financial data;
- Verification and follow up of the internal control mechanisms;
- Evaluation and verification of the effectiveness of the risk assessment systems; and
- Follow up on the internal and external audit activities.

The Audit Committee's powers and responsibilities have been included in the charter of the Audit Committee. The Audit Committee will meet as often as necessary to ensure the committee's good operation, with a minimum of four meetings yearly convened by the Chairman. The Audit Committee reports its conclusions and recommendations to the Board of Directors and informs the Board of Directors regularly on the exercise of its tasks and on all matters which require immediate action or improvement.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee consists of three non-executive directors, the majority of whom are independent:
- Raj Parekh, Chairman;
- Ferdinand Verdonck; and
- Wilson Totten.

The Nomination and Remuneration Committee's role is twofold:
- Drafting recommendations to the Board of Directors regarding the remuneration policy of the Company 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's powers and responsibilities have been included in the charter of the Nomination and Remuneration Committee. The Nomination and Remuneration Committee will meet at least twice yearly, as well as each time a meeting is required in view of the committee's role and responsibilities as convened by the chairman. The Nomination and Remuneration Committee reports its conclusions and recommendations to the Board of Directors, while aiming to ensure utmost discretion in its reporting documents and proceedings.

Remuneration of the members of the Board of Directors

In 2004, non-executive directors representing one of the Company's shareholders received no compensation for their position as directors, and they were paid €13 thousand as expense reimbursement. Independent members of the Board of Directors received a board fee of €1.5 thousand per board meeting. In 2004, they were paid €6,000 as board fees and expense reimbursements.

Going forward and subject to Closing of the Offering, the independent members of the Board of Directors will receive a fixed annual amount of €20 thousand as a remuneration for their work for the Board. The Board will then comprise three independent members, being Barry Ross, Wilson Totten and Ferdinand Verdonck. The CEO does not receive any special remuneration for his work on the Board of Directors, since this is part of his total remuneration package. The chairman of the Board, Dr. Parekh received a monthly consulting fee of £8,666 since he joined the Board of Directors in April 2004 as a compensation for his specific assignment to assist the Company in strategic positioning. This included amongst others the evaluation of several alternative corporate transactions, the evaluation of the IPO, the choice of the
stock-market, the composition and negotiations with the Syndicate Members, the composition of the Board after the IPO, the negotiations with the Pre-IPO Shareholders, the definition of the equity story and participation in the road shows and one-on-one presentations to potential investors. No decision has yet been taken on the specific assignments that he Will perform after the IPO and therefore on his remuneration.

The non-executive members of the Board of Directors were allocated 240,695 warrants without consideration, representing the right to subscribe to 60,174 shares, after the 4:1 reverse split. In deviation of the Belgian Corporate Governance Code, the non-executive directors can receive warrants, as this is customary in the biotech industry.

Non-executive members of the Board of Directors	Issue date	Number of warrants	Exercise price (after split)	Expiry date
Raj Parekh, Chairman	15 June 2004	125,000	€4.00	1 February 2012
Ferdinand Verdonck (board member	31 January 2005	40,000	€6.76	1 February 2012
subject to closing of the Offering)				
Wilson Totten	22 July 2004	30,000	€4.00	1 February 2012
Barry Ross	1 February 2003	30,000	€4.00	31 January 2011
Ronald Brus (no longer board member	23 December 2003	15,695	€4.68	22 December 2007
subject to closing of the Offering)				
Total		**240,695**		

Table 16: Warrants held by the non-executive members of the Board of Directors

Remuneration of the members of the Executive Committee

The total annual remuneration package for 2005 for the six members of the Executive Committee (CEO, CSO, Vice President Business Development, Vice President Corporate Development, Managing Director Galadeno, Head of Finance) consists of two parts: a fixed part of €1.3 million and a variable part. The variable part is calculated on the basis of reaching and surpassing individual and corporate objectives. These objectives are set at the beginning of the year by the Board of Directors and are related to both the performance of the member of the Executive Committee as well as the overall performance of the Company

towards the approved budget. Based upon the actual performance, and following a proposal of the Nomination and Remuneration Committee, the Board of Directors decides on the variable part.

The total remuneration paid out to the Executive Management (predecessor of the Executive Committee) in 2004 amounts to €620 thousand, of which the variable part comprised €75 thousand. The increase expected in 2005 is the result of the expansion of the Executive Committee as well as the fact that Graham Dixon, CSO, only started near the end of 2004. The Nomination and Remuneration Committee fixes the performance parameters and verifies their effectiveness regularly. In deviation from the Corporate Governance Code, the Issuer intends not to disclose in the Corporate Governance Chapter of the annual report the individual remuneration (basic, variable and other components) granted directly or indirectly to the CEO because of privacy concerns.

The members of the Executive Committee were allocated 595,000 warrants (representing the right to subscribe to 148,750 shares) of the Issuer in 2005, without consideration. After the IPO, they will also be eligible to receive warrants under the new Warrant Plan 2005. The total number of outstanding warrants of the members of the Executive Committee is presented below:

Executive Committee member	Issue date	Number of warrants	Exercise price (after split)	Expiry date
Onno van de Stolpe, CEO	22 December 1999	104,636	€4,00	21 December 2007
	6 March 2002	843,064	€4.00	5 March 2010
	31 January 2005	60,000	€6,76	1 February 2012
		1,007,700		
Dirk Pollet, Vice President Business	22 December 1999	52,318	€4,00	21 December 2007
Development	6 March 2002	368,882	€4,00	5 March 2010
		421,200		
Graham Dixon, Chief Scientific Officer	31 January 2005	210,000	€6.76	1 February 2012
Andre Hoekema, Managing Director Galadeno	31 January 2005	150,000	€6.76	1 February 2012
Gustaaf Van Reet, Vice President Corporate	31 January 2005	100,000	€6.76	1 February 2012
Development				
Vicky Gwosdz, Head of Finance	31 January 2005	75,000	€6.76	1 February 2012
Total		**1,963,900**		

Table 17: Warrants held by members of the Executive Committee

The members of the Executive Committee may receive more warrants of the Issuer, since the management's participation in the capital and potential growth of the entity for which they work is common in the biotechnology industry. It also provides an important incentive for the members of the Executive Committee to strive for the Issuer's most beneficial development.

Management

The Board of Directors has delegated the day-to-day management to a Managing Director, who acts as the Chief Executive Officer (CEO) of the Company, reporting directly to the Board of Directors.

The external auditors

Deloitte & Partners Bedrijfsrevisoren was reappointed as the Issuer's statutory auditor for a period of three years at the Shareholders Meeting of 1 April 2003. The total remuneration paid to Deloitte & Partners Bedrijfsrevisoren in 2004 amounts to €21 thousand for statutory audit work and €15 thousand for tax advice.

Transactions with affiliated companies

All transactions with affiliated companies (if any, and other than subsidiaries) are, if legally required, submitted to a committee of three independent directors and an independent expert, who will report to the Board of Directors. This report will be published in the annual report. There were no such transactions in 2004.

USE OF PROCEEDS

The principal purposes of the Offering are to increase the issuers capitalization and financial flexibility, to facilitate access to public equity capital markets and to provide a public market for the Issuer's Shares.

The Company estimates that, assuming the Offering will be fully subscribed, the gross proceeds from the issue of the Base Shares will be approximately €35 million, or approximately €40.25 million if the Over-allotment Option granted to the Lead Managers is exercised in full. The proceeds of the 82,562 Shares newly issued after the exercise of warrants amount to €380,372 in total for the Issuer.

The Company intends to use the net proceeds of the Offering, after deduction of commissions and expenses related to the Offering, for research and development, working capital, capital expenditure, acquisitions if and when they present themselves and general corporate purposes. More specifically, the Company intends to use the net proceeds of the Offering for:

- Therapeutic development programs: progression of the targets and chemical hits in the bone and joint disease programs towards pre-clinical and clinical development;
- Research programs: target discovery and validation in bone and joint diseases;
- Technology development: expanding the target discovery tools and the medicinal chemistry capabilities;
- Intellectual property: expanding and maintaining a patent portfolio based on the results of the Company's research and development programs;
- In-licensing clinical development: in-licensing drug candidates that strengthen the drug discovery pipeline and progress these candidates into clinical development; and
- Acquisition: access to technology and/or products that strengthen the Company's position and create value for the shareholders.

The amounts and timing of the Company's actual expenditures will depend upon numerous factors, including the status of the Company's product development and commercialization efforts, the amount of proceeds actually raised in the Offering, compound in-licensing activities and the amount of cash received from Galadeno's service activities and target out-licensing activities. The Company actively evaluates opportunities to acquire businesses and technologies that it believes are complementary to its business activities. The Company has not pre-determined the amounts it plans to spend on any of the areas listed above or the timing of these expenditures. Accordingly, the Company's management will have broad discretion to allocate the net proceeds from the Offering. The Company believes that, assuming full subscription of the Offering, the net proceeds from the Offering will be sufficient to support the Company's current operating plan through at least the next three years.

Additional information on the expected evolution of the Company going forward is presented in "*Management's discussion and analysis of financial condition and results of operations*".

The Company intends to hold the proceeds it retains in connection with the Offering at banks and in short-term, interest-bearing, investment grade securities, including governmental obligations and other money market instruments, until the Company will use them.

THE OFFERING

Authorization of the Offering

At its meeting of 29 March 2005, the Extraordinary Shareholders Meeting decided to increase the Issuer's capital through the issuance of Base Shares for an equivalent maximum value of €35 million, subject to subscription thereto within the framework of the Offering, and to issue warrants, which give the right to the Lead Managers to subscribe for up to €5.25 million in Over-allotment Shares to cover over-allotments in the Offering, if any. The capital increase was decided after approval of the report drawn up by the Board of Directors in accordance with article 596 of the BCC with respect to the consequences of the capital increase for the existing shareholders as well as article 598 of the BCC with respect to the lifting of the preferential subscription rights of the existing shareholders.

Background and purpose of the Offering

The principal purposes of the Offering are to increase the Issuer's capitalization and financial flexibility, to provide a public market for the Shares and to facilitate access to public equity capital markets. The net proceeds will be used for research and development, working capital, capital expenditure, acquisitions if and when they present themselves and other general corporate purposes. See "*Use of proceeds*" for further details.

Size and nature of the Offering

The Offering consists of up to €35 million in. Base Shares to be issued by the Issuer, in addition to 82,562 shares created prior to closing of the Offering after the exercise of warrants by warrant holders (and together with the Base Shares, the Offer Shares) and increased with up to €5.25 million Over-allotment Shares solely to cover over-allotments, if any. In accordance with the provisions of Article 584 of the BCC, the Issuer reserves the right, if the total amount of the subscriptions would be lower than €35 million, to increase the capital only by the amount of the subscriptions made. In such a case, the number of Base Shares and the 82,562 additional shares will be reduced proportionally.

The Offering is organized as a public offering in Belgium and the Netherlands and an international private placement and is divided into two tranches:
- The Retail Tranche for retail investors representing a maximum of 20% of the Offering; and
- The Institutional Tranche for institutional investors representing at least 80% of the Offering.

A priority allocation within the Retail Tranche will be provided for the employees and the Company's management with a limitation of €100,000 in Offer Shares per person for the Company's management (the members of the Executive Committee and four other senior managers) and a limitation of €25,000 in Offer Shares per person for other employees.

Price Range

The Offer Price will be determined within a variable Price Range, which is expected to be announced in a press release, an advertisement in the Daily Official List and in one or more national newspapers in Belgium and the Netherlands on 15 or 16 April 2005. The Lead Managers reserve the right to change the Price Range of the Offer Price prior to closing of the Subscription Period, in which case such change will be announced in a press release, an advertisement in the Daily Official List and one or more national newspapers in Belgium and the Netherlands, and in which case the Subscription Period will continue (at least) two Banking Days, and investors may revise their subscriptions and applications. However, the price paid for the Offer Shares by the retail investors will never exceed the upper end of the initial Price Range as announced on 15 April 2005.

Among the factors considered in determining the Price Range will be:
- Market conditions in effect at the time of the Offering;
- The Company's future prospects and its industry's future prospects;
- The Company's sales, earnings and other financial and operating information in recent periods; and
- The price-earnings ratios, price-sales ratios, market prices of securities and financial and operating information of companies engaged in similar activities.

Offer Price

The Offer Price will be a single price in Euro, applicable to all investors, and will be determined by the Lead Managers after consultation with the Issuer, on the basis of a bookbuilding procedure, in which only institutional investors will participate, and taking into account various relevant qualitative and quantitative elements, including but not limited to the number of Offer Shares requested, the size of the Orders received, the quality of the investors submitting such Orders, the prices at which the Orders were made and the market circumstances at that time. The Offer Price will be determined after the closing of the Subscription Period and is expected to be announced on 29 April 2005 in a press release, an advertisement in the Daily Official List and in one or more national newspapers in Belgium and the Netherlands on 30 April 2005 and in the Final Prospectus to be published only in the Netherlands before the Closing Date. In accordance with the decision of the Extraordinary Shareholders Meeting on 29 March 2005, the Offer Price will in any case be higher than the par value of €5.45. per share.

Subscription Period

Subscription is open from 18 April 2005, as of 09.00 hrs CET, until 28 April 2005, 16.00 hrs CET. In case the Lead Mangers change the Price Range of the Offer Price prior to closing of the Subscription Period, the Subscription Period will continue (at least) two Banking Days. The Subscription Period will in any event be open for at least 6 Banking Days.

Subscription procedure

General

Subscriptions may be submitted free of charge to the Syndicate Members.

Only one application form per retail investor will be accepted. If the Lead Managers determine, or have reason to believe, that a single retail investor has submitted several Orders, through one or more Syndicate Members, they may disregard such Orders.

Investors wishing to subscribe through intermediaries other than Syndicate Members should request details of the costs which these intermediaries may charge and which they will have to pay themselves.

To be valid, subscriptions and applications must be submitted at the latest at 16.00 hrs CET on the final day of the Subscription Period. Should any major incidents occur during the Subscription Period, which could have a significant impact on the activities of the Company or on investors' assessment of the Offering, an appendix to the Prospectus will be announced in a press release, an advertisement in the Daily Official List and in one or more national newspapers in Belgium and the Netherlands. In this case, investors may revise their subscriptions and applications.

Retail investors

During the Subscription Period, retail investors are invited to submit their Orders, indicating the number of Shares they commit to purchase. They will subscribe at the Offer Price.

Orders by Belgian retail investors can be submitted, at no cost, at the counters of the Syndicate Members. Dutch retail investors can submit their orders, at no cost, at their own bank, which will submit these Orders with one of the Syndicate Members.

Institutional investors

During the Subscription Period, institutional investors are invited to submit their Orders indicating the number of Shares they commit to purchase, and the price(s) at which they are making such Orders. Institutional investors are invited to submit their Orders as soon as possible with the Syndicate Members.

Employees

Employees will receive the Prospectus together with a special subscription form. Employees willing to benefit from the priority allocation for employees are invited to submit their Orders using the special subscription form, indicating the number of Shares they commit to purchase.

Allocation of the Shares

General

After the end of the Subscription Period, the Lead Managers will determine the allocation of the Shares after consultation with the Issuer. The allocation will depend on the quantitative and qualitative analysis of the Orders. The Offer Shares and the Over-allotment Shares will be distributed to retail and institutional investors on the basis of the size of both tranches (80 % institutional, 20 % retail). In case of over-subscription, the allocation to retail investors will be made on the basis of an objective allocation key, that will be identical for retail investors in Belgium and the Netherlands, except for the priority allocation to employees of the Company. In the event that the Offer Shares are oversubscribed, preferential treatment may be given to Orders submitted by retail investors at the branches of the Syndicate Members rather than through other financial intermediaries.

The results of the Offering and the allocation key for the retail investors will be announced in a press release, an advertisement in the Daily Official List and in one or more national newspapers in Belgium and the Netherlands.

Clawback

Insofar as not all Offer Shares offered in the Retail Tranche are subscribed, the balance of that tranche will be allotted to investors in the Institutional Tranche, if the demand exceeds the number of Offer Shares in that latter tranche.

Priority allocation for employees

A priority allocation within the Retail Tranche will be provided for the Employees and the Company's management with a limitation of €100,000 per person in Offer Shares for the Company's management (the members of the Executive Committee and four other senior managers) and a limitation of €25,000 per person in Offer Shares for other employees.

Belgian employees wishing to exploit the priority allocation will have the option to:

- Subscribe at the Offer Price without discount; or
- Subscribe at the Offer Price reduced with a discount of 16.66% rounded to the closest multiple of €0.05. This price will be announced to all employees on the same day as the Offer Price. These Shares will be registered in name and will be non-transferable for a period of two years as of the Listing Date in accordance with Belgian Law; or
- A combination of both options mentioned above.

Dutch employees wishing to exploit the priority allocation can subscribe at the Offer Price without discount.

Over-allotment Option and stabilization

In connection with the Offering, the Lead Managers, its affiliates or its agents may as of the Listing Date until 30 calendar days after the Listing Date effect transactions on Euronext Brussels, on Euronext Amsterdam, in the over-the-counter market or otherwise with a view to stabilize or maintain the market price of the Shares at levels other than those which might otherwise prevail in the open market. However, there is no obligation for the Lead Managers to do so. Such stabilization, if commenced, may be discon-

tinued at any time and will in any event be discontinued 30 calendar days after the Listing Date.

If the Lead Managers create a short position in the Shares in connection with the Offering, they may reduce that short position by purchasing Shares in the open market. Purchases of Shares to stabilize the market price or to reduce a short position may cause the market price of the Shares to be higher than it might be in the absence of such purchases. None of the Issuer or any of the Lead Managers makes any representation or prediction as to the direction or the magnitude of any effect that the transactions described above may have on the market price of the Shares.

The Lead Managers may also elect to reduce any short position by exercising all or part of the Over-allotment Option, which the Issuer has granted to the Lead Managers. This Over-allotment Option is exercisable as of the Listing Date until 30 calendar days after the Listing Date and requires the Issuer to issue and offer at the Offer Price a number of Over-allotment Shares for the sole purpose of allowing the Lead Managers to cover for over-allotments, if any. The total number of Over-allotment Shares shall not exceed 15% of the number of Base Shares.

To enable the Lead Managers to exercise the Over-allotment Option up to 15% of the Base Shares, one or more of the Pre-IPO Shareholders will enter into a lending agreement, free of charge and for the same period as the Over-allotment Option. Afterwards the Issuer will issue these Over-allotment Shares, if any, in an extra capital increase.

By means of a press release the market will be informed on whether or not the Over-allotment Option has been exercised.

Listing and first trading

Application has been made to list all existing and newly issued Shares, including all Shares that may be issued through the exercise of warrants pursuant to the existing warrant plans (Warrant Plans 1999 and 2002) on the Eurolist by Euronext Brussels NV and Euronext Amsterdam NV under the respective symbols GLPG and GLPGA. The Issuer expects trading to commence on or about 2 May 2005, being the first Banking Day following the Allocation Date, subject to early closing of the Subscription Period.

As of the Listing Date until the envisaged Closing Date, the Shares will be listed and traded on Euronext Brussels and Euronext Amsterdam on an "as-if-and-when-issued" basis. Investors that wish to enter into transactions in Shares of the Issuer prior to the Closing Date of the Offering, whether such transactions are effected on Euronext Brussels, on Euronext Amsterdam or otherwise, should be aware that the Closing Date of the Offering may not take place on 4 May 2005, or at all, if certain conditions or events are not satisfied or waived or do not occur on or prior to such date. Such conditions include the receipt of officers' certificates and legal opinions and such events include the suspension of trading on Euronext Brussels or Euronext Amsterdam or a material adverse change in the Issuer's financial condition or business affairs or in the financial markets. Euronext Brussels and Euronext Amsterdam have indicated that they will annul all transactions effected on the Shares if the Offer Shares are not issued on the envisaged Closing Date of the Offering. There will be one Banking Day between the last day of the Subscription Period and the Listing Date. Otherwise, it would not be possible to publish the mandatory advertisement announcing the allocation key for retail investors at or before the Listing Date.

Payment, settlement and delivery

The Shares must be paid up in full in Euro upon delivery, together with any applicable stock exchange tax on the Closing Date. For further information about applicable taxes, see "*Taxation in Belgium, Stamp tax on securities transactions*". The Closing Date is envisaged to be 4 May 2005. It is expected that the Shares will be delivered to purchasers on or about 4 May 2005 through the book-entry facilities of the Belgian cen-

tral securities depository, as well as through Euroclear Bank SA/NV, as operator of the Euroclear System (Euroclear) and Clearstream Banking SA, Luxembourg (Clearstream), all in accordance with their normal settlement procedures applicable to equity securities. After the Closing Date the delivery of the Shares will be made available within the Netherlands central securities depository, Euroclear Nederland. All of the Shares will be in bearer form represented by a single global certificate lodged with the CIK for safekeeping on behalf of those persons entitled to the Shares.

Underwriting agreement

Subject to the right of the parties involved in the underwriting agreement, being the Issuer and the Lead Managers, not to sign such an agreement, the Lead Managers will sign an underwriting agreement, after the determination of the Offer Price expected on 29 April 2005. The conclusion of this agreement may depend on various factors including, but not limited to, the market circumstances and the result of the book-building procedure. As a result of the signing of this underwriting agreement, the Lead Managers will, severally but not jointly, agree subscribe to and acquire the offer shares (in their name but for the account of the retail and institutional investors) for the following percentages of the Offer Shares with a view to immediately transfering the same to these investors:

- KBC Securities 55%;
- Kempen & Co 45%.

Costs and remuneration of intermediaries

The expected total gross proceeds of the Offering that will be received by the Issuer are estimated to be in the range of €35 - €40.25 million (including the proceeds of the Over-allotment Shares).

The costs of the Offering borne by the Issuer in the current financial year are estimated to be approximately 6.2% of the gross proceeds of the Offering. These costs include legal, administrative and other costs (€245 thousand), the remuneration of the BFIC and Euronext (€19,940), the publications required by law, the printing of the Prospectuses (€71 thousand), the cost of legal, financial and communication advisors (€282 thousand) as well as the management, guarantee and selling fees (€1.5 million). The latter are to a certain extent divided among all financial intermediaries who register subscriptions and applications in relation to the Offering described in this Prospectus.

The agreed management, underwriting and selling fees in respect of any of the Over-allotment Shares shall be the same as in respect of the Base Shares.

DESCRIPTION OF THE SHARES AND CORPORATE STRUCTURE

The Issuer bears the name GALAPAGOS and has its registered office at Generaal De Wittelaan L11/A3, 2800 Mechelen, Belgium.

Incorporation, modification of the Articles of Association and duration

The number of shares mentioned in this section refers to the number of shares before the reverse stock split of 4 to 1 that was decided by the Extraordinary Shareholders Meeting on 29 March 2005.

On 30 June 1999, the Issuer was incorporated as a limited liability company (*Naamloze Vennootschap / Société Anonyme*) under the name "GALAPAGOS GENOMICS". Crucell (formerly IntroGene) and Tibotec (successor to Pharmabioscience Holding NV) founded the Issuer. The Issuer was incorporated with a share capital of €4,447,050, represented by 4,447,050 registered shares, with a nominal value of €1.00 each.

On 3 August 2000, the shareholders modified the Issuer's Articles of Association to reflect that the Board of Directors must consist of at least four directors.

At its meeting of 18 January 2001, the Board of Directors decided to transfer the registered office from Generaal De Wittelaan L11/4, 2800 Mechelen to Generaal De Wittelaan L11/A3, 2800 Mechelen.

On 1 March 2002, article 5 of the Issuer's Articles of Association was modified to reflect an increase of (i) the Issuer's capital by €4,505,666 (increasing the capital from €4,447,050 to €8,952,716) and (ii) the number of shares representing the share capital by 4,505,666 at a price of €1.00 per share (increasing the amount of shares from 4,447,050 to 8,952,716).

On 6 March 2002, the Articles of Association were amended in view of the following decisions taken:
- A capital increase by €707,995 bringing the share capital to €9,660,711 and an issuance of 447,531 new shares at a price of €1.582 per share bringing the total amount of shares to 9,400,247;
- A second capital increase by €20,707,995 bringing the share capital to €30,368,706 and an issuance of 13,089,757 new shares at a price of €1.582 per share bringing the total amount of shares to 22,490,004; and
- A division of the existing shares into five categories (A, B, B+, C and D).

At the Extraordinary Shareholders meeting of 6 March 2002, the shareholders agreed to adopt new Articles of Association reflecting *inter alia* the decisions referred to above, as well as share transfer restrictions and nomination rights for the Board of Directors.

On 19 September 2002, an Extraordinary Shareholders Meeting was held at which the Issuer's capital was increased with €2,000,000 to bring the capital from €30,368,706 to €32,368,706 by creating 1,264,222 shares category C at a price of €1.582 per share, without nominal value, having the same rights and benefits as the other shares of the same category.

On 29 March 2005, the Extraordinary Shareholders Meeting resolved on a number of amendments to the Articles of Association of the Issuer, subject to the condition precedent of the realization of the Offering. The amendments relate, *inter alia*, to the capacity of company to call upon public savings (*openbaar beroep op het spaarwezen*), as defined in applicable Belgian law. On this same date, the Issuer's shareholders decided to change the Issuer's name into GALAPAGOS.

The Issuer is incorporated for an unlimited duration.

Business number

The Issuer is registered with the *Kruispuntbank van Ondernemingen/Banque-Carrefour des Entreprises* (Register of Legal Entities) under business number 0466.460.429.

Legal form

GALAPAGOS is a limited liability company (*naamloze vennootschap/société anonyme*) incorporated under Belgian law. It has the capacity of a company that has called upon and calls upon public savings.

Financial year

The financial year starts on 1 January and ends on 31 December.

Purpose of the Company

As set out in article 3 of the Articles of Association, the Issuer's purpose consists of:

- The development, construction and operation of gene libraries for functional genomics research;
- The research for the development of health products for human beings and animals, pharmaceutical products and other products relating thereto;
- The development, testing, scale drawing and operation of gene therapy processes, as well as the development, assessment and operation of clinical applications of such procedures;
- Research for its own account or for the account of third parties in the field of, or in connection with, biological and industrial technology, genetics and human and animal life in general; and
- The acquisition, sale and licensing of patents, trademarks, industrial and intellectual property, whether or not secret, and licenses.

With a view to accomplishment of its purposes, the Issuer may, in Belgium or abroad, acquire or lease any license, movable or immovable property, which is necessary or useful for the accomplishment of its commercial or industrial purpose, operate, sell or lease the same, build factories, establish subsidiaries and branches, and establish premises. It may engage in all operations with banks, post check, invest capital, contract or grant loans and credit facilities, whether or not mortgaged. The Issuer may, by means of contribution, participation, loans, credit facilities, subscription of shares, acquisition of shares and other commitments, participate in other companies, associations or enterprises, existing or to be incorporated, and whether or not having a similar purpose to that of the Issuer. The Issuer may merge with other companies or associations. The Issuer may incorporate subsidiaries, under Belgian or foreign law. The Issuer may acquire or establish any property, which is necessary or useful for its business or for the accomplishment of its corporate purpose.

Group structure

The Issuer holds all outstanding shares of Galapagos Genomics, a company incorporated under the laws of the Netherlands, with registered office at Archimedesweg 4, 2333 CN Leiden, the Netherlands.

Galapagos Genomics is exonerated from certain legal provisions under Dutch law relating to the preparation of its financial statements. To allow Galapagos Genomics to benefit from such exoneration, the Issuer had to declare that it assumes joint and several liability for all obligations incurred by Galapagos Genomics (a so-called full parent guarantee).

In addition, the Issuer entered into a "Research and development agreement" with Galapagos Genomics on 20 June 2000. Under this agreement, Galapagos Genomics shall, on behalf of the Issuer, carry out research activities relating to the production of custom adenoviruses, identify academic collaboration partners and provide support in respect of business development and applications for grants. The Issuer shall own all intellectual property rights to the results obtained under this agreement. The initial term is from 20

June 2000 until 31 December 2005 and the agreement shall be tacitly renewed for consecutive one-year periods thereafter.

There has not been any interruption in the business of the Issuer which may have or has recently had a significant effect on its financial position.

History of share capital

The number of shares mentioned in this section refers to the number of shares before the reverse stock split of 4 to 1 that was decided by the Extraordinary Shareholders Meeting on 29 March 2005.

On 30 June 1999, the Issuer was incorporated with a share capital of €4,447,050, represented by 4,447,050 registered shares, with a nominal value of €1.00 each. Crucell (formerly IntroGene B.V.) subscribed to 4,002,345 registered shares and Tibotec (formerly Pharmabioscience Holding N.V.) subscribed to 444,705 registered shares. The Issuer also issued 4,447,050 founders' shares free of charge which were allocated to the Issuer's founders in proportion with their shareholding. On 31 December 1999 Tibotec exerciced an option to increase its shareholding to 50% by purchasing 1,778,820 shares from Crucell, after which both Tibotec and Crucell owned 2,223,525 registered shares.

On 21 December 1999, the Extraordinary Shareholders Meeting approved the Warrant Plan Belgium and the Warrant Plan Netherlands, as approved by the Board of Directors at its meeting of 20 December 1999. The Warrant Plan Belgium and the Warrant Plan Netherlands provided for an issuance of 549,341 warrants and 235,432 warrants respectively, each warrant giving the right to subscribe one ordinary share. Upon issuance of the warrants, the Issuer's shareholders decided to waive their preferential subscription right. The terms and conditions of the Warrant Plan Belgium and the Warrant Plan Netherlands are described in more detail in "*Management and employees*".

On 3 August 2000, the Extraordinary Shareholders meeting approved the issuance of two convertible bonds with a nominal value of €2 million each. The term of the convertible bonds was five years as of 1 August 2000. The convertible bonds were registered bonds, with an interest of 10% per annum capitalized yearly until the end of the term of the bonds or the moment on which the bonds are converted. The convertible bonds were not transferable except when (i) they were transferred together with one or more existing shares of the Issuer or (ii) they were transferred to another shareholder of the Issuer. The holder of the convertible bonds could only demand early conversion of the bonds as of one month prior to the end of the term. However, early conversion during the term of the bonds was possible in the event of (i) a transfer of shares or issue of new shares by the Issuer following which the composition of shareholders of the Issuer was altered, (ii) the approval of a proposal for a merger or demerger by the Board of Directors, (iii) a public offering of shares of the Issuer, (iv) a public takeover bid launched on the shares of the Issuer and (v) a decision by the Shareholders Meeting and the general meeting of bondholders on the early conversion of the bonds in accordance with the provisions of the BCC.

On 1 March 2002, the Extraordinary Shareholders Meeting decided to cancel the 4,447,050 founders' shares which had been issued at the Issuer's incorporation. The Extraordinary Shareholders Meeting also modified the terms and conditions of the convertible bonds to allow an early conversion of the convertible bonds. More specifically, a new provision was adopted according to which the Shareholders Meeting could, upon request by the bondholders to exercise the convertible bonds, unanimously decide to act on the bondholders' request at the date and for the price specified in the request by converting the nominal value of the bond and the accrued interest until 30 November 2001. In this case, the interest for the period between 1 December 2001 and the date of conversion was to be paid to the bondholders immediately after conversion. Subsequently, in accordance with the newly adopted provision, the Extraordinary Shareholders Meeting agreed to the bondholders' request to proceed with an early conversion of the two convertible bonds.

Subsequently, also on 1 March 2002, two directors established the conversion of the two convertible bonds. Pursuant to the conversion, the Issuer's capital was increased by €4,505,666 to bring it from €4,447,050 to €8,952,716 and 4,505,666 new shares were issued.

At the same meeting, the shareholders decided that no further warrants could be granted under the existing Warrant Plan Belgium 1999 and Warrant Plan Netherlands 1999 and revoked the authorization to the Board of Directors to establish the conversion of the warrants not yet granted. However, the shareholders subsequently approved the issuance of a maximum amount of 3,013,000 warrants under the Warrant Plan Belgium 2002 and a maximum amount of 500,000 warrants under the Warrant Plan Netherlands 2002. The terms and conditions of the Warrant Plan Belgium 2002 and the Warrant Plan Netherlands 2002 are described in more detail in "*Management and employees*".

At an Extraordinary Shareholders Meeting held on 6 March 2002, Crucell subscribed a capital increase of €707,995 in cash, resulting in the issue of 447,531 newly issued shares. The Issuer's capital increased from €8,952,716 to €9,660,711. At the same Extraordinary Shareholders Meeting, the shareholders approved to issue ten anti-dilution warrants free of charge to which Crucell also subscribed. The anti-dilution warrants could be exercised each time the Issuer issues new shares to another person than the holder of an anti-dilution warrant at a subscription price per share which is lower than the average subscription price of the shares category B+ held by the holder of anti-dilution warrants before such issuance. The exercise price of the anti-dilution warrants amounted to €0.01 per share. The number of shares to be issued upon exercise had to be calculated through a specific formula. These anti-dilution warrants could be exercised during a term of ten years starting at their issuance. However, if a public offering of any equity securities of the Issuer would occur before the end of this term, they would expire at the public offering.

A second capital increase by contribution in cash for an amount of €20,707,995 occurred at the Shareholders Meeting of 6 March 2002 pursuant to which the Issuer's capital increased from €9,660,711 to €30,368,706. Following this decision 13,089,757 shares were issued and subscribed by Abingworth, Apax, AlpInvest and Burrill Biotechnology Capital Fund LP. Finally, the Shareholders Meeting issued eighty anti-dilution warrants free of charge which were subscribed by the entities who became a shareholder following this last capital increase. Each of Abingworth Bioventures III A LP, Abingworth Bioventures III B LP, Abingworth Bioventures III C LP, Abingworth Bioventures III Executives LP, Apax France VI, Altamir & Cie, Burrill Technology Capital Fund LP and AlpInvest Partners co-investments 2000 CV subscribed to 10 anti-dilution warrants. The exercise price and other issue conditions of these anti-dilution warrants were identical to the ten anti-dilution warrants subscribed by Crucell.

As a final decision on 6 March 2002, the Shareholders Meeting decided to divide the Issuer's shares into five classes (A, B, B+, C and D) and cancel the nominal value of the shares. In the Articles of Association adopted on 6 March 2002, the different categories of shares were allocated specific rights with respect to, amongst others, the transfer of the shares (rights of first refusal, tag-along rights, drag-along rights), the nomination of directors, the decision making procedure at the Shareholders Meeting and the allocation of profits.

On 19 September 2002, an Extraordinary Shareholders Meeting increased the Issuer's capital by €2,000,000, bringing the capital from €30,368,706 to €32,368,706, by creating 1,264,222 shares class C shares, without nominal value, having the same rights and benefits as the other shares of the same category. Part of the newly issued shares were subscribed by a new shareholder, Burrill Nutraceuticals Capital Fund LP. At this occasion, fifty new anti-dilution warrants were also issued. The exercise price and other issue conditions of these anti-dilution warrants were identical to the ten anti-dilution warrants subscribed by Crucell.

On 29 March 2005, an Extraordinary Shareholders Meeting proceeded, subject to the condition precedent of the realization of the Offering, to a 1:4 reverse share split after which the share capital of the Issuer

remained the same but was represented by 5,938,554 shares instead of 23,754,226 shares before the reverse share split. Because the original number of shares held by each party could not be divided by 4, 10 shares (pre reverse split), representing 2.5 shares (after reverse split), have been cancelled due to round down differences. The Extraordinary Shareholders Meeting further abolished the different classes of shares. Consequently, the entire share capital of the Issuer is represented by one category of shares.

At the same Extraordinary Shareholders Meeting, the shareholders recorded that the exercise term of aforementioned anti-dilution warrants was to expire in case of a public offering of any equity securities of the Issuer.

On 29 March 2005, the Extraordinary Shareholders Meeting proceeded, subject to the condition precedent of the realization of the Offering, to the issue of a minimum of 125,000 warrants and a maximum of 500,000 warrants for the employees, directors and consultants of the Company. The exact number of warrants to be created in excess of 125 thousand is to be determined in accordance with the number of issued Base Shares and Over-allotment Shares. The number of additional warrants to be issued is neither to exceed 375 thousand nor 3.4% of the entire share capital of the Issuer computed on a fully diluted basis after the Offering, however excluding the minimum of 125 thousand warrants. Each warrant entitles the beneficiary to subscribe to one share (after reverse share split) of the Issuer subject to the provisions of the Warrant Plan 2005. These warrants will be granted partially within the framework of Warrant Plan 2005. The balance will remain at the disposal of the Shareholders Meeting, and Board of Directors, acting upon recommendation of the Nomination and Remuneration Committee and may be granted within the framework of future nominations and incentive plans. These warrants can only be granted to members of the Board of Directors by the Shareholders Meeting or, if the procedure for managing conflicts of interest according to article 523 of the BCC is applied, by the Board of Directors. The exercise price of the warrants will be decided as at least (a) the closing price of the last day preceding the date on which the warrants are offered, 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. The exercise price of the warrants will not be inferior to the par value of the existing shares.

Amount of the share capital, number and type of securities

On the date of the Prospectus , the share capital of the Issuer amounts to €32,368,706[9]. It is represented by 5,938,554 shares without nominal value. The par value per share amounts to €5.45. After exercise of the 2,750,292 outstanding warrants that have an exercise price below this par value, the par value would decrease to €5.31 per share.

Authorized capital

On 29 March 2005, the Extraordinary Shareholders Meeting of the Issuer granted, subject to the condition precedent of the realization of the Offering, the Board of Directors the power to increase the Issuer's share capital in one or more transactions with a maximum amount equal to the amount of the statutory capital after the capital increase within the framework of this Offering within certain limitations as set out below. The powers of the Board of Directors within the framework of the authorized capital are valid for a period of five years as from the publication thereof in the Annexes to the Belgian State Gazette. The powers of the Board of Directors are valid for capital increases in cash and in kind, as well as for those following the incorporation of reserves and issue premiums into the Issuer's capital. Within the framework of its powers under the authorized capital, the Board of Directors may restrict or cancel the preferential subscription rights of the existing shareholders in general, to the benefit of the personnel and the management of the Issuer and its subsidiaries or to the benefit of one or more named persons.

[9] In the balance sheet this amount of share capital is adjusted for the costs of the capital increase (in total €831 thousand, of which €554 thousand in 2002 and thereafter), while €19 thousand relates to the accounting for share-based compensation (credit). These differences are linked to the elements charged directly to capital according to IFRS.

The Board of Directors is authorized to issue shares with voting rights, convertible bonds, warrants and shares without voting rights as well as to convert reserves into the Issuer's capital.

The Board of Directors may request an issue premium when it increases the Issuer's capital within the framework of the authorized capital.

During its meeting on 29 March 2005, the Extraordinary Shareholders Meeting has explicitly granted, subject to the condition precedent of the realization of the Offering, the powers to the Board of Directors to increase the Issuer's capital in one or more occasions as from the date of the notification by the BFIC to the Company of a public takeover offer on the Issuer's shares. In this case, the Board of Directors may decide to increase the Issuer's capital through a contribution in cash or in kind with restriction or cancellation of the preferential subscription right of the shareholders. Such authority has been granted for a period of three years as from the date of publication of this decision in the Annexes to the Belgian State Gazette and may be renewed in accordance with the legal provisions concerned.

Furthermore, the Extraordinary Shareholders Meeting granted, subject to the condition precedent of the realization of the Offering, the power to the Board of Directors to increase the Issuer's share capital to the benefit of a transaction to be funded wholly or partially by means of newly issued shares of the Issuer. The term "transaction" in the previous sentence is defined as a merger or acquisition involving shares or cash, a corporate partnership or an in-licensing agreement. If the Board of Directors unanimously agrees to use the authorized capital to such effect, the amount of the capital increase may equal the amount of the statutory capital after the capital increase within the framework of this Offering. If there is no unanimous consent between the board members, such capital increase is limited to 20% of the statutory capital after the capital increase within the framework of the Offering.

Finally, the Board of Directors is also empowered to employ the authorized capital to issue warrants within the framework of compensation policies for employees, directors and consultants of the Company. Within the scope and framework of this authorization and while complying with the legal provisions with respect to conflict of interests and the use of the authorized capital, the Board of Directors is entitled to create and grant warrants to one of its members as remuneration for special assignments that do not fall within the scope of the office as director of the Issuer.

Changes in share capital

In accordance with the provisions of the BCC, the Issuer 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 the Issuer is present or represented. If the attendance quorum of fifty percent 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.

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

Acquisition of own shares

Under the BCC, the Issuer may not acquire its own shares, profit certificates and certificates without prior authorization by the Shareholders Meeting or in other limited circumstances determined under the Belgian company law, and the acquisition is always limited to a maximum of 10% of the Issuer's capital. The Issuer's offer to acquire its own shares must be made to all shareholders, unless the shares are bought at the stock market. Within certain limits, the shareholders may grant the Board of Directors the authorization to acquire or dispose of shares of the Issuer beforehand. These authorizations must be approved by the holders of eighty percent of the votes cast at a Shareholders Meeting where at least fifty percent of

the Issuer's capital is present or represented. If the attendance quorum is not met, a second Shareholders Meeting may be convened at which there is no quorum requirement. The voting rights connected to the Issuer's shares held by the Issuer itself are suspended.

At the Extraordinary Shareholders Meeting of 29 March 2005, the Board of Directors was authorized to approve the acquisition, subject to the availability of sufficient retained earnings or profit reserves, of the Issuer's own shares representing up to 10% of the Issuer's capital at a price which may not be lower than €0.05 and not higher than 10% in excess of the average closing price of the Shares during the last 30 calendar days preceding the acquisition. 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 the Issuer by its direct subsidiary.

The Articles of Association explicitly authorize the Board of Directors to acquire and dispose of the own shares of the Issuer, without prior approval by the Shareholders Meeting, if this is necessary to avoid a serious imminent disadvantage for the Company. The own shares of Issuer may be disposed of by means of a sale on Euronext Brussels or within the framework of incentive plans for employees, directors and consultants of the Company. This authorization was granted for a period of three years after the publication of such decision in the Annexes to the Belgian State Gazette.

These authorizations may be renewed by decision of the Shareholders Meeting with an attendance quorum of fifty percent of the capital present or represented and for which a majority of eighty percent of the votes cast is required. If the attendance quorum of fifty percent is not met, a new 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.

Takeover bids and change control

During its meeting on 29 March 2005, the Shareholders Meeting has explicitly granted the powers to the Board of Directors to increase the Issuer's capital as described under "*Description of the Shares and corporate structure 'Authorized capital*".

In addition, there are several provisions under Belgian law which may apply to the Issuer and which may make an unfriendly offer, merger or other change in control of the Issuer more difficult.

Public takeover bids on all the outstanding voting securities issued by the Issuer (including securities which give right to the subscription, acquisition or conversion of such securities) are subject to the supervision of the BFIC. If the latter determines that a takeover violates Belgian law, it may take measures and urge any responsible person to comply with the relevant regulation, to end the established irregularity or to cancel its effect. It may prohibit the responsible person to use the rights or advantages arising from this irregularity. The BFIC will notify this decision to the responsible person in the most appropriate way, as from which it will be enforceable. The BFIC may also publish its decision, impose a penalty payment per day or per breach, and impose administrative fines.
In the event that an individual or a company intends to acquire the joint or exclusive control of the Issuer through one or several transactions relating to the shares, the acquirer must notify the BFIC of the contemplated transaction at least five days before the completion of the transaction. The acquisition of control may be defined as the acquisition of voting securities or rights to acquire voting securities granting the buyer the possibility to, in law or in fact, exercise a decisive influence on the nomination of the majority of the members of the Board of Directors or on the orientation of the Issuer's policy.

If the price of the contemplated transfer includes a control premium, the acquirer must offer to all other shareholders the opportunity to sell their shares at the highest price offered by the acquirer for shares during the 12 months preceding the acquisition of control of the Issuer. The acquirer must give the other shareholders this opportunity within 30 days after its acquisition of control either (i) in the form of a public takeover bid or (ii) pursuant to an undertaking to maintain the stock price.

All these measures and provisions may have the effect of substantially discouraging a takeover bid by a third party.

Disclosure of shareholder interests

Under Belgian law and the Issuer's Articles of Association, subject to the condition precedent of the realization of the Offering, when acquiring or transferring voting securities or securities giving right to voting securities, if the total number of voting rights directly or indirectly held by a natural person or a legal entity, alone or jointly with other persons, exceeds or falls below the thresholds of 3% and 5% or a multiple of 3% or 5% of the total number of voting rights attached to the securities of the Issuer, that natural person or legal entity must disclose the acquisition or transfer within two Banking Days after such acquisition or transfer.
A shareholder whose participation exceeds or falls below one of these thresholds must at each occasion inform the BFIC and the Issuer. The documents relating to the transaction concerned must be sent to the BFIC. When the participation of a shareholder reaches 20%, the notification must indicate in which strategy the acquisition or transfer concerned fits, as well as the number of securities acquired during a period of 12 months before the notification and in which manner such securities were acquired. These disclosure obligations are valid as of the first day of trading.

The Issuer is obliged to publish the received notifications the next Banking Day and must mention these notifications in the notes to the annual accounts. Euronext Brussels will publish the details of the notifications. Failure to comply with the disclosure obligation may lead to, among other things, the suspension of voting rights and criminal liability.

Pursuant to the Dutch Securities Act, and a decree based thereon, a shareholder who directly or indirectly holds a capital interest of more than 25% in the Issuer must, by means of a standard form, within ten days after the month in which the transaction occurs, notify the AFM of such transaction in the shares issued by the company. If that shareholder is a legal entity and not an individual, the obligations under the Dutch Securities Act also apply to its managing directors and members of its supervisory board. In addition, these obligations apply to the following persons related to such 25% shareholder (if the 25% shareholder is not a legal entity): (i) spouses, (ii) relations by blood or affinity to the first degree and other persons who share a household with these persons, and (iii) by blood or affinity to the first degree who do not share a household with these persons but hold a capital interest of at least 5% or will obtain this percentage through the transaction. The AFM keeps a public register of all notifications made pursuant to the Dutch Securities Act and publishes any notification received by it. Non-compliance with the reporting obligations under the Dutch Securities Act could lead to criminal fines, administrative fines, imprisonment or other sanctions.

Conflicts of interest

Intra-group transactions

Article 524 of the BCC provides a special procedure in the event the decisions or transactions of the Issuer relate to the Issuer on the one hand and other companies affiliated with the Issuer on the other hand, with the exception of relations between the Issuer and its subsidiary. The procedure must also be applied for decisions or transactions relating to relations between the subsidiary of the Issuer and companies affiliated with the subsidiary concerned. Such a decision or transaction must be submitted beforehand to the judgment of a committee of three independent directors, assisted by one or more independent experts, by whom the advantages and disadvantages for the Issuer and its shareholders are evaluated, the financial consequences are estimated and it is established whether the decision or transaction is of this nature to be a disadvantage for the Issuer which is, in view of the Issuer's policy, manifestly unjust. The committee must present its written advice to the statutory auditor and the Board of Directors, which will decide after having been informed of the committee's advice. The decision of the committee together with an excerpt

from the minutes of the Board of Directors and the judgment of the statutory auditor must be published in the Issuer's annual report. This special procedure must not be applied for decisions and transactions which have occurred under the conditions of normal market practice or for decisions and transactions which represent less than 1% in value of the consolidated net assets of the Issuer.

The requirements of article 524 of the BCC regarding the independence of directors may be summarized as follows:

- An independent director is not allowed to have exercised a mandate as director, member of the executive committee or executive manager in the Issuer or in an affiliated company during a period of two years prior to his/her appointment;
- An independent director may not own shares representing 10% or more of the Issuer's capital or of one certain category of shares. If he/she owns less than 10%, (a) those shares together with shares owned by other companies over which the director concerned has control, cannot reach or exceed 10%; or (b) he/she cannot have entered into any agreements relating to the disposal of these shares or the exercise of the rights connected therewith;
- An independent director cannot have a next of kin (i.e. a spouse, partner or a relative in the second degree) who exercises an important mandate or has a financial interest as described above; and
- An independent director cannot maintain a relationship with a company which is of this nature to affect his/her independence.

Conflict of interests of directors

Articles 523 and 524 of the BCC provide a special procedure in the event a director of the Issuer has a direct or indirect personal interest of financial nature which is contrary to a decision or transaction which falls within the authority of the Board of Directors in which case the director concerned must inform the other directors of his conflict of interest before the Board of Directors takes a decision. The statutory auditor must also be informed. The director may not participate in the deliberation or the vote on the conflicting decision or transaction. The minutes of the meeting of the Board of Directors must state the financial consequences for the Issuer and justify the decision taken. An excerpt of the minutes concerned must be published in the Issuer's annual report. The report of the auditors on the annual accounts must describe the financial consequences for the Issuer of each decision of the Board of Directors vis-à-vis which a director has a conflicting interest.

Form and delivery of the Shares

The shares will be issued in registered or bearer form (in book-entry form only).

The shares issued in registered form must be registered in the name and address of the shareholder in the Issuer's shareholders' register, which is kept at the Issuer's registered office. Certificates evidencing such recording will be issued at no cost to the shareholders.

The shares issued in bearer form will initially be represented by one or more global certificates deposited with the *Caisse Interprofessionnelle de Dépôts et de Virements de Titres / Interprofessionele effectendeposito- en girokas (CIK)*. CIK is the Belgian central securities depository, which holds securities on deposit for its participants. It facilitates the clearance and settlement of securities transactions between participants through electronic book-entry changes in the accounts of those participants.

Most Belgian banks and other authorized brokers have securities accounts with CIK. Shareholders hold their interests through one or more intermediary banks that stand between such owner and the CIK. On the Closing Date, on receipt of payment for the shares, the shares will be credited to the accounts of the purchasers through the book-entry facilities of CIK or certain other securities intermediaries.

If after the Closing date of the Offering and delivery of registered shares or bearer shares in book-entry form investors wish to receive physical delivery of certificates in respect of their shares, those investors must make arrangements with their financial intermediary and pay all related costs and taxes incurred. A fixed fee per physical delivery, regardless the number of shares involved, will usually be charged by most of the financial institutions. Such fee amounts to €10 (+VAT) for delivery at the counters of KBC Bank. A separate tax on the delivery of bearer shares in physical form, currently at a rate of 0.6% of the value of the shares concerned, is also due.

Rights attached to the shares

The following description of the rights attached to the shares sets out the shareholders' rights under the BCC, as supplemented by the Issuer's Articles of Association. The following description is a summary and does not purport to be complete.

Right to participate in the Shareholders Meeting

The Annual Shareholders Meeting convened inter alia to approve the annual accounts and declare dividends, is held every year on the first Tuesday of April at 18.00 hrs CET. If that date is a public holiday, the meeting takes place on the following working day. Both the Annual Shareholders Meeting and Extraordinary Shareholders Meetings are held at the Issuer's registered office or at such other place as is designated in the notice convening the meeting.

The persons who are admitted to Shareholders Meetings of the Issuer are either (i) shareholders recorded in the Issuer's register of registered shares who have expressed their intention to attend the Shareholders Meeting no later than three business days before the meeting, or (ii) shareholders who have deposited their bearer shares no later than three business days before the meeting at the place indicated in the notice convening the meeting.

As soon as the implementation rules on dematerialized shares have been issued and are in force, the owners of dematerialized shares must deposit no later than three business days before the Shareholders Meeting a certificate issued by the recognized account holder or the settlement institution with the institutions designated by the Board of Directors. The certificate establishes the non-disposability of the shares for the Shareholders Meeting.

Extraordinary Shareholders Meetings may be called by the Board of Directors or statutory auditors and must be called if so requested by shareholders representing one-fifth of the Issuer's outstanding share capital.

Notices of all Shareholders Meetings must state the agenda and the proposed resolutions, at least twenty-four days prior to the meeting (i) in the Belgian State Gazette (ii) in one or more national newspapers in Belgium and the Netherlands and (iii) in the Daily Official List. A notice in the Belgian State Gazette suffices in Belgium for Annual Shareholders Meetings taking place in the municipality, at the location, on the day and the hour indicated in the deed of incorporation of the Issuer having an agenda limited to the review of the annual acounts, the annual report and, as the case may be, the report of the auditors and the vote on the discharge from liability of the directors and, as the case may be, the auditors. The notice for the Annual Shareholders Meeting must also specify where holders of shares in bearer form can obtain relevant information including a copy of the Issuer's annual accounts.

The Articles of Association allow the Issuer to specify a registration date in the notice. If the Issuer specifies a registration date in the notice, the shareholders may participate and vote at the Shareholders Meeting with respect to the shares, which they hold at 24.00 hrs CET on the registration date, irrespective of the number of shares, which they hold on the date of the Shareholders Meeting. The specified registration date can be no earlier than fifteen days, and no later than five days, before the date of the Shareholders Meeting. If the Issuer chooses to set a registration date, the notice of the Shareholders

Meeting must be published (i) in the Belgian State Gazette at least twenty-four days prior to the registration date and, if required, in a national newspaper at least twenty-four days prior to the registration date.

Pursuant to the Articles of Association, all shareholders of the Issuer have the right to participate in Shareholders Meetings either in person or by proxy. The Board of Directors may determine the form of the proxy for use at the Shareholders Meetings and request that proxies be deposited no later than three full business days before the meeting at the place indicated in the notice convening the meeting.

A notice of any Shareholders Meeting must be sent by registered mail to the registered holders of warrants, the directors and the statutory auditor and, if any, registered shareholders, bondholders and holders of certificates issued with cooperation of the Issuer, fifteen days before the date of the Shareholders Meeting. Any such person may attend the Shareholders Meeting.

Voting Rights

Each share entitles its holder to one vote at any Shareholders Meeting. Voting rights may be suspended with respect to shares (i) which, notwithstanding a request from the Issuer's Board of Directors, have not been fully paid up, (ii) which are owned by more than one person, except if a sole representative has been appointed and notified to the Issuer regarding the exercise of voting rights, and (iii) for which voting rights have been suspended by a decision of a competent court and/or regulatory authority.

In principle, the Shareholders Meeting has sole authority regarding the following matters: (i) the approval of the Issuer's annual accounts; (ii) the election and dismissal of the Issuer's directors and statutory auditors; (iii) the discharge of the directors and the statutory auditors from liability; (iv) the bringing of a derivative suit against the directors; (v) an increase or decrease in the capital of the Issuer (except for the right of the Board of Directors to increase the Issuer's capital within the framework of the authorized capital); (vi) the approval of a merger or a demerger of the Issuer and (vii) any amendment to the Articles of Association.

Pursuant to the BCC, certain transactions such as an increase or decrease in the capital of the Issuer, any amendment to the Articles of Association and the approval of the dissolution, merger or de-merger of the Issuer may only be authorized with the approval of at least seventy five percent of the votes validly cast at a Shareholders Meeting where at least fifty percent of the Issuer's share capital is present or represented. Any amendments to the corporate purpose clause of the Issuer requires the approval of at least eighty percent of the votes validly cast at a Shareholders Meeting, which meeting may, in principle, only validly decide if a quorum representing at least fifty percent of the Issuer's share capital is present or represented. If the attendance quorum of fifty percent is not met, a new Shareholders Meeting must be convened at which the shareholders may decide on the agenda items irrespective of the percentage of share capital represented at that meeting.

Profit sharing

At the date of the Prospectus, the capital of the Issuer is represented by 5,938,554 shares. Each share represents an identical fraction of the capital, offers one vote and a proportional interest in the company profits. The Issuer has also issued a number of warrants, which, when exercised, give the warrant holder the right to subscribe to shares of the Issuer. The table below gives an overview of the number of shares and warrants issued by the Issuer as of the date of this Prospectus:

Share category	Number
Outstanding shares	5,938,554
Shares to be issued as a result of all outstanding warrants being exercised	846,948
Total	**6,785,502**

Table 18: Existing shares and shares that can be created pursuant to the 1999 and 2002 Warrant plans

Pre-emption rights

On the occasion of any capital increase in cash or any issue of convertible bonds or warrants, the Issuer's shareholders have 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 they already hold. The preferential subscription right can be restricted or cancelled by a resolution approved by the Shareholders Meeting in accordance with the provisions of the BCC. The Shareholders' Meeting may also authorize the Board of Directors to restrict or cancel the preferential subscription right in the event of a capital increase in cash or the issuance of warrants or convertible bonds within the framework of the authorized capital, subject to the terms of the BCC.

The Board of Directors' authorization to increase the share capital of the Issuer through contributions in cash with cancellation or limitation of the preferential right of the existing shareholders is normally suspended with effect from the Issuer's receipt of notification from the BFIC of a public take-over bid on the shares of the Company. The Shareholders may, however, authorize the Board of Directors to increase the capital by issuing shares in the amount of not more than ten percent of the existing shares of the Issuer before the capital increase.

Dividend payments

Under the BCC, the Issuer is required to set aside at least five percent of its net profits during each financial year and to contribute such sum to the Issuer's statutory reserve until such reserve has reached an amount equal to one tenth of the Issuer's share capital. Subject to this requirement being met, the shareholders may, at the Annual Shareholders Meeting, based on a proposal from the Board of Directors, decide by majority vote to distribute as a dividend all or part of the Issuer's profits. The non-distributed reserve may be allocated to a reserve account or may be carried forward. Dividends may be paid either in cash or in kind. Dividends are payable on the dates and at the places fixed by the Board of Directors.
The shares carry the right to receive dividends, if any, payable with respect to the current financial year and any subsequent financial year.

With respect to bearer shares, the Belgian Act of 24 July 1921 provides that if the payment of dividends on bearer shares is not requested by the legitimate holder of the shares, the Issuer may deposit these dividends with the Deposit and Consignment Office (Deposito- en Consignatiekas/Caisse des Dépôts et Consignations). The right to claim the distribution of dividends so deposited expires after thirty years at which time the dividends become the property of the Belgian State. Regarding registered shares, the right to the payment of any dividend expires five years after such dividend was declared by the Board of Directors.

Liquidation

If the Issuer is dissolved, the assets or the proceeds of the sale of the remaining assets, after payment of all debts, costs of liquidation and taxes, must be distributed on an equal basis to the shareholders.

Regulations applicable in case of theft or loss of securities

In the event of loss or theft of bearer shares, Belgian law provides the following:

- Notice in the prescribed form must be given by means of a bailiff's writ of summons or by registered letter or by a declaration made at the offices of the National Securities Service (*Nationale Dienst van Roerende Waarden/Office National des Valeurs Mobilières*). This notice will be published in the Bulletin of Blocked Securities (*Lijst van de met Verzet Aangetekende Waarden/Bulletin des oppositions*);
- Payment is suspended and any attempt to trade or transfer such shares is unenforceable against the party that has notified the loss or theft;
- The shares must be returned to their owner as soon as they are found; and
- If the shares are not found, the payment of interest and dividends and any capital which has become due and payable or any distribution of capital and liquidation surplus and the issue of a duplicate certificate may take place four years after the loss or theft.

The above does not apply to the shares that are only available in book-entry form.

Financial service

The financial service for the shares is provided by KBC Bank in Belgium and by Kempen & Co in the Netherlands, free of charges for the shareholder. Should the Issuer review this policy, it will be published in the Belgian and/or Dutch financial press.

Dividend policy

Since its incorporation, the Issuer has never declared or paid any dividends on its shares and does not expect to declare dividends in respect of the financial year ending on 31 December 2005. Any longer term determination to declare dividends will depend on the Issuer's earnings, operational and financial condition, capital requirements, including for growth and acquisitions, and other factors deemed relevant by the Board of Directors and the shareholders.

Furthermore, the Issuer's general reserve must be sufficient for any dividend payment. There can be no assurance that the Issuer will generate sufficient earnings to allow it to pay dividends. If the Issuer does generate sufficient earnings, the Shareholders Meeting may elect to reinvest instead of paying dividends.

Entitlement to dividends

The Offer Shares and Over-allotment Shares carry the right to a dividend, if any, declared in respect of the financial year ending 31 December 2005 and for all subsequent financial years, of the same amount as the shares of the Issuer.

Under the BCC, dividends, if any, are declared by the Annual Shareholders Meeting out of the net profits or distributable reserves based on the audited accounts drafted in accordance with Belgian law, provided that (i) the Issuer has reserved five percent of its net profits until such reserve has reached an amount equal to 10% of its subscribed capital ("the Non-Distributable Reserves") and (ii) following any such dividend distribution, the Issuer's net assets remain above the aggregate of its paid-in capital and its Non-Distributable Reserves.

The net assets consist of the total amount of the Issuer's assets reduced by an amount equal to the sum of the provisions and debts. For the distribution of dividends, the capital and reserves cannot include (i) the amount of the incorporation costs not yet amortized and (ii) the research and development costs not yet amortized, safe for exceptional circumstances, which must be explained and justified in the notes to the annual accounts.

TAXATION IN BELGIUM

The statements below represent a general and broad summary of the Belgian tax legislation applicable to dividends on shares in the Issuer, as in effect at the date of the Offering. It is stressed that the text does not address special rules such as rules that may apply to special classes of holders of shares, and is not to be read as extending by implication to matters not specifically discussed. The text does not take into account or discuss tax laws of any country other than Belgium and is subject to changes in Belgian law, including changes that could have retroactive effect. As to individual consequences, including cross-country consequences, each investor in the shares should consult its own tax adviser.

Dividends

General

As Belgian tax legislation currently stands, a 25% withholding tax is levied on the gross amount of dividends paid or attributed by a Belgian corporation or through a Belgian paying agent, subject to the exemptions or reductions provided for by Belgian law and the tax treaties which Belgium has entered into. For instance, Belgian domestic law allows the 25% withholding tax rate to be reduced to 15% for certain dividends. However, the Company is planning to renounce to this advantage.

Dividends which are subject to the dividend withholding tax, include (i) all benefits from shares in whatever form and (ii) repayments of statutory capital, with the exception of repayments made of fiscal capital (including, in principle, paid in share premiums). Amounts paid-in by a corporation for the redemption of its own shares in accordance with Belgian company law, are in principle not subject to withholding tax.

Withholding tax exemptions under domestic law

Under Belgian law, the rate of the withholding tax can be reduced to zero on dividends paid to certain organizations, such as organizations which are constituted exclusively to administer or provide pension, retirement or other employee benefits or for religious, charitable, scientific, educational or public purposes. To benefit from this exemption, the qualified holder should sign and forward to the Company or its agents a specific certificate. In that certificate, the qualifying holder should confirm that it is a non-resident that does not conduct a business or is not engaged in any activity of a lucrative nature and is exempt from any income tax in its country of residence, and is not under a contractual obligation to re-distribute the dividends to the (real) beneficiaries.

EU based corporations

An exemption from Belgian withholding tax is also available to Belgian and certain EU resident companies provided that the recipient company owns at least 20% of the shares of a company for an uninterrupted period of at least one year (see below).

Tax treaties

Belgium has concluded tax treaties with more than 60 countries, reducing the dividend withholding tax rate to 15%, 10%, or 5%, as appropriate, in the case of a substantial shareholding.

Example: US or German holder

Dividends paid by the Company to a German holder who is entitled to claim benefits under the Treaty and

who does not have a permanent establishment or fixed base in Belgium to which the shares are attributable, generally will be subject to a Belgian withholding tax at a reduced rate of 15%.

Dividends paid by the Company to a US holder who is entitled to claim benefits under the Treaty and who does not have a permanent establishment or fixed base in Belgium to which the shares are attributable, generally will be subject to a Belgian withholding tax at a reduced rate of 15%. If the holder holds at least 10% of the voting rights, a reduced rate of 5% applies.

Although there are exceptions, in general the full Belgian withholding tax must be withheld by the Company or the paying agent (that is, the amount of withholding tax upon the payment of the dividend is not reduced to reflect the Treaty rate), and the US or German holder may make a claim for reimbursement for amounts withheld in excess of the Treaty rate. The reimbursement claim form (Form 276 Div.-Aut.) can be obtained from the *Centraal Taxatiekantoor/Bureau Central de Taxation Brussel-Buitenland*, 10 J. Jacobsplein, B-1000 Brussels. This should be completed in duplicate and sent to the relevant foreign tax department which should be requested to return one copy appropriately stamped. The US or German holder can then obtain reimbursement from the *Centraal Taxatiekantoor/Bureau Central de Taxation*, at the same address, upon presentation of the stamped form and a document proving that the dividend has been cashed. The request for reimbursement must in principle be filed with the *Centraal Taxatiekantoor/Bureau Central de Taxation* within three years from 1 January of the year following the year in which the dividend was declared payable.

US or German holders holding shares in a registered form or having a significant holding of bearer shares, may be able to obtain a reduction in the withholding tax deducted at source if they deliver the claim form (together with the relevant coupons of bearer shares coupons) no later than 10 days after the date on which the dividend becomes payable. To benefit from this reduced rate, the qualifying US or German holder should complete and send a Form 276 Div.-Aut. (properly stamped by the US or German holder's relevant foreign tax department) to the Company or the paying agent, confirming that the requirements for the reduction have been complied with. The Company or its agent will review and complete the form and file it together with the withholding tax return, with the relevant Belgian tax authorities.

Prospective holders should consult their own tax advisors to establish whether they qualify for a reduction in withholding tax upon payment of dividends, and to get informed of the procedural requirements for obtaining a reduced withholding tax upon the payment of dividends or for making claims for reimbursement.

Private individuals

For Belgian resident individuals who acquire and hold the shares as a private investment, payment of this withholding tax fully discharges personal income tax liability. They may nevertheless elect to report the dividends in their personal income tax return. Where the beneficiary opts to declare them, dividends will, in normal circumstances, be taxed at a tax rate which differs from the progressive personal tax rate and is equivalent to the dividend withholding tax rate (25%) except where, based on the other declared income, the application of progressive personal tax rates means that tax is charged at a lower rate. If the beneficiary declares the dividend, the amount of federal income tax payable must be increased by the local surtax. Similarly, the withholding tax retained at source may be offset (and be reimbursed to the extent that it exceeds the tax actually payable).

For Belgian resident individual investors who acquire the shares for professional purposes, the withholding tax does not fully discharge tax liability. Dividends received must be declared by the beneficiary and will be taxed at the resident personal tax rate. Withholding tax retained at source may, in principle, be offset against personal tax (and is reimbursable to the extent that it exceeds the actual tax payable), provided that (i) the taxpayer has the full ownership of the shares at the time of payment or attribution of the dividends and (ii) the dividend distribution does not give rise to a reduction in value of, or a capital loss on, the shares. Certain exceptions apply to this rule.

Resident corporations

For Belgian resident corporations, the withholding tax does not fully discharge tax liability. Dividends received must be declared by the beneficiary and will be taxed at the corporate tax rate of 33.99%. No withholding tax will be due provided that the Belgian resident corporation holds at least 20% of the shares in the Company for an uninterrupted period of at least one year. Withholding tax retained at source, if any, may, in principle, be offset against corporate tax (and is reimbursable to the extent that it exceeds the actual tax payable), provided that (i) the taxpayer has the full ownership of the shares at the time of payment or attribution of the dividends and (ii) the dividend distribution does not give rise to a reduction in value of, or a capital loss on the shares. Certain exceptions apply to this last rule

Taxpayers subject to the resident corporate tax may deduct up to 95% of the gross amount of these dividends from their taxable profits (other than from certain disallowed expenses), insofar as, at the date of declaration or payment of the dividends, they hold at least 10% of the capital of the Company, or else a participation with an acquisition value of at least €1,200,000. Moreover, the participation must be held, or will be held, for an uninterrupted period of one year and be classified as financial fixed assets. Distributions within the one-year period are also exempt from the withholding tax, provided that the recipient company still meets the minimum participation requirements at the end of this one-year period. The minimum holding requirement of 10% or €1,200,000 does not apply to dividends received by Belgian credit institutions, insurance companies, stock exchange companies and investment companies.

EU based corporations

An exemption from Belgian withholding tax is available to certain EU resident companies under the EU Parent Subsidiary Directive as implemented in Belgian tax legislation, provided that the recipient company owns at least 20% of the shares of the Company for an uninterrupted period of at least one year. Distributions within the one-year period are also exempt from the withholding tax, provided that the Company still holds at least 20% of the share capital of the Company at the end of this one-year period. In such case, the recipient company should withhold the withholding tax (without having to pay the withholding tax to the Belgian treasury) in the meantime. Furthermore, certain administrative formalities must be complied with to benefit from the exemption.

Legal entities

For taxpayers subject to tax on legal entities, the withholding tax normally constitutes final taxation.

Non-residents

For non-resident individuals and corporations, withholding tax is retained also at the rate of 25% subject to the reductions or exemptions provided for by Belgian law or by the various taxation treaties which Belgium has signed. Such (reduced) withholding tax will normally be the final tax in Belgium, unless the non-resident acquired the shares for a business conducted in Belgium through a fixed base or a Belgian establishment, to which the shares are attributable. In such a case, the same principles apply as described with regard to Belgian resident individuals (holding the shares for professional purposes) or corporations who receive the dividends.

Capital gains and losses

Private individuals

Individual Belgian residents holding the shares as a private investment are not subject to Belgian tax on capital gains realized on the disposal of the shares nor are losses realized on these shares tax deductible. Individual Belgian residents may, however, be subject to (i) a 33% tax (to be increased by the municipal surcharge) if the capital gain is deemed to be "not within the scope of normal management of private astate", or (ii) a 16.5% tax (to be increased by the municipal surcharge) if they hold a "significant participation" (in principle 25%) in a Belgian resident company and sell shares of that Company to a non-resident legal entity. The European Court of Justice has however ruled that this taxation is in breach of European legislation.

Individual Belgian residents who hold the shares for professional purposes are taxable at the ordinary progressive income tax rates for business income on any capital gains realized on the disposal of such shares.

Resident corporations and Belgian branches of non-resident corporations

Belgian resident corporations are not usually subject to Belgian capital gains taxation on the disposal of the shares, provided that the dividends on those shares qualify for the dividend received exemption However, only the qualitative condition must be fulfilled (the minimum participation condition, the minimum holding period of one year and the condition that the shares must classify as financial fixed assets must not be fulfilled). Consequently, as the Company is subject to Belgian corporate tax, capital gains should in principle be tax exempt.

Legal entities

Belgian resident entities subject to the tax on legal entities are not usually subject to the Belgian capital gains taxation on the disposal of the shares, although they may be subject to the above-mentioned 16.5% tax.

Non-residents

In principle, non-resident individuals or corporations are not subject to taxation on capital gains realized on shares in the Company, unless the non-resident acquired the shares for a business conducted in Belgium through a fixed base or a Belgian establishment to which the shares are attributable. In such a case, the same principles apply as described in relation to Belgian resident individuals (holding the shares for professional purposes) or corporations (see above). Non-resident individuals without a fixed base or a Belgian establishment who have their fiscal residence in a country with which Belgium has not concluded a tax treaty might be subject to the 33% tax or 16.5% as mentioned above.

Tax reduction on the investment in the Shares ("Monory *bis*" law)

Cash payments up to a maximum of €620 for new shares to which a Belgian resident has subscribed for as employee of the Company, or as employee of certain qualifying subsidiaries of the Company, afford, subject to certain conditions, a right to a personal income tax reduction. This tax reduction, claimable through the annual tax return, cannot be cumulated with the tax reduction for pension savings.

The tax reduction is granted subject to the condition that in their personal income tax return for the taxable period in which the payment occurred, the employees must prove that the qualifying shares were acquired and that the shares were held at the end of the taxable period. The tax reduction will only be maintained if the employee provides evidence that he or she has continued to hold the shares during the subsequent five taxable periods.

Stamp tax on securities transactions

The initial subscription to newly issued shares is exempt from Belgian stock market tax. The Central Tax Authorities have ruled that in case of subscription by the Lead Managers in their name but for the account of the retail and institutional investors, the Lead Managers must be viewed as the first legal owners of the shares. The investors are deemed to have acquired the shares from the Lead Managers. As a result of this ruling, the exemption for the subscription to newly issued shares is not available to the investors. Belgian residents are usually subject to stock market tax at the rate of normally 0.17% on the purchase and sale in Belgium of existing shares. However, a draft law (*wetsontwerp / projet de loi*) reintroducing a cap was submitted to the Chamber of Representatives on 15 February 2005 and transmitted to the senate. If this draft law becomes a law, the maximum tax per transaction and per party will be €500 for transactions that take place after 31 December 2004. Based on a circular letter of Febelfin, with the approval of the cabinet of the Minister of Finance, financial institutions already apply these caps

No stock market tax is payable by:

- intermediaries as mentioned in article 2, 9° and 10° of the Law of 2 August 2002 on the supervision of the financial sector and financial services acting for their own account;
- insurance companies as mentioned in article 2, §1 of the Law of 9 July 1975 on the supervision of insurance companies acting for their own account;
- pension and benefit funds ("voorzorgsinstellingen"/"institutions de prévoyance") as mentioned in article 2, §3, 6° of the Law of 9 July 1975 on the supervision of insurance companies acting for their own account;
- UCITS as mentioned in the Law of 4 December 1990 on the financial transactions and financial markets acting for their own account; and
- non-residents acting for their own account and subject to an affidavit of non-residency.

Tax on the physical delivery of bearer shares

The physical delivery of bearer securities pursuant to the initial subscription is not taxed in Belgium. Result of the ruling referred to above, the Central Tax Authorities' view is that this exemption is not available to the investors, as these are deemed to have acquired the shares from the Lead Managers. A tax is levied upon the physical delivery of securities pursuant to their acquisition for consideration in Belgium (other than pursuant to the initial subscription) through a professional intermediary. This tax is also due upon the delivery of securities in Belgium pursuant to a withdrawal of these securities from “open custody”.

The tax is due at the rate of 0.6% on (i) the sums payable by the acquirer in the event of an acquisition or (ii) the sales value of the securities, as estimated by the custodian, in the event of withdrawal from "open custody".

Estate and gift tax

Transmission of shares by reason of death will only be subject to Belgian estate tax calculated on the fair market value of the shares if the shares are part of a Belgian resident’s estate. Gifts of shares in Belgium are subject to gift tax, unless the gift is made by way of a purely physical delivery of bearer shares. Transfers of shares by way of a foreign notarial deed which is not voluntarily presented for registration in Belgium are not subject to Belgian gift tax.

TAXATION IN THE NETHERLANDS

The following summary describes the principal Netherlands tax consequences of the acquisition, holding, redemption and disposal of shares in the Issuer. This summary only addresses holders of shares in the Issuer resident or deemed to be resident of the Netherlands (including the non-resident holder who has opted to be taxed as a resident of the Netherlands). This summary does not purport to be a comprehensive description of all Netherlands tax considerations that may be relevant to a decision to acquire, to hold, and to dispose of the shares in the Issuer. Each prospective holder of shares in the Issuer should consult a professional adviser with respect to the tax consequences of an investment in the shares in the Issuer. The discussion of certain Netherlands taxes set forth below is included for general information purposes only. This summary is based on the Netherlands tax legislation, published case law, treaties, rules, regulations and similar documentation, in force as of the date of this Prospectus, without prejudice to any amendments introduced at a later date and implemented with retroactive effect.

This summary does not address the Netherlands tax consequences of an individual holder of shares in the Issuer who holds a substantial interest (*aanmerkelijk belang*) in the Issuer, within the meaning of Section 4.3 of the Income Tax Act 2001. Generally speaking, a holder of shares in the Issuer holds a substantial interest in the Issuer, if such holder of shares in the Issuer, alone or together with his or her partner (statutory defined term) or certain other related persons, directly or indirectly, holds (i) an interest of 5 percent or more of the total issued capital of the Issuer or of 5 percent or more of the issued capital of a certain class of shares of the Issuer, (ii) rights to acquire, directly or indirectly, such interest or (iii) certain profit sharing rights in the Issuer.

For the purpose of the principal Netherlands tax consequences described herein, it is assumed that the Company is neither a resident nor deemed to be a resident of the Netherlands for Netherlands tax purposes.

Netherlands withholding tax

No Netherlands withholding tax is due upon payments on the shares in the Company.

Corporate income tax and individual income tax

Income derived from the Issuer and capital gains realized upon the disposal, transfer or alienation of shares in the Issuer by a corporate investor that is subject to Netherlands corporate income tax, are in principle subject to corporate income tax in the Netherlands. If the shares in the Issuer of a corporate investor qualify as a participation (*deelneming*) within the meaning of article 13 of the Corporate Income Tax Act 1969, income derived from the Issuer and capital gains realized upon the disposal, transfer or alienation of shares in the Issuer are exempt from corporate income tax in the Netherlands. Special rules apply to investors that are Netherlands qualifying pension funds, Netherlands investment institutions (as defined in article 28 of the Corporate Income Tax Act 1969) and other entities that are exempt from Netherlands corporate income tax.

If the holder of shares in the Issuer is an individual, resident or deemed to be a resident of the Netherlands for Netherlands tax purposes (including the individual holder of shares in the Issuer who has opted to be taxed as a resident of the Netherlands), the income derived from the shares in the Issuer and the gains realized upon the redemption and disposal of the shares in the Issuer are taxable at the progressive rates of the Income Tax Act 2001, if:

(i) The holder of shares in the Issuer has an enterprise or an interest in an enterprise, to which enterprise the shares in the Issuer are attributable; or
(ii) Such income or gains qualify as “income from miscellaneous activities” (*resultaat uit overige werkzaamheden*) within the meaning of Section 3.4 of the Income Tax Act 2001, which include

activities with respect to the shares in the Issuer that exceed “regular, active portfolio management” (*normaal, actief vermogensbeheer*).

If neither condition (i) nor condition (ii) applies to the individual shareholder, the actual income derived from the Shares in the Issuer and the actual gains realized with respect to the Shares in the Issuer will not be taxable. Instead, such holder of Shares in the Issuer will be taxed at a flat rate of 30% on deemed income from ”savings and investments“ (*sparen en beleggen*) within the meaning of Section 5.1 of the Income Tax Act 2001. This deemed income amounts to 4% of the average of the individual’s ”yield basis“ (*rendementsgrondslag*) within the meaning of article 5.3 of the Income Tax Act 2001 at the beginning of the calendar year and the individual’s yield basis at the end of the calendar year, insofar the average exceeds a certain threshold. The fair market value of the Shares in the Issuer will be included in the individual’s yield basis.

Gift and inheritance taxes

Generally, gift and inheritance taxes will be due in the Netherlands in respect of the acquisition of the Shares in the Issuer by way of a gift by, or on the death of, a holder of Shares in the Issuer who is a resident or deemed to be a resident of the Netherlands for the purposes of Netherlands gift and inheritance tax at the time of the gift or his or her death.

An individual of the Netherlands nationality is deemed to be a resident of the Netherlands for the purposes of the Netherlands gift and inheritance tax, if he or she has been resident in the Netherlands during the ten years preceding the gift or his or her death. An individual of any other nationality is deemed to be a resident of the Netherlands for the purposes of the Netherlands gift and inheritance tax only if he or she has been residing in the Netherlands at any time during the twelve months preceding the time of the gift.

Treaties may limit the Netherlands sovereignty to levy gift and inheritance tax.

Other taxes and duties

No Netherlands registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty, will be due in the Netherlands by a holder of Shares in the Issuer in respect of or in connection with the subscription, issue, placement, allotment or delivery of the Shares in the.

Value added tax

In general, no Netherlands value added tax will arise in respect of the issuance of the Shares in the Issuer and with respect to distributions or other payments on the Shares in the Issuer.

INDEX TO CONSOLIDATED FINANCIAL INFORMATION

Consolidated income statement

The following consolidated accounts are drawn up in accordance with IFRS. The accounting policies and notes are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT	Notes	2004	2003	2002
Thousands of EUR except per share data / year ended 31 December				
Product revenue		2,789	2,815	2,727
License revenue		1,918	426	65
Service revenue		522	1,014	113
Research collaborations		150	264	113
Income from government grants		2,398	1,953	2,692
Total revenues		**7,777**	**6,472**	**5,710**
Cost of goods & services sold		-1,288	-1,166	-1,256
Gross profit		**6,489**	**5,306**	**4,454**
Research and development costs		-5,443	-5,378	-4,100
Sales and marketing costs		-134	-102	-62
General and administrative costs		-4,520	-4,493	-4,521
Operating profit/(loss)	4,5	**-3,608**	**-4,667**	**-4,229**
Finance income/(cost)	6	40	86	-92
Taxes	7	-21	-85	-64
NET PROFIT/(LOSS) FOR THE PERIOD		**-3,589**	**-4,666**	**-4,385**
Weighted average number of ordinary shares in issue (‘000)	8	**23,754**	**23,754**	**19,387**
Basic loss per Share	8	-0.15	-0.20	-0.23
Weighted average number of ordinary shares in issue (‘000) taking into account the 4:1 reverse share split, decided by the Extraordinary Shareholders Meeting of 29 March 2005	8	**5,939**	**5,939**	**4,847**
Basic loss per Share taking into account the 4:1 reverse share split, decided by the Extraordinary Shareholders Meeting of 29 March 2005:	8	-0.60	-0.79	-0.90

Consolidated balance sheet

Assets

CONSOLIDATED BALANCE SHEET – ASSETS	Notes	2004	2003	2002
Thousands of EUR / year ended 31 December				
NON-CURRENT ASSETS		**3,072**	**4,019**	**4,463**
Intangible assets	9	447	735	677
Property, plant, and equipment	10	2,625	3,284	3,786
CURRENT ASSETS		**12,541**	**16,198**	**7,603**
Inventories	11	98	149	186
Trade and other receivables	12	2,169	3,013	2,576
Cash and cash equivalents	13	10,274	13,036	4,841
TOTAL ASSETS		**15,613**	**20,217**	**12,066**

Equity and Liabilities

CONSOLIDATED BALANCE SHEET - EQUITY AND LIABILITIES	Notes	2004	2003	2002
Thousands of EUR / year ended 31 December				
Current liabilities		**3,833**	**4,747**	**3,202**
Trade and other payables		2,766	3,497	2,419
Obligations under finance lease	16	106	98	90
Tax and social payables		961	1,152	693
Non-current liabilities		**1,413**	**1,519**	**1,617**
Obligations under finance lease	16	1,413	1,519	1,617
LIABILITIES		**5,246**	**6,266**	**4,819**
Equity		**10,367**	**13,951**	**7,247**
Capital and reserves	15	31,557	31,552	20,182
Accumulated losses		-21,190	-17,601	-12,935
TOTAL LIABILITIES AND EQUITY		**15,613**	**20,217**	**12,066**

Consolidated cash flow statement

CONSOLIDATED CASH FLOW STATEMENT	Notes	2004	2003	2002
Thousands of EUR / year ended 31 December				
Result from operations		-3,608	-4,667	-4,229
Adjustments for:				
Depreciation of property, plant and equipment		763	782	701
Amortisation of intangible fixed assets		240	203	188
Impairment loss on intangible assets		93		
Write-off of inventory			107	
Operating cash flows before movements in working capital		**-2,512**	**-3,575**	**-3,340**
(Increase)/decrease in inventories		51	-70	-105
(Increase)/decrease in receivables		844	-437	-1,293
Increase/(decrease) in payables		-936	1,460	-505
Cash used in operations		**-2,553**	**-2,622**	**-5,243**
Interest paid		-157	-155	-277
NET CASH FLOWS USED IN OPERATING ACTIVITIES		**-2,710**	**-2,777**	**-5,520**
Purchase of property, plant and equipment	10	-103	-279	-1,130
Purchase of and expenditure in intangible fixed assets	9	-45	-261	-211
Net cash from/(used in) investing activities		**-148**	**-540**	**-1,341**
Repayment of obligations under finance lease	16	-106	-98	-90
Proceeds of capital increases, net of issue cost		0	11,354	11,461
Interest received and other financial income		202	256	185
Net cash from/(used in) financing activities		**96**	**11,512**	**11,556**
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**-2,762**	**8,195**	**4,696**
Cash and cash equivalents at the beginning of the year	13	13,036	4,841	145
(Decrease)/increase		-2,762	8,195	4,696
At the end of the year		**10,274**	**13,036**	**4,841**

Consolidated statement of changes in shareholders' equity

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY				
Thousands of EUR except per share data	Number of shares	Share capital	Retained earnings	Total
Balance on 1 January, 2002	**4,447,050**	**4,168**	**-8,550**	**-4,382**
As previously reported				
Capital increase	19,307,176	27,922		16,568
Unpaid capital		-11,354		
Cost of capital increase		-554		-554
Net loss 2002			-4,385	-4,385
Balance on 31 December, 2002	**23,754,226**	**20,182**	**-12,935**	**7,247**
Payment of 2002 capital increase		11,354		11,354
Share based compensation		16		16
Net loss 2003			-4,666	-4,666
Balance on 31 December, 2003	**23,754,226**	**31,552**	**-17,601**	**13,951**
Share based compensation		5		5
Net loss 2004			-3,589	-3,589
Balance on 31 December, 2004	**23,754,226**	**31,557**	**-21,190**	**10,367**

The consolidated financial statements were approved by the Board of Directors and authorized for issue on 29 March 2005. They were signed on its behalf by:

Onno van de Stolpe
Executive Director
29 March 2005

Notes to consolidated financial statements

1. General information

Galapagos is a limited liability company incorporated in Belgium. The address of the registered office is presented in "*Description of the Shares and corporate structure*".

Galapagos is a biotechnology company founded in 1999 as a joint venture between Crucell and Tibotec, focused on the identification of disease modifying drug targets and the subsequent development of breakthrough medicine based on these targets. It has successfully discovered and validated novel targets in the bone and joint diseases osteoarthritis, osteoporosis and rheumatoid arthritis, as well as in asthma and Alzheimer's disease. Proprietary target sets resulting from these programs are used for our internal development programs, combined with selected out-licensing and partnering of projects during development. The Issuer, Galapagos NV, has a 100% participation in Galapagos Genomics BV, which is located in Leiden, the Netherlands. Galapagos Genomics BV operates as a service unit for risks and account of Galapagos NV. All costs incurred by Galapagos Genomics BV are cross-charged on a cost-plus zero basis on a quarterly basis. When and if the Company will start being profitable, the profits will also be attributed on a pro rata basis to Galapagos Genomics BV.

Galapagos has built a unique technology platform to identify novel drug targets by their function, using collections of adenoviruses with human gene sequences to knock-down or knock-in specific human proteins in disease-mimicking cellular assays. This technology enables an efficient analysis of the function of individual human proteins in disease processes. The Company provides access to this platform through the services business unit Galadeno; it has formed numerous partnerships with leading pharmaceutical, nutraceutical and biotechnology companies.

These financial statements are presented in Euro because that is the currency of the primary economic environment in which the Company operates.

2. Accounting policies

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The principle accounting policies adopted when preparing these consolidated financial statements are set out below.

Group accounting

The consolidated financial statements incorporate the financial statements of Galapagos NV and Galapagos Genomics BV made up to 31 December, each year. Galapagos incorporated Galapagos Genomics BV as a wholly owned subsidiary in 1999. All intra-group transactions, balances, income and expenses are eliminated in consolidation.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment loss is recognized. Depreciation is charged so as to write off the cost or valuation of assets over their useful lives, using the straight-line method, on the following bases:

- Laboratory equipment: 5-10 years;
- IT Hardware: 3-6 years; and
- Furniture: 5 years.

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income.

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 Company's development activities is recognized only if all of the following conditions are met:

- An asset is created that can be identified;
- It is probable that the asset created will generate future economic benefits; and
- The development costs of the assets can be measured reliably.

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.

The Company has capitalized the development costs related to building the SilenceSelect library. This asset is amortized over a period of 4 years, using the straight-line method.

Acquired patents and software licenses are measured internally at purchase cost and are amortized on a straight-line basis over their estimated useful lives on the following bases:

- Patents: 10 years; and
- Software: 5 years.

Leases

Leases are classified as finance leases whenever the terms of the lease transfers substantially 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 Company 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 so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are expensed.

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 Company 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 Company 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. Recoverable amount is the higher of fair value less costs to sell and value in use. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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, unless the relevant asset is carried at re-valued amount, in which

case the impairment is treated as a revaluation decrease. 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 re-valued amount, in which case the reversal of the impairment is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises merely purchase costs, as the inventory consists solely of raw materials. Raw materials are not ordinarily interchangeable and they are as such accounted for using the specific identification of their individual cost.
The Company does not account for work in progress and finished products, as the production process is very short and finished goods are shipped to customers immediately, thereafter resulting in no such items on the balance sheet at year-end for any of the periods reported.

Trade receivables

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

Cash and cash equivalents

Cash and cash equivalents are carried in 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 highly liquid investments and bank overdrafts. In the balance sheet, bank overdrafts, if any, are included in borrowings in current liabilities.

Taxation

Deferred income tax is provided in full using the “balance sheet liability method”, on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.
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 substantially 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 benefits will be realized.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Retirement benefit schemes

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Company’s obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Foreign currencies

Transactions in currencies other than Euros are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in

foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognized directly in equity.

Revenue recognition

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

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

Research & development costs

Research costs are charged to the income statement as incurred. The Company capitalizes development costs under intangible assets only if the criteria for internally generated intangible assets are met, otherwise such costs are expensed. The Company 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.

Financial risk management

The Company does not have derivative financial instruments to hedge interest rates and foreign currency risks as it has only limited exposure to exchange rates or interest rate fluctuations.

Share-based payments

The Company has applied the requirements of IFRS 2 share-based payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2003.

The Company issues equity-settled share-based payments 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 equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

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.

Net profit/(loss) per share

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

3. Segment reporting

In its transition to drug development, the Company has, in the second half of 2004, identified as primary business segments two Company activities (its business unit Galadeno and its drug discovery business). As of the accounting year 2005, separate financial accounting will be performed for these primary business segments. The principal activities of the primary segments are as follows:

Business unit Galadeno

The services business uses adenoviral delivery technology to analyze the function of human proteins in human cells. The relating revenues are reported on the face of the income statements as part of license revenue and service revenue. Revenue is furthermore generated by the sale of adenoviral vectors, as library sets or individually. Such revenues are reported on the face of the income statement as product revenue. The related historical costs (personnel expenses and laboratory disposables) cannot be reliably separated from the drug discovery in the reported periods.

Business unit drug discovery

The Company uses its platform technology to discover and develop drug targets in the areas of osteoarthritis, osteoporosis, rheumatoid arthritis, Alzheimer's disease and asthma. The relating license and service revenues are recorded on the face of the income statement. The related historical costs (mainly personnel costs, depreciation and amortization and outsourced chemistry), assets and liabilities cannot be reliably separated from the service business in the reported periods.

4. Operating result

Result from operations has been arrived after charging:

a. Cost of goods and services sold

Thousands of EUR / year ended 31 December	2004	2003	2002
Personnel costs	-703	-921	-743
Disposables and lab fees	-368	-747	-488
Capitalization of SilenceSelect	42	251	93
Grants earned on SilenceSelect	102	575	174
Depreciation	-361	-324	-292
Total	**-1,288**	**-1,166**	**-1,256**

The increase in personnel costs and disposables and lab fees in 2003 compared to 2002 and 2004 is related to the building of the SilenceSelect library. The grants received to partially fund this project have been recorded as a credit to the costs, resulting in lower cost of goods sold in 2003 compared to both 2002 and 2004.

b. R&D Expenditure

Thousands of EUR / year ended 31 December	2004	2003	2002
Personnel costs	-2,619	-2,490	-2,511
Disposables and lab fees	-1,473	-2,029	-1,239
Chemistry subcontracting	-919	-471	0
Depreciation	-432	-388	-350
Total	**-5,443**	**-5,378**	**-4,100**

c. General and administrative costs

Thousands of EUR / year ended 31 December	2004	2003	2002
Personnel costs	-1,349	-1,299	-1,232
Depreciation	-303	-272	-246
Housing	-628	-737	-643
Professional fees	-605	-513	-272
Director fees	-694	-572	-615
Other operating expenses	-941	-1,100	-1,513
Total	**-4,520**	**-4,493**	**-4,521**

The other operating expenses comprise mainly communication expenses, travel expenses, small equipment which is not capitalized, books and magazine subscriptions, and insurance.

d. Sales and marketing expenses

The sales and marketing expenses charged to the income statement comprise the salaries of the sales personnel.

Thousands of EUR / year ended 31 December	2004	2003	2002
Personnel costs	-134	-102	-62
Total	**-134**	**-102**	**-62**

5. Personnel costs

The number of employees at the end of the year was (executive directors included):

Year ended 31 December	2004	2003	2002
Executive Directors	2	2	2
Laboratory staff	46	63	68
G&A staff	20	23	21
Total	**68**	**88**	**91**

Their aggregate remuneration comprised:

Thousands of EUR / year ended 31 December	2004	2003	2002
Wages and salaries	4,221	4,163	4,049
Social security costs	796	860	793
Pension costs	159	112	126
Other costs	324	249	195
Total	**5,500**	**5,384**	**5,163**

Approximately 15 people (mainly laboratory personnel) were made redundant near the end of 2004. This was a necessary step to make the shift from a biology based technology company into product based drug discovery. The cost of this redundancy program was limited, as the Company managed to outplace 6 of these 15 people.

6. Finance income/(costs)

Thousands of EUR / year ended 31 December	2004	2003	2002
Interests on bank deposits	197	231	176
Other financial income	5	25	9
Interest on borrowings			-86
Interest on obligations under finance lease	-128	-136	-143
Other financial costs	-34	-34	-48
Total	**40**	**86**	**-92**

7. Taxes

There is no current tax accounted for in any of the periods presented. The following table provides a reconciliation of the deferred taxes to the profit and loss statement.

Thousands of EUR	Balance at 31 December 2004	Income statement 2004	2003	2002	Opening balance 1 January 2002
Finance lease	0	170	-45	-52	-73
Depreciation of patents	115	-85	45	45	110
Adjustment for useful life	252	25	54	74	99
Capitalization of SilenceSelect library	292	-52	251	93	
Basis for deferred tax calculation	**659**	**58**	**305**	**160**	**136**
Deferred taxes	-224	-21	-104	-64	
Effect of decrease in corporation tax rate			19		
Opening balance of deferred tax liability		-203	-118	-54	-54
Deferred tax of the year		-21	-85	-64	
Deferred taxes at 31 December	**-224**	**-224**	**-203**	**-118**	

The Company has not recorded a deferred tax asset on its tax loss carry forward, on the basis that at 31 December, 2004, 2003 and 2002 it was not probable that sufficient future taxable profits would exist in the foreseeable future against which the unused tax losses can be utilized. The opening balance of the deferred taxes refers to the deferred taxes incurred on the differences explained below dated before 1 January 2002. Unused tax losses carried forward at December 31, 2004, 2003 and 2002 amounted to €22,1, €18,5 and €13,9 million respectively.

The deferred taxes are calculated on the following reconciling items:

- The rent of the leasehold improvements in the Mechelen facility was in the statutory accounts recorded as an operational lease. The annual payments related to the contract were recorded on the face of the profit and loss accounts. According to IAS 17, these should have been accounted for as a finance lease. In the statutory tax accounts the adjustment was also made at 31 December 2004. As such, the deferred tax line related to the finance lease disappears from the accounts at that date;
- In the statutory accounts the patents are amortized on a straight line basis over a period of 5 years. In the IFRS statements the amortization period is adjusted to 10 years, reflecting the economic useful life of the patents;
- When preparing the IFRS financial statements, the existing property, plant and equipment was evaluated and if needed, the depreciation method was adjusted to reflect the economic useful life of the asset; and
- In the statutory accounts the costs related to the development of the SilenceSelect library are recorded on the face of the profit and loss accounts when they were incurred. In the IFRS statements all costs related to the development phase of the project are capitalized and amortized on a straight-line basis over a period of 4 years, starting at 1 January 2004.

In 2003, the Belgian corporate tax rate decreased from 40.17% to 33.99%, resulting in an adjustment of the historic deferred taxes reported on the balance sheet.

8. Loss per Share

The figures in this note do not yet take into account the 4:1 reverse share split decided by the Extraordinary Shareholders Meeting of 29 March 2005, subject to the condition precedent of the realization of the Offering, subject to the condition president of the realization of the projected public offering.

Basic 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, excluding ordinary shares purchased by the Company, held as treasury shares.

Thousands of EUR / year ended 31 December	**2004**	**2003**	**2002**
Result for the purpose of basic loss per share, being net loss	-3,589	-4,666	-4,385
Number of shares *(Thousands)*			
Weighted average number of shares for the purpose of basic loss per share (before taking into account the 4:1 reverse stock split decided on 29 March 2005	23,754	23,754	19,387
Basic loss per share	-0.15	-0.20	-0.23

The company has two classes of dilutive potential ordinary shares: warrants and anti-dilution warrants. The anti-dilutions warrants have been cancelled by the Extraordinary Shareholders Meeting held on 29 March 2005, subject to the condition precedent of the realization of a public offering (see subsequent events). Under IAS 33, no disclosure is required of the diluted result per share, since as long as the Company is reporting a net loss, the warrants have an anti-dilutive effect rather than a dilutive effect.

9. Intangible assets

Thousands of EUR	Development of SilenceSelect library	Software	Licenses, patents and know-how	Total
Acquisition value				
At 1 January 2002		135	909	1,044
Additions	93	118		211
At 31 December 2002	93	253	909	1,255
Additions	251	10		261
At 31 December 2003	344	263	909	1,516
Additions	42	3		45
At 31 December 2004	386	266	909	1,561
Depreciation and write-downs				
At 1 January 2002		61	329	390
Charge of the year		51	137	188
At 31 December 2002		112	466	578
Charge of the year		66	137	203
At 31 December 2003		178	603	781
Charge of the year	95	47	191	333
At 31 December 2004	95	225	794	1,114
Carrying amount				
At 31 December 2002	93	141	443	677
At 31 December 2003	344	85	306	735
At 31 December 2004	291	41	115	447

The amortization period for the library development costs incurred for building the Company's SilenceSelect library is 4 years, starting 1 January 2004 when the library was capitalized. The straight-line method of amortization is used.

Software licenses acquired are amortized using the straight-line method over a period of 5 years.

The Company obtained, at its inception in 1999, royalty-free, fully paid-up exclusive licenses to intellectual property owned by IntroGene (the predecessor of Crucell) and Tibotec, the founding parent companies, for use within the field of functional genomics. The licensed intellectual property included a series of patents covering the use of PER.C6 technology for the production of recombinant adenoviruses. These licenses were renewed in June 2001 with minor modification in view of the private placement that took place in the course of 2002 (see "*Related party transactions*").
Purchased patents, licenses and know-how are amortized using the straight-line method over their estimated useful lives, which is on average 5-10 years.

10. Property, plant and equipment

Thousands of EUR	Land & buildings	Installation & machinery	Furniture, fixtures & vehicles	Other tangible assets	Total
Acquisition value					
At 1 January 2002	97	2,026	153	1,883	4,159
Additions	60	1,055	15		1,130
At 31 December 2002	157	3,081	168	1,883	5,289
Additions	1	266	12		279
At 31 December 2003	158	3,347	180	1,883	5,568
Additions		102	1		103
Disposal		-53			-53
At 31 December 2004	**158**	**3,396**	**181**	**1,883**	**5,618**
Depreciation and write-downs					
At 1 January 2002	6	589	38	168	801
Charge of the year	10	528	29	135	702
At 31 December 2002	16	1,117	67	303	1,503
Charge of the year	11	605	31	134	781
At 31 December 2003	27	1,722	98	437	2,284
Charge of the year	12	582	33	135	762
Elimination on disposals		-53			-53
At 31 December 2004	**39**	**2,251**	**131**	**572**	**2,993**
Carrying amount					
At 31 December 2002	141	1,964	101	1,580	3,786
At 31 December 2003	**131**	**1,625**	**82**	**1,446**	**3,284**
At 31 December 2004	**119**	**1,145**	**50**	**1,311**	**2,625**

11. Inventories

Thousands of EUR / year ended 31 December	2004	2003	2002
Raw materials	98	149	186
Total	**98**	**149**	**186**

12. Trade and other receivables

Thousands of EUR / year ended 31 December	2004	2003	2002
Trade receivables	1,475	1,991	1,873
Deferred costs	315	1,022	703
Other receivables	379		
Total	**2,169**	**3,013**	**2,576**

The Company considers that the carrying amount of trade and other receivables approximates their fair value. At the end of 2004, the other receivables comprise the grant income to be received.

13. Cash and cash equivalents

Thousands of EUR / year ended 31 December	2004	2003	2002
Bank balances	1,274	1,336	941
Short term deposits	9,000	11,700	3,900
Total	**10,274**	**13,036**	**4,841**

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

14. Credit risk

The Company's principal financial assets are bank balances and cash and trade and other receivables, which represent the Company's maximum exposure to credit risk in relation to financial assets.
The Company's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience and their assessment of the current economic environment.
The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.
The Company's trade credit risk is spread over a limited number of highly credit worthy customers, such as large pharmaceutical companies. There is no history of losses on doubtful accounts.

15. Share capital and reserves

The figures in this note do not take into account the 4:1 reverse share split decided by the Extraordinary Shareholders Meeting of 29 March 2005.

Number of shares / year ended 31 December	2004	2003	2002
Ordinary class A shares with a subscription price of €1.00 each	4,455,858	4,455,858	4,455,858
Ordinary class B shares with a subscription price of €1.00 each	4,496,858	4,496,858	4,496,858
Preferred class B+ shares with a subscription price of €1.582 each	447,531	447,531	447,531
Preferred class C shares with a subscription price of €1.582 each	14,353,979	14,353,979	14,353,979
Total shares	**23,754,226**	**23,754,226**	**23,754,226**

The different classes of shares represent the different groups of shareholders. Class A and B shares are attributed to the founding shareholders and are similar. These are common shares. Class B+ shares are preferred shares that are held by Crucell, one of the founding shareholders. These shares give right to anti-dilution warrants and preferred liquidation rights. The class C shares are preferred shares that are held by the new shareholders that subscribed to the capital increase in 2002. These shares give right to anti-dilution warrants, preferred liquidation rights and have drag-on and tag-on rights. The class C shareholders can elect 3 members of the Board of Directors. Note that these classes will be abolished prior to the capital increase, as was decided on the Special Shareholders Meeting on 29 March 2005.

At its incorporation, on 30 June 1999, the Company issued 4,447,050 founders' shares, which were allocated to the Company's founders in proportion with their shareholding.
On 3 August 2000, the Extraordinary Shareholders meeting approved the issuance of two convertible bonds with a nominal value of €2 million each. The term of the convertible bonds was five years as of 1 August 2000.
On 1 March 2002, the Extraordinary Shareholders Meeting decided to cancel the 4,447,050 founders' shares which had been issued at the Company's incorporation. They also modified the terms and conditions of the convertible bonds to allow an early conversion of the convertible bonds and, subsequently, agreed to the bondholders' request to proceed with an early conversion of the two convertible bonds. The convertible bonds were incorporated as share capital on a gross basis, *i.e.* including accrued interest. The interest charges related to the convertible bond amounted to €506 thousand in total (€86 thousand in 2002 and €420 thousand in previous periods). These interest charges were recorded on the face of the income statements as finance costs. As a result of this transaction, the share capital was increased by €4.5 million and 4,505,666 shares were issued.
On 6 March 2002, Crucell subscribed a capital increase of €707,995 in cash, resulting in the issue of 447,531 newly issued shares. The Issuer's capital increased from €8,952,716 to €9,660,711. At the same Extraordinary Shareholders Meeting, the shareholders decided to issue anti-dilution warrants to which Crucell also subscribed.
Also on 6 March 2002, Abingworth, Apax, AlpInvest and Burrill Biotechnology Capital Fund, L.P subscribed to a capital increase by contribution in cash for an amount of €20,707,995 in exchange of 13,089,757 category C shares.
As a final decision on 6 March 2002, the Shareholders Meeting decided to divide the Issuer's shares into five classes (A, B, B+, C and D) and cancel the nominal value of the shares.
On 19 September 2002, the Issuer's share capital was further increased with an amount of €2,000,000 in exchange of 1,264,222 shares category C shares, without nominal value, having the same rights and benefits as the other shares of the same category. Part of the newly issued shares were subscribed by a new shareholder, Burrill Nutraceuticals Capital Fund, L.P.
On 6 March 2002 and on 19 September 2002, the Extraordinary Shareholders Meeting decided to grant anti-dilution warrants to each investor in B+ and C class shares, which allow these investors to subscribe on a certain number of preferred shares. These anti-dilution warrants could be exercised within 10 years, in case new issued shares have a share price below €1.582. The exercise price for each of the anti-dilution warrants amounts to €0.01 per share. These anti-dilution warrants have been cancelled at the Shareholders Meeting of 29 March 2005, subject to the condition precedent of the realization of the Offering. As these anti-dilution warrants fall outside the scope of IAS 32 and IAS 39, no accounting entry is required.

16. Finance lease obligations

Thousands of EUR / year ended 31 December	Minimum lease payments			Present value of minimum lease payments		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**
Amounts payable under finance lease						
Within one year	226	226	226	106	98	90
In the second to fifth year	903	903	903	523	481	443
After five years	1,072	1,298	1,524	890	1,038	1,174
	2,201	**2,427**	**2,653**	**1,519**	**1,617**	**1,707**
Less future finance charges	682	810	946			
Present value of lease obligations	**1,519**	**1,617**	**1,707**			
Less amount due for settlement within 12 months				106	98	90
Amount due for settlement after 12 months				**1,413**	**1,519**	**1,617**

It is the Company's policy to lease certain of its installation and machinery under finance leases. The lease term is linked to the term of the rent for the building. For the year ended 31 December 2004, the borrowing rate was 8.25%. The interest rate was fixed at the date of the contract. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are in Euro.
The fair value of the Company's lease obligations approximates their carrying value.

17. Operating lease obligations

The Company has two rent contracts for the office premises in Mechelen and in Leiden, with Mechelen Lease and Crucell respectively, which qualify as operating lease.

Thousands of EUR / year ended 31 December	**2004**	**2003**	**2002**
Minimum lease payments under rent contracts recognized in income for the year	476	438	419
Total	**476**	**438**	**419**

At the balance sheet date, the Company had outstanding commitments for future minimum rent payments, which fall due as follows:

Thousands of EUR / year ended 31 December	**2004**	**2003**	**2002**
Within one year	419	419	419
In the second to fifth year	668	920	1,172
After five years	834	1,002	1,169
Total	**1,921**	**2,341**	**2,760**

The annual indexation on the rent contract is recorded on the face of the income statement.

Apart from the property rent, the Company also leases 6 company cars for its personnel. These are leased over a period of three to four years, depending on the mileage.

18. Retirement benefit schemes

The company operates defined contribution systems for all its qualifying employees. The assets of the schemes are held separately from those of the Company in designated funds.
The total cost of €159 thousand in 2004 (€112 thousand in 2003 and €126 thousand in 2002) represents contributions payable to these schemes by the Company at rates specified in the rules of the plans. At 31 December 2004, all amounts due with regard to the schemes had been paid.
The employees of the Company are members of a state-managed retirement benefit scheme operated by the government (*i.e.* legal pension). The Company is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Company with respect to the retirement benefit scheme is to make the specified contributions.

19. Warrant plans

Presented below is a summary of stock warrant plans activity for the reported periods:

	Warrants	Weighted average exercise price
Outstanding at 1 January 2002	323,849	1.04
Granted during the period	2,619,321	1.02
Forfeited during the period	-153,180	1.00
Outstanding at 31 December 2002	**2,789,990**	**1.03**
Exercisable at 31 December 2002	580,227	1.13
Granted during the period	237,595	1.07
Forfeited during the period	-13,050	1.00
Expired during the period	-92,015	1.15
Outstanding at 31 December 2003	**2,922,520**	**1.03**
Exercisable at 31 December 2003	706,149	1.11
Granted during the period	163,000	1.00
Forfeited during the period	-305,225	1.00
Expired during the period	-6,000	1.00
Outstanding at 31 December 2004	**2,774,295**	**1.03**
Exercisable at 31 December 2004	700,149	1.11

* Note that on 31 January 2005, 637,500 warrants were offered under the Warrant Plan Belgium 2002, all of which are still outstanding at the date of these financial statements. Moreover, 24,000 warrants from the Warrant Plan 1999 and 2002 became void in the period since 31 December 2004 and the date of these financial statements.

At the Extraordinary Shareholders meeting of 21 December 1999, two warrant plans were established: one warrant plan was specifically set up to the benefit of the Issuer's Belgian management and personnel ("Warrant Plan Belgium 1999") whereas the second warrant plan was established for the personnel of the Issuer's subsidiary Galapagos Genomics BV ("Warrant Plan Netherlands 1999").

Warrant plans 1999

Warrant Plan Belgium 1999

Pursuant to the Warrant Plan Belgium 1999, a total number of 549,341 warrants were issued to and subscribed by the Issuer. At 31 December, 2004, an aggregate number of 242,154 warrants were granted to directors, management and personnel of the Issuer, of which 217,554 warrants are still outstanding. The warrants have a term of eight years. The warrants can be exercised at the latest on 15 December 2009. Each vested warrant entitles the warrant holder to subscribe for one Share. The exercise price of the warrants is the highest of either €1 or the price against which the most recent capital increase occurred prior to the date of the offer of the warrants. Since the different classes of shares of the Company were cancelled and a reverse 4:1 share split was performed by decision of the Extraordinary Shareholders Meeting of 29 March 2005 (subject to the condition precedent of the realization of the Offering), the provisions of the Warrant Plan Belgium 1999 were modified to reflect that 4 warrants will entitle the warrant holder to subscribe to one share.

Warrant Plan Netherlands 1999

At 31 December 2004, no more warrants are outstanding under the Warrant Plan Netherlands 1999.

Warrant plans 2002

At the Extraordinary Shareholders Meeting of 1 March 2002, one warrant plan was approved in favor of the management and personnel of the Issuer ("Warrant Plan Belgium 2002") and a second warrant plan in favor of management and personnel of the Issuer's subsidiary ("Warrant Plan Netherlands 2002").

Warrant Plan Belgium 2002

Pursuant to the Warrant Plan Belgium 2002, a total number of 3,013,000 warrants were issued to and subscribed by the Issuer. At 31 December 2004, an aggregate number of 2,537,321 warrants were allotted to directors, management and personnel of the Issuer, of which 2,074,146 warrants are still outstanding at 31 December 2004. The warrants have a term of eight years. The warrants can be exercised at the latest on 1 February 2012. According to the original provisions of the Warrant Plan Belgium 2002, each vested warrant entitled the warrant holder to subscribe for one ordinary share category D. Since the different classes of shares of the Company were cancelled and a reverse 4:1 share split was performed by decision of the Extraordinary Shareholders Meeting of 29 March 2005 (subject to the condition precedent of the realization of the Offering), the provisions of the Warrant Plan Belgium 2002 were modified to reflect that 4 warrants will entitle the warrant holder to subscribe to one share.

The Board of Directors determines the exercise price of the warrants at the moment the warrants are offered to a beneficiary, in accordance with the specific exercise price provisions in the Warrant Plan Belgium 2002. The Warrant Plan Belgium 2002 provides that, if the Issuer's shares are listed or traded on a stock market, the Board of Directors may choose whether the exercise price equals 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 Plan Netherlands 2002

Pursuant to the Warrant Plan Netherlands 2002, a total number of 500,000 warrants have been issued to and subscribed for by the Issuer. At 31 December 2004, the Company has allotted an aggregate number of 482,595 warrants pursuant to this Warrant Plan Netherlands 2002, which are all still outstanding at 31 December 2004. The exercise period of the warrants amounts to four years, which exercise period starts as from the date of offer. The warrants can be exercised at the latest on 1 February 2012. A vested warrant entitled the holder of such warrant to subscribe for one newly issued share Class D of the Issuer.
In respect of warrants that have been granted prior to the date of listing of the Issuer's shares, the exercise price of such warrants amounts to the higher of either €1.17 or the market value of the Issuer's share Class D as determined by the Board of Directors. Warrant Plan the Netherlands 2002 further provides that, once the Issuer's shares are listed, the exercise price of any warrants will equal, at the discretion of the Board of Directors, either the closing price of the Issuer's shares on the trading day preceding the day on which the warrants were granted, the average share price of the preceding 30 day period, or any other relevant period.

Since the different classes of shares of the Issuer were cancelled and a reverse 4:1 share split was performed by decision of the Extraordinary Shareholders Meeting of 29 March 2005 (subject to the condition precedent of the realization of the Offering) the provisions of the Warrant Plan Netherlands 2002 were modified to reflect that 4 warrants will entitle the warrant holder to one share.

The fair value of the warrants granted, which is amortized to expense over the warrant period in determining the pro forma impact, is estimated at the date of the grant using the Black & Scholes option pricing model with the following weighted average assumptions:

	Belgian plan		**Dutch plan**
	2004	**2003**	**2003**
Exercise price	1.00	1.00	1.17
Current share price	1.00	1.00	1.00
Estimated volatility	30%	29%	31%
Expected life of the warrant	3.90	3.40	2.00
Risk free rate	4.31%	4.10%	3.55%
Expected dividends	None	None	None

* The figures in this table do not take into account the 4:1 reverse share split decided on 29 March 2005, subject to the condition precedent of the realization of the Offering.

As a reference for the ***current share price***, the price of the last relevant capital increase was used. This price differs from the last capital increase, which was at a share price of €1.582 per share, since these were preferred shares whereas the warrants give rights to subscribe to Class D shares (which are no preferred shares).

The ***estimated volatility*** is calculated as the implied volatility of the biotechnology index in the four years preceding the offer (two years for the Dutch plan).

The ***expected life*** 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. In 2002, no warrants offered under any of the plans, qualify for accounting under IFRS 2. Under the Dutch plan, no warrants have been offered in 2004. For these periods, no fair value calculation has as such been performed.

The weighted average fair market value of the warrants granted during 2004 and 2003 were €5 thousand and €16 thousand respectively. These were recorded in debit of the share capital.

The following table provides an overview of the outstanding warrants per personnel category at 31 December 2004

	Number of warrants
Non-executive Directors	200,695
Executive Team	1,368,900
Management Team	303,200
Other	901,500
Total warrants outstanding at 31 December 2004	**2,774,295**

20. Related parties

Transactions between Galapagos NV and Galapagos Genomics BV, which are related parties, have been eliminated in consolidation and are not disclosed in this note. Transactions between the Company and its associates are disclosed below.

Trading transactions

During the year 2004, 2003 and 2002, the Company entered into the following transactions with related parties, who are not part of the Company.

Thousands of EUR / year ended 31 December	Revenues			Costs		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**
Crucell BV				328	546	541
Tibotec NV and associates	8					15
Johnson & Johnson Group	31	1,067	68			

Johnson & Johnson is a related party through its parent-subsidiary relationship with Tibotec NV. The sales to Johnson & Johnson relate to sales transactions in the normal course of business.

Both Crucell BV and Tibotec NV are the founding shareholders of the Company. The purchases performed by the Company with Crucell BV comprise:

Thousands of EUR / year ended 31 December	2004	2003	2002
Office rent and rent charges (see note 17)	138	277	292
Laboratory rent	53	108	134
Materials purchase (consumables)	52	161	114
Other	85	0	1
Total	**328**	**546**	**541**

At the end of 2004, 2003, 2002, the following amounts with related parties were still outstanding in the balance sheet:

Thousands of EUR / year ended 31 December	Amounts owed by related parties			Amounts owed to related parties		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**
Crucell BV				96	4	0
Tibotec NV and associates	5			7	7	90
Johnson & Johnson Group		241	778			

The amounts outstanding are unsecured and are/will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Remuneration of key management personnel

At 31 December 2004, the Executive Committee comprised three members, Mr. Van de Stolpe, Dr. Pollet and Dr. Dixon. Dr. Dixon only became a member of the Executive Committee at 15 November 2004. Their combined remuneration package comprises:

Thousands of EUR / year ended 31 December	**2004**	**2003**	**2002**
Short-term employee benefits	574	524	569
Post-employment benefits	46	48	46
Cumulative number of warrants offered	1,368,900	1,368,900	1,368,900
Total benefits excluding warrants	**620**	**572**	**615**

The executive directors provide their services full time for the company. Their remuneration includes all costs for the company, including retirement contributions. The warrants offered to the executive directors are under the same conditions as set out in note 19. These warrants are granted under the Belgian 2002 and 1999 plan.

The retirement benefits to the Executive Committee, excluding the executive directors, are part of the retirement benefit scheme to which all qualified personnel is entitled. The contributions are paid as a percentage of the gross annual salary.
No loans, quasi-loans or other guarantees have been given to members of the Executive Committee.
In 2002, the Executive Committee comprised only the Executive Directors.

Transactions with non-executive directors

Non-executive directors that represent one of the Company's shareholders receive no compensation for their position as directors. In 2004, 2003 and 2002, €13 thousand, €13 thousand and €22 thousand respectively were paid as expense reimbursement for these non-executive members of the Board of Directors.

The independent members of the Board receive a Board fee of €1,500 per Board meeting, as well as expense reimbursement. In 2004 and 2003, €6 thousand and €15 thousand respectively were paid as Board fees and expense reimbursement to independent members of the Board of Directors.

In 2004, €120 thousand in consulting fees was paid to members of the Board of Directors.
In 2004, 155 thousand warrants were offered to non-executive directors (45,695 in 2003 and none in 2002).

Other contracts with related parties:

- Non-compete undertaking from Crucell:

  Galapagos NV and Crucell agreed that Crucell shall refrain from activities in the field of functional genomics, except if a third party who is engaged in the field of functional genomics acquires direct or indirect control of Crucell. This non-compete obligation applies to Crucell until 31 March 2008. The non-compete obligation applies for the geographic areas of Asia, Europe and the US. No consideration was paid for this undertaking.

- License Agreement between Tibotec and Galapagos NV dated 28 May 2001:

  Galapagos NV, Tibotec and Crucell entered into a license agreement dated 15 September 1999. The parties agreed to terminate this agreement and enter into separate new license agreements. Galapagos NV entered into the license agreement dated 28 May 2001 under which Tibotec granted a non-exclusive worldwide royalty-free license under the Tibotec Intellectual Property relating to, inter alia, a method for the rapid screening of analyses, means and methods for drug discovery and the phenotypic characterization of cells, and methods for assaying high specific protease activity. The term of this agreement is the latter of (i) the term of the Tibotec patents or (ii) 6 March 2017. The Company paid a consideration of €454k for this agreement which was capitalized.

- Research and Commercial License Agreement between Crucell and Galapagos NV dated 6 June 2001:

  Under this agreement Crucell granted a sole and exclusive worldwide license to Galapagos NV under the Crucell patents and know how for, inter alia, identifying, making and using products and services in the field of identification and/or validation of the biological functions of human and non-human genes, and/or genes (fragments) of proteins and/or fragments of proteins transcribed from such genes. The term of this agreement is the latter of (i) the term of the Crucell patents or (ii) 6 March 2017. The Group paid a consideration of €454k for this agreement which was capitalized.

- Services Agreement for alteration works to be performed in the laboratories of Galapagos Genomics BV by Facility Services Crucell Holland B.V. entered into between Crucell and Galapagos Genomics BV dated 3 November 2004:

  Under this agreement Crucell agreed to make amendments to the leased property for the benefit of Galapagos Genomics BV. The costs (estimated at €39,570) shall be borne by Galapagos Genomics BV. After termination of the lease Galapagos Genomics BV must reimburse €5,000 to Crucell for reparation works.

- Services Agreement between Crucell and Galapagos Genomics BV dated 15 August 2002, supplemented by an agreement dated 5 March 2004:

  In addition to the lease of the property occupied by Galapagos Genomics BV, Crucell agreed that Galapagos Genomics BV may use certain facilities of Crucell described in the agreement (including company restaurant, laboratory facilities, the library, meeting rooms and require assistance of the technical services department) at specified rates.

- Ratification Agreement for the Lease of Office and Laboratory Facilities between Crucell and Galapagos Genomics BV dated February 2002:

  In this agreement Crucell and Galapagos Genomics BV document and ratify their contractual agreement relating to the lease of office and laboratory facilities at Archimedesweg 4, 2333 CN Leiden, the Netherlands. Crucell agrees to sub-lease a certain section of the building to the Group until 31 December 2003 at the latest. Galapagos Genomics BV undertakes to deliver the building section, upon termination of the agreement, to Crucell clean and without damages to the building and its leasehold improvements.

- Supplemental Agreement to the Ratification Agreement for the Lease of Office and Laboratory Facilities between Crucell and Galapagos Genomics BV dated 1 November 2004 and amended 7 March 2005:

  This agreement documents new conditions for the termination of the lease agreement as set out in the Ratification Agreement. Under the Supplemental Agreement, the lease may be terminated subject to a six month written notice, starting from 31 March 2007.

- In the previous periods, independent directors received Board Meeting fees amounting to €1.5 thousand per Board Meeting. For the new post-IPO contracts this has been adjusted to an annual fee of €20 thousand.

- A consultancy contract was closed with the Chairman of the Group, Dr. Parekh, amounting to a monthly consulting fee of £8,666.

21. Subsequent events

After 31 December 2004, the following events occurred:

- On 31 January 2005, the Group offered 637,500 warrants (prior to the projected reverse stock split – see below) to directors and employees of the Group pursuant to the Warrant Plan Belgium 2002;
- On February 7, 2005, the Extraordinary Shareholders Meeting agreed on initiating an IPO process;
- On 29 March 2005, TNO Pharma and the Group announced multi-target characterization collaboration. In this project, TNO Pharma will apply their expertise and experience in protein chemistry to further characterize Galapagos' proprietary disease targets;
- On 29 March 2005, the Extraordinary Shareholders Meeting decided to increase the Galapagos NV's capital, subject to the condition precedent of the subscription of the capital increase, with up to €35 million and after lifting of the preferential subscription rights of the existing shareholders;
- On 29 March 2005, the Extraordinary Shareholders Meeting decided to grant to KBC Securities NV and Kempen & Co Corporate Finance BV (the "Lead Managers") an Over-Allotment Option to subscribe to maximum of €5.25 million in Shares as from the date on which the shares are expected to be admitted to the listing on the Eurolist of Euronext Brussels and Euronext Amsterdam ("Listing Date") up to 30 days after the date upon which the public offering will be established by the Board of Directors of the Group ("Closing Date"). This Over-allotment Option will be exercisable as of the Listing Date until 30 calendar days after the Listing Date and requires Galapagos NV to issue and offer at the offer price of the projected public offering a number of Over-allotment Shares for the sole purpose of allowing the Lead managers to cover for over-allotments, if any. The total number of Over-allotment Shares shall not exceed 15% of the number of newly issued shares of the Group pursuant to the projected public offering ("Base Shares"). To enable the Lead Managers to execute the Over-allotment up to 15% of the Base Shares, one or more of Galapagos NV's current shareholders will enter into a lending agreement, free of charge and for the same period as the Over-allotment Option. Afterwards Galapagos NV will issue these Over-allotment Shares in an extra capital increase. By means of a press release the market will be informed on whether or not the Over-allotment Option has been exercised.
- At the Extraordinary Shareholders Meeting of 29 March 2005, a new warrant plan in favor of directors, management and personnel was approved (Warrant Plan 2005), subject to the condition precedent of the realization of the projected public offering. The exercise price of the warrants will be decided as at least (a) the closing price of the last day preceding the date the warrants are offered, 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.
  This warrant plan contains a minimum of 125,000 warrants (the "Initial Warrants") and a maximum of 500,000 warrants for the employees, directors and consultants of the Group. The exact number of warrants to be created in excess of 125,000 (the "Additional Warrants") is to be determined in accordance with the number of issued Offer Shares and Over-allotment Shares. The number of Additional Warrants to be created is neither to exceed 375,000 nor 3.4% of the entire share capital of the Group computed on a fully diluted basis, however excluding the minimum of 125,000 Initial Warrants. Each warrant entitles the beneficiary to subscribe to one share of Galapagos NV subject to the provisions of the Warrant Plan 2005. It is the intention of the Board of Directors to grant these warrants partially in the course of 2005. The balance will remain at the disposal of the Shareholders Meeting and Board of Directors acting upon recommendation of the Nomination & Remuneration Committee and may be granted within the framework of future nominations and incentive plans;
- On 29 March 2005, Dr. Harrold van Barlingen was appointed as member of the Board of Directors, subject to the condition precedent of the realization of the projected public;
- On 29 March 2005, Dr. Ferdinand Verdonck was appointed as member of the Board of Directors, subject to the condition precedent of the realization of the projected public offering;
- On 29 March 2005, the Galapagos NV shareholders decided to change the legal entity's name to Galapagos NV;
- On 29 March 2005, the Extraordinary Shareholders Meeting decided to cancel the anti-dilution warrants, subject to the condition precedent of the realization of the projected public offering;

- On 29 March 2005, the Extraordinary Shareholders Meeting decided to perform a 4:1 reverse share split, subject to the condition precedent of the realization of the projected public offering;
- On 29 March 2005, the Extraordinary Shareholders Meeting decided to cancel the different classes of shares, subject to the condition precedent of the realization of the projected public offering;
- On 29 March 2005, the Board of Directors of Galapagos decided to prepare the Group's consolidated financial statements going forward under IFRS as of December 31, 2004 (no longer under Belgian GAAP).

22. Explanation of transition to IFRS

The Company presents the financial statements under IFRS for the previous three years. The date of transition for the Company is as such 1 January 2002. The following disclosures are required under IFRS 1 §39. On 29 March 2005, the Board of Directors decided to start preparing the Company's consolidated financial statements under IFRS as of 31 December 2004 and thereafter.

Equity reconciliation for date of transition as well as for last financial statements reported under Belgian GAAP.

Thousands of EUR	**31 December 2003**	**1 January 2002**
Net equity according to Belgian GAAP	13,555	-4,462
Finance lease	-170	-73
Depreciation of patents	200	110
Adjustment for useful life	227	99
Capitalization of SilenceSelect library	342	0
Before deferred tax	**14,154**	**-4,326**
Deferred tax	-203	-54
Net equity under IFRS	**13,951**	**-4,380**

Notes to the reconciliation of equity at 1 January 2002 and at 31 December 2003:

- The rent of the leasehold improvements in the Mechelen facility was in the statutory tax accounts recorded as an operational lease. The annual payments related to the contract were recorded on the face of the profit and loss accounts. According to IAS 17, these should have been accounted for a finance lease.
- In the statutory tax accounts the patents are amortized on a straight-line basis over a period of 5 years. In the IFRS financial statements the amortization period is adjusted to 10 years, reflecting the economic useful life of the patents;
- When preparing the IFRS financial statements, the existing property, plant and equipment was evaluated and if needed, the depreciation method was adjusted to reflect the economics useful life of the asset; and
- In the statutory accounts the costs related to the development of the SilenceSelect library are recorded on the face of the profit and loss accounts when they incur. In the IFRS statements all costs related to the development phase of the project are capitalized and amortized on a straight-line basis over a period of 4 years, starting at 1 January 2004.

Reconciliation of profit or loss for 2003

CONSOLIDATED INCOME STATEMENT	Belgian GAAP	Transition to IFRS	IFRS
Product revenue	2,815		2,815
License revenue	426		426
Service revenue	1,014		1,014
Research collaborations	264		264
Income from government grants	2,528	-575	1,953
Total revenues	**7,047**		**6,472**
Cost of goods & services sold	-1,992	826	-1,166
Gross profit	**5,055**	**251**	**5,306**
Research and development	-5,473	95	-5,378
Sales and marketing expenses	-102		-102
General and administrative costs	-4,576	83	-4,493
Operating result	**-5,096**	**429**	**-4,667**
Finance income/(cost)	222	-136	86
Taxes		-85	-85
NET RESULT FOR THE PERIOD	**-4,874**	**208**	**-4,666**

- The grant received on the SilenceSelect library was transferred from the revenue to a credit to the cost of sales. The received grant with relation to the development phase of the project amounts to €575 thousand.
- The adjustment to the cost of sales comprises the capitalization of the development phase of the SilenceSelect library in 2003. The costs related to the project in 2003 amounted to €251 thousand. This is being offset by the reclassification of the grants received. These were recorded as part of the revenue under Belgian GAAP. However, in order to fairly represent the effect of the capitalization these are recorded as a credit to cost of sales under IFRS. Hence, the income from government grants is debited to the extent of the grant on the development of the SilenceSelect and the cost of sales is credited to the same extend.
- The adjustment to research and development comprises:
  - o Adjustment of depreciation charges (useful life and the adjustment of the depreciation on patents and licenses) amounting to €105 thousand credit.
  - o The accounting of the warrants granted in 2003, amounting to €10 thousand debit. Note that this is an adjustment against equity, so no effect on the net equity exists.
- The adjustment to general and administrative costs comprises:
  - o Adjustment of the operating lease to a finance lease, amounting to €226 thousand credit
  - o Adjustment of depreciation charges (useful life and the adjustment of the depreciation on patents and licenses) amounting to €137 thousand debit.
  - o The accounting of the warrants granted in 2003, amounting to €6 thousand debit. Note that this is an adjustment against equity, so no effect on the net equity exists.
- The adjustment to the financial result is a result of the accounting for the financial cost related to the reclassification of the operational lease to the finance lease.

There has been no material impact on the cash flows as a result of the transition to IFRS.

23. Going concern

The Group has accumulated losses amounting to €21.2 million as of 31 December 2004. We have made significant progress with our therapeutic programs, which have resulted in the closing of several important contracts. The next year, we will continue to transform the Company from a research company to a drug discovery company. We will continue to subcontract the chemical development of selected targets and develop these further into pre-clinical candidates. With the anticipated capital increase, the Company wishes to further take targets into the clinic. As of 31 December 2004, we have a cash position of €10.3 million. For 2005, management has forecasted a burn rate of over €7 million. Based on these factors, the Board considers that continuity is safeguarded until the General Shareholders Meeting that approves the statutory standalone accounts of 2005.

Independent auditor's report on the consolidated financial statements for the years ended December 31, 2004, 2003 and 2002

GALAPAGOS, NV

To the Board of Directors and to the shareholders

We have audited the accompanying balance sheets of Galapagos NV (formerly Galapagos Genomics NV) and subsidiary as of December 31, 2004, 2003 and 2002, and the related income statements, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2004, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with International Financial Reporting Standards as endorsed by the European Union.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 23 to the financial statements, the Company has incurred substantial losses from operations, which affect the financial position of the Company and which raises substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 23. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

March 29, 2005

The Statutory Auditor

DELOITTE & PARTNERS
Bedrijfsrevisoren BV o.v.v.e. CVBA
Represented by

Geert Verstraeten **Gert Vanhees**

STATUTORY STANDALONE FINANCIAL INFORMATION OF GALAPAGOS NV

The statutory annual accounts of the Issuer as at and for the years ending on 31 December 2002, 2003 and 2004, drawn up in accordance with the Belgian Generally Accepted Accounting Principles (Belgian GAAP), have been audited by the statutory auditor Deloitte & Partners Bedrijfsrevisoren, Louizalaan 240, 1050 Brussels, Belgium, represented by Mr Geert Verstraeten and Mr Gert Vanhees. The auditor approved these annual accounts without reservation but with an explanatory paragraph to explain that the accounts were drawn up assuming that the Issuer would continue as a going concern, despite the fact that the Issuer had incurred substantial losses which affected its financial situation. The auditor states that this assumption is justified only to the extent the Issuer will continue to receive the financial support of its shareholders or is able to raise additional funding from other sources. The full statutory statements can be obtained at the registered office of the Company and at the National Bank of Belgium.

Statutory standalone income statement

STATUTORY INCOME STATEMENT	2004	2003	2002
Thousands of EUR / year ended 31 December			
I. Operating income	**6,683**	**6,091**	**4,752**
A. Turnover	5,380	4,520	3,019
B. Variation stocks & work in progress			
C. Fixed assets - own construction			
D. Other operating income	1,303	1,571	1,733
II. Operating charges	**-9,886**	**-11,170**	**9,267**
A. Raw materials, consumables	-1,196	-1,287	-1,093
A1. Purchases	-1,145	-1,358	-1,198
A2. Increase, decrease in stocks	-51	71	105
B. Services and other goods	-3,842	-5,473	-4,160
C. Remun., soc. security costs, pensions	-3,594	-3,500	-3,254
D. Deprec. & amounts wr. off fixed assets	-1,217	-789	-754
E. Amounts wr. off stocks & trade debtors		-108	
F. Provisions for liabilities and charges			
G. Other operating charges	-37	-13	-6
H. Operating charges as reorganiz. Costs			
III. Operating profit/(loss)	**-3,203**	**-5,079**	**-4,515**
IV. Financial income	**183**	**232**	**164**
A. Income from financial fixed assets			
B. Income from current assets		223	155
C. Other	183	9	9
V. Financial charges	**-627**	**-33**	**-686**
A. Debt charges	-595		-86
B. Amounts written off current assets			
C. Other	-32	-33	-600
VI. Current profit/(loss) before taxes	**-3,647**	**-4,880**	**-5,037**
VII. Extraordinary income	**4**		
A. Adjust. to depr. & amounts wr. off fixed assets			
B. Adjustments to amounts wr. off fin. fixed assets			
C. Adjust. to prov. for extraordinary liab. & charges			
D. Gain on disposal of fixed assets	4		
E. Other			

VIII. Extraordinary charges			
A. Extraord. deprec. & amounts wr. off fixed assets			
B. Amounts written off financial fixed assets			
C. Provisions for extraordinary liab. & charges			
D. Loss on disposal of fixed assets			
E. Other			
F. Operating charges as reorganization costs			
IX. Profit/(loss) before taxes	**-3,643**	**-4,880**	**-5,037**
IXbA. Transfer from postponed taxes			
IXbB. Transfer to postponed taxes			
X. Income taxes		**4**	
A. Income taxes			
B. Adjust. of inc. taxes & write-back of tax prov.		4	
XI. Profit/(loss) for the year after taxes	**-3,643**	**-4,876**	**-5,037**

APPROPRIATION ACCOUNT

Thousands of EUR / year ended 31 December	**2004**	**2003**	**2002**
A. Profit to be appropriated	**-22,462**	**-18,819**	**-13,943**
A1. for the year	-3,643	-4,876	-5,037
A2. Profit brought forward	-18,819	-13,943	-8,906
B. Transfers from capital & reserves			
B1. fr. capital & share premium account			
B2. from reserves			
C. Appropriations to capital & reserves			
C1. to the capital & share premium			
C2. to the legal reserve			
C3. to other reserves			
D1. Profit to be carried forward			
D2. Loss to be carried forward	22,462	18,819	13,943
E. Owner's contribution in losses			
F. Distribution of profit			
F1. Dividends			
F2. Director's entitlements			
F3. Other allocations			

The statutory turnover is mainly related to sales by the service unit Galadeno, and include license revenue, product revenue as well as service revenue. The grants are recognized as other operating income. Personnel costs reflects the costs of the personnel that is on the Belgian payroll. The services and other goods comprise housing costs, professional fees, directors fees and expenses and the cost plus zero cross-charge from Galapagos Genomics BV. These are eliminated in the consolidated financial statements of the Company.

Statutory standalone balance sheet

STATUTORY BALANCE SHEET AFTER APPROPRIATION	2004	2003	2002
Thousands of EUR/ year ended 31 December			
ASSETS	**2,153**	**1,398**	**1,947**
I. Formation expenses			
II. Intangible fixed assets	**41**	**191**	**429**
III. Tangible fixed assets	**2,092**	**1,187**	**1,498**
A. Land and buildings	126	139	145
B. Plant, machinery and equipment	640	1,028	1,327
C. Furniture and vehicles	14	20	26
D. Leasing and other similar rights			
E. Other tangible assets	1,312		
F. Assets under construction, advance payments			
IV. Financial fixed assets	**20**	**20**	**20**
A. Affiliated enterprises	20	20	20
A1. Investments	20	20	20
A2. Amounts receivable			
B. Enterprises linked by participat. interests			
B1. Investments			
B2. Amounts receivable			
C. Other financial assets			
C1. Shares			
C2. Amounts received and cash guarantee			
CURRENT ASSETS	**12,125**	**16,610**	**8,280**
V. Amounts receivable after one year			
A. Trade debtors			
B. Other amounts receivable			
VI. Stocks and contracts in progress	**98**	**149**	**186**
A. Stocks	98	149	186
A1. Raw materials and consumables	98	149	186
A2. Work in progress			
A3. Finished goods			
A4. Goods purchased for resale			
A5. Immovable property for resale			
A6. Advance payments			
B. Contracts in progress			
VII. Amounts receivable within one year	**2,425**	**3,721**	**3,334**
A. Trade debtors	882	1,789	1,466
B. Other amounts receivable	1,543	1,932	1,868
VIII. Investments	**9,000**	**11,700**	
A. Own shares			
B. Other investments and deposits	9,000	11,700	
IX. Cash at bank and in hand	**139**	**553**	**4,385**
X. Deferred charges and accrued income	**463**	**487**	**375**
TOTAL ASSETS	**14,278**	**18,008**	**10,227**

The statutory balance sheet is presented on the next two pages. The non-currents assets comprise the laboratory equipment and the leasehold improvements. The other amounts receivable comprise the current account between Galapagos NV and Galapagos Genomics BV. This current account is eliminated in the consolidated financial statements of the Company.

STATUTORY BALANCE SHEET AFTER APPROPRIATION	2004	2003	2002
Thousands of EUR/year ended 31 December			
CAPITAL AND RESERVES	**9,907**	**13,550**	**7,072**
I. Capital	32,369	32,369	21,015
A. Issued capital	32,369	32,369	32,369
B. Uncalled capital			-11,354
II. Share premium account			
III. Revaluation surpluses			
IV. Reserves			
A. Legal reserve			
B. Reserves not available			
B1. In respect of own shares held			
B2. Other			
C. Untaxed reserves			
D. Reserves available			
V. Accumulated profit/(loss)	**-22,462**	**-18,819**	**-13,943**
VI. Investment grants			
VII. PROVISIONS & POSTPONED TAXES			
A. Provisions for liabilities and charges			
A1. Pensions and similar obligations			
A2. Taxation			
A3. Major repairs and maintenance			
A4. Other liabilities & charges			
B. Postponed taxes			
AMOUNTS PAYABLE	**4,371**	**4,458**	**3,155**
VIII. Debts payable after 1 year	**1,413**		
A. Financial debts	1,413		
A1. Subordinated loans			
A2. Unsubordinated debentures			
A3. Leasing and other similar rights	1,413		
A4. Credit institutions			
A5. Other loans			
B. Trade debts			
B1. Suppliers			
B2. Bills of exchange payable			
C. Advances rec. on contracts in progress			
D. Other amounts payable			
IX. Debts payable within 1 year	**1,573**	**1,398**	**1,030**
A. Current portion of debts after one year	106		
B. Financial debts			
B1. Credit institutions			
B2. Other loans			
C. Trade debts	688	587	567
C1. Suppliers	688	587	567
C2. Bills of exchange payable			
D. Advances rec. on contracts in progress	166		
E. Taxes, remuneration & social security	613	811	463
E1. Taxes		39	
E2. Remuneration & social security	613	772	463
F. Other amounts payable			
X. Accrued charges and deferred income	**1,385**	**3,060**	**2,125**
TOTAL LIABILITIES	**14,278**	**18,008**	**10,227**

The financial debts in 2004 comprise the obligations under finance lease. The deferred contract income is included in the line deferred income.

GLOSSARY AND DEFINITIONS

Offering glossary and definitions

Here we explain the **terms used in relation to the Offering**, which are capitalized in this Prospectus and which should be understood to have the following meaning, in the singular or the plural.

Abingworth	The legal entities Abingworth Bioventures III A LP, Abingworth Bioventures III B LP, Abingworth Bioventures III C LP and Abingworth Bioventures III Executives LP together.
Allocation Date	The date on which the Shares are expected to be allotted, expected to be 29 April 2005.
AlpInvest	The legal entity AlpInvest Partners co-investments 2000 CV.
Apax	The legal entities Altamir & Cie and Apax France VI together.
Banking Day	A day that is a working day for banks in Belgium and the Netherlands, excluding Saturdays.
Base Shares	The newly issued Shares of the Issuer offered pursuant to the Offering, excluding the Over-allotment Shares.
Burrill	The legal entities Burrill Biotechnology Capital Fund, L.P and Burrill Nutraceuticals Capital Fund, L.P together.
Company or Galapagos	The Issuer and all its subsidiaries.
Closing Date	The date on which the realization of the Offering will be established by the Board of Directors of the Company, also the date upon which payment for and delivery of the Offer Shares will be made.
Crucell	The legal entity Crucell Holland BV.
Employees	All people employed by the Company.
Final Prospectus	The document expected to be published after the Offer Price has been determined and before the Closing Date, and only in the Netherlands. This document has no legal status in Belgium. This document serves as prospectus in the Netherlands, as laid down in the Dutch Listing and Issuing Rules (Fondsenreglement).
Fortis Bank	The legal entity Fortis Bank (Nederland) NV.
Galadeno	The services business unit of the Company.
Galapagos Genomics	The legal entity Galapagos Genomics BV, with its registered office at Archimedesweg 4, 2333 CN Leiden, the Netherlands, subsidiary of Galapagos NV.
Institutional Tranche	The tranche of the Offering to which all institutional investors can subscribe, subject to the selling restrictions set out in the Prospectus.
Issuer	The legal entity Galapagos NV, with its registered office at Generaal De Wittelaan L11, A3, 2800 Mechelen, Belgium.
KBC Bank	The legal entity KBC Bank NV and its affiliates.
KBC Securities	The legal entity KBC Securities NV.
Kempen & Co	The legal entity Kempen & Co Corporate Finance BV.
Lead Managers	KBC Securities and Kempen & Co.
Listing Date	The date on which the Shares are expected to be admitted to the listing on the Eurolist of Euronext Brussels and Euronext Amsterdam
Offering	The offering of Shares as authorized by the Extraordinary Shareholders Meeting of the Company on 29 March 2005 as described in the Prospectus.
Offer Price	The definitive, single Euro price, applicable for all investors, which will be determined following the closing of the Subscription Period and which is expected to be announced on 29 April 2005.
Offer Shares	The Base Shares together with the 82,562 Shares newly issued through the exercise of warrants prior to the Offering (excluding the Over-allotment Shares).
Order	Any individual application of any investor to subscribe to Offer Shares.

Over-allotment Option	The right granted by the Issuer to the Lead Managers to subscribe for up to €5.25 million in Over-allotment Shares at the Offer Price for a period of 30 days from the Listing Date, solely to cover over-allotments, if any.
Over-allotment Shares	The Shares newly issued in connection with the Over-Allotment Option. The total amount of Over-allotment Shares shall not exceed 15% of the Base Shares.
Pre-IPO Shareholders	The shareholders of the Issuer prior to the Listing Date comprising Abingworth, AlpInvest, Apax, Burrill, Crucell and Tibotec.
Price Range	The minimum and maximum for the Offer Price.
Prospectus	This document relating to the Offering as approved by the BFIC on 12 April 2005 and by Euronext Amsterdam on 14 April 2005. This document serves as prospectus in Belgium, as laid down in the Law of 22 April 2003 and the Royal Decree of 18 September 1990. This document serves as preliminary prospectus in the Netherlands, as laid down in the *Euronext Fondsenreglement*.
Retail Tranche	The tranche of the Offering to which all retail investors can subscribe, subject to the selling restrictions set out in the Prospectus. For the purpose of this Offering, retail investors are considered to include (i) individual persons in Belgium and the Netherlands and (ii) legal entities in Belgium applying for Shares for an amount up to €250,000.
Shares	Issued and outstanding ordinary shares in the share capital of the Issuer.
Subscription Period	The period during which Orders are solicited from retail and institutional investors, commencing on 18 April 2005, as of 09.00 hrs CET and ending on 28 April 2005, 16.00 hrs CET, subject to early or late closing.
Syndicate	The Syndicate Members together.
Syndicate Members	KBC Securities, Kempen & Co, Fortis Bank and KBC Bank in connection with the Offering.
Tibotec	The legal entity Tibotec-Virco NV.

Financial glossary and definitions

AFM	The Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*).
Articles of Association	The articles of association of Galapagos NV.
Belgian GAAP	Generally accepted accounting principles in Belgium.
BCC	The Belgian Company Code.
BFIC	Banking, Finance and Insurance Commission in Belgium (*Commission Bancaire , Financière et des assurances/Commissie voor het Bank-, Financie- en Assurantiewezen*).
CEO	Chief Executive Officer.
CET	Central European Time.
CSO	Chief Scientific Officer.
CIK	The Inter-professional Securities Depositing Trust in Belgium (*Caisse Interprofessionnelle de Dépôts et de Virements de Titres/Interprofessionele effectendeposito- en girokas*).
Clearstream	Clearstream Banking SA, Luxembourg.
Daily Official list	Daily Official List (*Officiële Prijscourant*) of Euronext Amsterdam NV.
Dutch Disclosure Act	The Dutch Act on Disclosure of Major Holdings in Listed Companies 1996 (*Wet melding zeggenschap in ter beurze genoteerde vennootschappen 1996*), as amended.
EU	European Union
€ or **Euro** or **EUR**	Euro, the legal currency of the European Monetary Union.
Euroclear	Euroclear Bank SA/NV, as operator of the Euroclear System.
Euroclear Nederland	*Nederlands Centraal Instituut voor Giraal Effectenverkeer BV* (NeCIGEf)
Euronext Amsterdam	Euronext Amsterdam NV, located in Amsterdam, the Netherlands.
Euronext Belgium	Euronext Brussels SA/NV, located in Brussels, Belgium.
FSMA	The UK Financial Services and Markets Act 2000.
Regulation S	Regulation S under the US Securities Act of 1933, as amended.
Securities Act	The US Securities Act of 1933, as amended.
US or **United States**	United States of America.
UK or **United Kingdom**	United Kingdom of Great Britain and Northern Ireland.

Business glossary and definitions

Adenovirus	Adenoviruses are a frequent cause of acute upper respiratory tract infections, i.e. "colds". Symptoms of respiratory illness caused by adenovirus infection range from the common cold syndrome to pneumonia, croup, and bronchitis.
AdenoSelect	This product offers custom synthesis of siRNA or cDNA adenoviral vectors specifically requested by a customer. Through the AdenoSelect system, customers can order adenovirus for single genes, multiple genes, or even request whole cDNA libraries or gene classes to be made into corresponding siRNA or cDNA adenoviruses.
Alzheimer's disease	A form of dementia first described by Dr. Alois Alzheimer and characterized by pathological lesions and cell death in a number of brain regions thereby producing severe intellectual deterioration in middle-aged and elderly persons.
Amino acids	Building blocks of peptides, polypeptides, and proteins. There are 20 common amino acids.
Antibody	A protein produced by the immune system to protect the body in response to the presence of a foreign substance (antigen).
Antigen	A (foreign) substance that induces an immune response by activating the body's immune system, thereby stimulating the production of antibodies.
APP	Amyloidß precursor protein.
Asthma	Asthma is a chronic inflammatory disease of the airways where attacks are characterized by airway inflammation, bronchial smooth muscle spasm and increased mucus secretion.
Assay	(I) A test to determine the effect of a specific protein in a specific biological process or (II) A test to determine the presence or the amount of a compound in a mixture, or the potency of a drug.
β-amyloid	Protein aggregations in the brain derived from amyloid precursor protein.
Biotechnology	The study and application of biological organisms, systems, or processes to better understand the fundamental molecular mechanism of health and disease conditions with the objective of developing products which improve the quality of life.
Breakthrough medicine	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.
Cell	The basic unit of living matter. All organisms are composed of cells.
cDNA	Complementary DNA. See "nucleic acid".
Chondrogenesis	The formation of cartilage.
Clinical study-phase I	The earliest trials in the development of a new treatment usually involving small numbers of healthy volunteers to determine tolerability, drug metabolism, and the safe dose range for its administration.
Clinical study-phase II	Larger trials performed in patients with the target condition in order to determine efficacy, tolerability and the most effective dose to use.
Clinical study-phase III	Very large, pivotal trials in patients to gain a definitive understanding of the efficacy and tolerability of the candidate treatment by comparing it with standard treatment and/or placebo to serve as the principle basis for regulatory approval.
Collagenolytic	Relating to or having the capacity to lyse collagen, gelatin, and other proteins containing praline.
Compound	A compound is a chemical substance formed from two or more elements.
CRO	Contract research organization.
Cytokine	A class of substances that are produced by the immune system and can affect immune response.
Dementia	An organic mental syndrome characterized by a general loss of intellectual abilities involving impairment of memory, judgment, and abstract thinking as well as changes in personality.

De novo	New.
DNA	Deoxyribonucleic acid. See “nucleic acid”.
DNA probes	A short segment of DNA that is used to detect a complementary DNA sequence that may be present in a sample. The DNA sequence to be detected is usually that of an infectious agent or of human origin.
Drugable (genes)	Those gene classes that are of most value for pharmaceutical development.
Efficacy	Effectiveness for intended use.
ELISA	Enzyme-linked immunosorbent assay, a type of non-radioisotopic immunological assay for the detection of a specific antigen or antibody (e.g. virus, hormone), the presence or quantity of which is shown by an enzymatically catalyzed color reaction.
EMEA	European Medicines Evaluation Agency, the regulatory authority that controls drug development and approval in the European Union.
Enzyme	A molecule, generally a protein, facilitating or speeding up a specific biological reaction in the body.
Ex vivo	Outside of living organisms.
FDA	Food and Drug Administration, the regulatory authority that controls drug development and approval in the United States.
FLeXSelect®	An arrayed adenoviral library collection containing full-length cDNAs corresponding to genes belonging to human drugable gene families as well as the secreted protein class.
Functional genomics	The study of the functions of individual genes.
Gene	The basic hereditary unit, a segment of nucleic acid coding for a specific protein.
Genome	All the genetic material in the chromosomes of a particular organism. Genome size is generally given as its total number of base pairs.
GLP	Good laboratory practice.
GPCR	G-protein coupled receptor.
High-throughput screening	A fully automated processes for conducting high-throughput screens of gene function and compound activity.
In situ	In place.
In vitro	Outside of the body (*e.g.* in test tubes).
In vivo	In living organisms.
***In vivo* disease model**	Proof-of-principle animal model that effectively mimics the human disease. The disease model is used to test pre-clinical product candidates for efficacy.
In-/out-licensing	Receiving/granting permission from/to another company or institution to engage in a business activity or occupation which would otherwise be unlawful.
IP	Intellectual property.
Kinase	A class of enzymes that catalyzes the transfer of a phosphate group from ATP to another molecule; this protein class is generally considered small molecule tractable (drugable) by the pharmaceutical industry.
Knock-down	Reduce level of expressed mRNA resulting in a decrease of the amount of the corresponding protein in the cell, an effect similar to inactivating the protein by a small molecule drug.
Knock-in or **over-expression**	Increase level of expressed mRNA resulting in an increase of the amount of the corresponding protein in the cell, an effect similar to activating the protein by a small molecule drug.
Laboratory notebook	A hardbound book with numbered pages where lab and patent work is documented. All work in the laboratory notebook is signed by the author and co-signed by a witness.
LIMS	Library information management system.
Marker	Any substance of which the presence or level is measured for diagnostic or monitoring purposes.

Mechanism of action	An identification of the specific molecular targets to which a pharmacologically active substance binds or whose biochemical action it influences.
Mutagenicity	The capacity to cause permanent alteration in the genetic material of cells
NDA	New drug application.
Nutraceutical	Any substance that is a food or a part of a food and provides medical or health benefits, including the prevention and treatment of disease.
NSAID	Non-steroidal anti-inflammatory drug.
Nucleic acid	DNA (deoxyribonucleic acid) or RNA (ribonucleic acid), molecules carrying the heredity information of living organisms.
Oligonucleotide	Sequence of a few to many hundreds of nucleotides, linked with each other.
Osteoarthritis	Degenerative joint disease where the normal cartilage lining is gradually worn away, exposing the underlying bone and causing chronic pain.
Osteoblast	A cell from which bone develops.
Osteoporosis	Disorder characterized by a loss in bone mass that leads to decreased bone strength and an increased risk of fracture.
Pathogenesis	The manner in which a disease develops.
Peptide	A molecule composed of amino acids. Larger peptides are generally referred to as polypeptides.
PER.C6®	The PER.C6 cell line and related technology is a system developed by Crucell that allows the construction of adenoviruses that are replication incompetent. The resulting viruses can be used to infect human cells, cell lines, or in animal model studies.
PhenoSelect®	An ARRAYED adenoviral cDNA library containing over 120,000 cDNA sequences derived from normalized placental tissue cDNA library. Sequence sampling indicates that over 25% of this collection contains full-length cDNAs.
Phenotype	The observable physical or biochemical characteristics of an organism, as determined by both genetic makeup and environmental influences.
Pre-clinical study	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.
Protein	A molecule produced by cells, composed of a long chain of amino acids.
Registration	Obtaining the authorization or license to market a product from a regulatory authority (*e.g.* FDA in the United States, EMEA in Europe).
Rheumatoid arthritis	A chronic, systemic inflammatory disease usually causing synovial inflammation at peripheral joints leading to cartilage destruction, bone erosion and joint re-modeling.
Receptor	A protein, often residing in a cell membrane, that recognizes and binds specific molecules and, in doing so, elicits a biological response.
RNA	Ribonucleic acid. See “nucleic acid”.
RNAi	RNA interference. A tool to reduce the expression of specific proteins.
ShRNA	Short hairpin RNA.
SiRNA	Small interfering RNA.
SilenceSelect®	An arrayed adenoviral collection of knock-down sequences targeting over 4,000 human genes belonging to drugable gene families.
Synoviocytes	Specialized cells in human joints.
Target	Protein that is the focus of drug development.
TNF	Tumor necrosis factor. A cytokine produced by cells of the immune system.
Transcript	Specific messenger RNA transcribed from a gene that codes for a single protein; from a single gene multiple mRNAs can be transcribed (multiple transcripts) each leading to different proteins.
Virus	A non-cellular biological entity that can reproduce only within a host cell. Viruses consist of nucleic acid covered by protein coats. Once inside the infected cell, the virus uses the synthetic capability of the host to reproduce itself

APPENDIX 1: PRESS RELEASES 2004-2005

Galapagos appoints Andre Hoekema as Managing Director Galadeno

Mechelen, Belgium and Leiden, The Netherlands, April 12, 2005 – Galapagos, a genomics-based drug discovery company, has appointed Dr. Andre Hoekema as Managing Director of Galadeno, Galapagos' services unit. Galadeno has a proven track record in novel target discovery using adenoviral siRNA technologies, endorsed by top tier pharmaceutical companies. With this appointment, Galapagos further strengthens its management to lead the company in its next phase of development.

"We are very pleased to have someone of Andre's caliber lead our services unit," commented Onno van de Stolpe, CEO of Galapagos. "Andre brings to Galapagos a vast experience in the biotech industry and a solid background in business development. His invaluable expertise will be a tremendous asset to the Galapagos organization."

"I am excited to join Galapagos, given its strong commitment and innovative approach to target and drug discovery, and I am looking forward to applying my experience to further the growth of Galapagos," said Andre Hoekema.

Dr. Andre Hoekema (47) joins Galapagos from Invitrogen Corporation, where he served as the Managing Director of Corporate Development Europe. He brings 20 years of biotech experience from positions at Molecular Probes Europe (Managing Director), Crucell (Director of Business Development), DSM Life Sciences (R&D and Project Management) and Genentech (R&D). Hoekema has a PhD in Physics and Mathematics from Leiden University. His thesis focused on the invention of the binary vector system, a novel approach to plant genetic engineering. Andre is the inventor of over 20 series of patent applications and has authored more than 30 scientific articles.

Staf Van Reet to lead Galapagos Corporate Development

Mechelen, Belgium and Leiden, The Netherlands, March 31, 2005 – Galapagos, a genomics-based drug discovery company, announces that it has appointed Staf Van Reet as VP Corporate Development. Dr. Van Reet will be responsible for in-licensing (pre-)clinical compounds and building a clinical development team at Galapagos. With this appointment, Galapagos further enhances its drug discovery operations, which are predominantly aimed at developing breakthrough medicines for the bone and joint diseases - osteoarthritis, osteoporosis and rheumatoid arthritis.

"We are very pleased to welcome Staf Van Reet on board during this exciting time for Galapagos," commented Onno van de Stolpe, CEO of Galapagos. "Staf's many years of experience in the successful discovery and development of medicines will be a valuable asset in furthering Galapagos' drug discovery activities and in building a first class clinical development program."

"I am looking forward to building a product pipeline and a clinical development team at Galapagos," said Staf Van Reet. "After working on the discovery and development of novel medicines during most of my career with Johnson & Johnson, I find it an exciting opportunity to now apply my knowledge and experience in the dynamic and entrepreneurial setting of a biotech company."

Dr. Van Reet joins Galapagos after many years with Johnson & Johnson. Most recently he was VP of the Johnson & Johnson Development Corporation, the corporate venturing unit of Johnson & Johnson. Dr. Van Reet joined Janssen Pharmaceutica, an affiliate of Johnson & Johnson, in 1972 as a scientist and he has had various positions within the company, including President of the Janssen Research Foundation and Managing Director of Janssen Pharmaceutica NV. He was also Vice Chairman of the Executive Committee of the Janssen Group. He holds a degree in Applied Biological Sciences and a PhD in Agricultural Sciences from the University of Leuven. Additionally, Dr. Van Reet studied Law at the University of Antwerp and is a qualified Belgian and European Patent Attorney.

TNO and Galapagos enter into drug target characterization collaboration

Leiden, The Netherlands, March 29, 2005 – TNO, a recognized research and technology organization for amongst others the pharmaceutical and biotech industry, and Galapagos, a leading genomics-based drug discovery company, announced today that they have entered into a multi-target characterization collabo-

ration. In this project, TNO will apply its expertise and experience in protein chemistry to further characterize Galapagos' proprietary disease targets.
The project is part of a research program sponsored by the Dutch government through SenterNovem and will combine the capabilities and know-how of TNO and Galapagos to develop protein technologies that will allow progression of the disease targets to the drug discovery stage. The collaboration will entail the development of expression systems, protein purification and protein activity methodologies.
"TNO is delighted to further expand its relationship with Galapagos," said Renger Witkamp, Director Sales and Business Development Pharma. "Once more TNO's proven track record in providing expertise and research services to the biotechnology industry has made us the partner of choice for such a knowledge-intensive project. The collaboration also fits well in our strategy to help expand the biotechnology sector in the Netherlands."
"We are pleased to announce this collaboration with TNO," said Onno van de Stolpe, Galapagos' CEO. "We will gain access to specific expertise that will further strengthen our recent transition into a drug discovery company."

Galapagos is considering a stock exchange listing

Mechelen, Belgium, March 9, 2005 – Galapagos Genomics NV, a genomics-based drug discovery company, announces that it is considering a Euronext stock exchange listing in 2005. The primary reason for the listing is to raise additional funds to enhance Galapagos' drug discovery operations, which are predominantly aimed at developing breakthrough medicines for the bone and joint diseases - osteoarthritis, osteoporosis and rheumatoid arthritis.
Galapagos has already successfully discovered and validated novel targets in these bone and joint diseases, as well as in its asthma and Alzheimer's disease programs. Moreover, Galapagos recently partnered its asthma program with GlaxoSmithKline.

Boehringer Ingelheim Licenses Results from Target Discovery Collaboration with Galapagos

Mechelen, Belgium, January 20, 2005 – Galapagos announced today that Boehringer Ingelheim has successfully used Galapagos' SilenceSelect™ gene knock-down platform to identify a number of genes that were shown to influence viral replication in human cells. Under the terms of an agreement made in October 2003, licensing of these potential targets will trigger a milestone payment to Galapagos. Further financial terms were not disclosed.
The SilenceSelect™ collection is offered by Galadeno, Galapagos' genomics services unit. The adenoviral collection contains siRNA knock-down sequences targeting over 4,000 human drugable transcripts, where drugable represents those gene classes of most value for pharmaceutical development.
"We are very pleased with the results from the collaboration with Galapagos, and look forward to pursuing our studies on these potential antiviral targets" said Michael Cordingley, VP of Research at Boehringer Ingelheim's virology research center in Laval, Quebec, Canada.
"This collaboration proves that the SilenceSelect platform works not only in the hands of Galapagos, but performs equally as well in the hands of our customers. In addition, we are pleased this confirms that our approach is also applicable in infectious diseases," said Dirk Pollet, Galapagos' VP Business Development. "Time after time, our target discovery platform delivers for our partners, opening significant opportunities for continued collaboration."

GlaxoSmithKline forms Target Discovery Alliance in Asthma with Galapagos

Mechelen, Belgium, January 5, 2005 – Galapagos today announced that it has entered into a target licensing and multi-year target identification collaboration in respiratory and inflammatory diseases with GlaxoSmithKline (GSK). Within the agreement, GSK gains an exclusive license to novel disease modifying drug targets that have been discovered by Galapagos in its asthma and allergy program using its siRNA based adenovirus discovery technology. In addition to the target licensing, GSK entered into a three-year partnership with Galadeno, Galapagos' reagents and services division, to discover further tar-

gets that are disease modifying in asthma and inflammatory diseases. Within this collaboration, Galadeno will use its assay development and screening expertise in combination with its SilenceSelect gene knock-down platform to discover and validate novel drug targets in multiple disease pathways. Under the terms of the agreement, Galapagos receives an upfront payment, research funding, and is eligible for milestone payments on targets taken into development by GSK. Full financial details of the collaboration were not disclosed.
"We are excited that we have now partnered our asthma program with the leading player in this disease area" said Onno van de Stolpe, CEO of Galapagos. "The licensing of our targets to GSK is a strong endorsement of our discovery platform and disease expertise".
"This long term alliance with one of the largest pharmaceutical companies in the world is an important milestone for our recently established service unit" said Andrea Grant, Managing Director of Galadeno. "We are looking forward to be working with GSK's disease experts over the coming years and we are confident that we will deliver a continuous stream of novel, well-validated drug targets to their compound screening programs".

Graham Dixon joins Galapagos as Chief Scientific Officer

Mechelen, Belgium, November 30, 2004 – Galapagos announced today that Graham Dixon has been appointed Chief Scientific Officer (CSO). Dr. Dixon will be responsible for directing the target selection and drug discovery research at Galapagos. As a result of the progress that the company has made in target identification and validation over the past five years, Galapagos is progressing into a new phase whereby it is developing drugs based on its proprietary drug targets in core disease areas and building the necessary drug discovery infrastructure. "We are delighted that Graham has joined Galapagos as a key member of our executive team," stated Onno van de Stolpe, CEO of Galapagos. "Graham brings significant pharma experience to the organization that will be essential for progressing our drug discovery research." Before joining Galapagos, Dr. Dixon held the position of CSO at both Entomed in Strasbourg, France and F2G in Manchester, UK. Prior to his position at F2G, Dr. Dixon spent eight years at AstraZeneca, holding various management positions within research and development at the Alderley Park site in the UK. Dr. Dixon holds a Ph.D. in biochemistry from the University of Swansea, UK and was a postdoctoral fellow at the University of Swansea and King's College (London). "I am looking forward to leading Galapagos into its drug discovery phase," said Dr. Dixon. "The company has already proved that its adenoviral-based genomics platform is successful in validating targets, now we have the exciting challenge of developing disease-modifying drugs that act via these targets."

Celgene and Galapagos Enter Target Discovery Collaboration

Warren, NJ and Mechelen, Belgium, November 18, 2004 – Celgene (NASDAQ: CELG), a leading global biopharmaceutical company with focus on the discovery, development and commercialization of innovative therapies for unmet medical needs in cancer and inflammatory disease, and Galapagos, Europe's leading target discovery and adenoviral services company, today announced that they have entered into a multi-year target discovery collaboration.
Under the terms of the agreement, Galadeno (Galapagos' wholly owned services unit) will provide Celgene with its adenoviral siRNA and cDNA libraries, SilenceSelect ™ and FLeXSelect ™. These libraries enable the knock-down or over-expression of the human drugable genome in human primary cell assays. Celgene will use these libraries across Celgene's research programs to study key disease pathways and identify novel drug targets. Financial terms of the agreement were not disclosed.
"Galadeno is unique in the siRNA field right now, due to their in depth experience of not only providing tools, but also applying them in complex biological assays," said Celgene's CSO, Dr. David Stirling. "This expertise, combined with their robust technology platform gives us confidence regarding the discovery prospects for this collaboration."
"We are delighted to be working with Celgene which is one of the most exciting biopharmaceutical com-

panies in their field," said Onno van de Stolpe, CEO of Galapagos. "We are also very pleased that Celgene has joined the growing number of companies that have chosen to use our adenoviral siRNA and gene expression technologies to drive their target and drug discovery effort."

Wyeth selects novel drug targets in osteoporosis collaboration with Galapagos

Mechelen, Belgium, November 9, 2004 – Galapagos Genomics announced today that it has reached a research milestone in its osteoporosis discovery program with Wyeth Pharmaceuticals, the pharmaceutical division of Wyeth (NYSE: WYE). Within the program, which was initiated November 2003, Galapagos has used its osteoporosis disease expertise in combination with its SilenceSelect™ adenoviral siRNA platform to discover and validate novel drug targets that may affect bone remodeling. Wyeth has now selected a set of these targets for internal development, triggering a financial milestone for Galapagos. As these targets are progressed by Wyeth, Galapagos has rights to additional milestone payments that could amount up to $40 million.
"We are excited that we have successfully delivered on our commitments in our osteoporosis program with Wyeth. The selection of these targets is a critical decision as it forms the basis for the development of novel medicines," said Onno van de Stolpe, CEO of Galapagos. "The milestone by Wyeth underlines the power of the SilenceSelect platform as a powerful tool to discover novel drug targets and confirms the strength of our discovery biology research team in osteoporosis".

Galapagos appoints Raj Parekh as Chairman and Wilson Totten to Board of Directors

Mechelen, Belgium, October 5, 2004 – Galapagos Genomics NV announced that it has appointed Raj Parekh, Ph.D. as Chairman and Wilson Totten, M.D. to the company's Board of Directors.
"I am very pleased to have both Raj Parekh and Wilson Totten join our board at this time," said Onno van de Stolpe, Chief Executive Officer. "Their experience in building major biotechnology companies in drug discovery and development will be very valuable to Galapagos in our transition into drug discovery."
Dr. Parekh (44) is currently Entrepreneur in Residence at Abingworth, a UK venture capital company. He co-founded Oxford GlycoSciences (OGS) in 1988 and was Chief Scientific Officer and Senior Vice President of Research and was instrumental in the flotation of the company in 1998 and its recent merger with Celltech.
Dr. Totten (49) is CEO of ProStrakan, a company formed by the recent merger of Strakan and Proskelia. Until recently, he was Group R&D Director at Shire. At Shire, Dr. Totten was responsible for research and drug development, and involved in all commercial aspects. Before joining Shire in 1998, he was Vice President of Clinical R&D with Astra Charnwood from 1995 to 1997. Before that Dr. Totten was Director of Drug Development for Fisons Pharmaceuticals and Medical Director at 3M Health Care.

Galapagos announces the separation of its drug discovery and target discovery service - forms Galadeno as an independent business unit

Mechelen, Belgium, September 22, 2004 – Galapagos Genomics NV, Europe's leading target discovery company, announced today that it has created a new business unit for its viral based discovery and validation service. This unit will operate under the name Galadeno from the Galapagos facility in Leiden. The drug discovery business will be conducted from the Mechelen facility and continue to trade under the name Galapagos. Commenting on this separation of the service unit, Onno van de Stolpe, CEO of Galapagos, said "Both Galadeno and our drug discovery programs have made great progress this year - with Galadeno now a profitable unit and our drug discovery based on programs built around proprietary targets, this separation will allow each unit to grow in a dedicated way." Dr. Andrea Grant, formerly Galapagos' Director of Business Development, has been appointed as Managing Director of Galadeno. "Our aden-

oviral reagent and functional screening business is recognised as the leading target discovery and validation service by the pharmaceutical industry," said Dr. Grant "As an independent unit, Galadeno will be better able to focus on expanding the business, supporting our customers, and maintaining our industry-leading position." Galadeno will offer both individual adenoviral based siRNA and full-length gene reagents for drug target discovery and validation. Furthermore, the company will provide access to its human drugable genome collections FLeXSelect™ (cDNA) and SilenceSelect™ (siRNA), for customers wishing to perform functional screens. In addition, Galadeno will continue to offer its unique human primary cell based functional screening platform to partners who wish to apply genome-wide siRNA and cDNA screening to novel target discovery and drug mechanism of action studies. "This technology platform has delivered novel, validated drug targets in five disease areas within Galapagos own discovery research in the last twelve months," noted Dr. Grant, "and as such, is the most successfully applied functional screening platform in the industry. Under this new organisational structure we ensure improved access for the pharmaceutical and academic communities to our unique adenoviral tools and cellular screening expertise and continued delivery of value across the marketplace.

BioFocus and Galapagos enter drug discovery collaboration

BioFocus to discover drug leads for validated disease targets

Chesterford Research Park, UK and Mechelen, Belgium, August 23 2004 – BioFocus plc (AIM: BIO), a world leader in collaborative drug discovery, and Galapagos Genomics NV, Europe's leading target discovery company, announce today that they have entered into a multi-target collaboration. The collaboration will combine BioFocus' integrated drug discovery engine with Galapagos' extensive expertise in target validation and cellular models of human disease.

Under the terms of the agreement, Galapagos will provide validated drug targets and BioFocus will discover and progress potential drugs to the lead compound stage. Galapagos will further develop these compounds into novel drugs for treating diseases of unmet medical need. The collaboration will be focused on discovering lead compounds against members of an important class of drug targets known as kinases. Throughout the pharmaceutical industry, drugs targeting kinases are being developed to treat a wide range of disease indications such as cancer, inflammation, obesity and diabetes.

Geoff McMillan, BioFocus's Chief Executive, said: "We are delighted to be collaborating with Galapagos. Once more, BioFocus' proven track record to deliver novel drug leads, has made us the partner of choice for providing solutions to industry. This collaboration also highlights the growth of opportunities for BioFocus with functional genomics companies that have a pipeline of validated targets and are looking for novel drug starting points."

Onno van de Stolpe, Galapagos's Chief Executive, said: "We are pleased to announce this important step forward for Galapagos and believe that the kinase discovery platform offered by BioFocus will allow us to rapidly progress our validated kinase targets. This collaboration marks the start of our transition into drug discovery and will form the basis of novel therapies for patients whose disease is poorly treated by existing medications."

Galapagos reports success in identification and validation of proprietary drug targets and moves into drug discovery

Mechelen, Belgium, June 7, 2004 – Galapagos Genomics NV, Europe's leading target discovery company, announced today that it has identified, validated and filed patent applications on several novel drug targets in Alzheimer's disease, osteoporosis, osteoarthritis, rheumatoid arthritis and asthma. Galapagos has recently initiated small molecule drug development programs based on these proprietary targets. In order to expedite the building of chemistry programs around its target portfolio, Galapagos has recruited Dr. Philip Huxley as Senior Director of Drug Discovery.

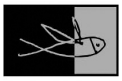
Galapagos uses its adenoviral based over-expression (FLeXSelectTM) and siRNA knock-down (SilenceSelectTM) collections to identify genes that modulate selected diseases in human cell models. In addition to applications in its core disease areas, Galapagos provides access to its discovery technology

to a number of corporate partners. Galapagos delivers its partners validated targets that are drugable, disease modifying, and ready to be taken into small molecule screens.
"We are very pleased to see that our target discovery engine in combination with our disease biology expertise has delivered an exiting set of proprietary targets that are ready to be taken into small molecule screening," said Onno van de Stolpe, CEO of Galapagos "With the addition of Phil Huxley to the team, we can enter the targets into drug discovery and rapidly move compounds towards the clinic."
Dr. Phil Huxley joined Galapagos in May 2004 to head the drug discovery activities and initiate screening and hit-to-lead programs. Previously, Dr. Huxley was with Avidex in Abingdon, UK, where he had been Head of Drug Discovery since 2000. Prior to that, he was Head of Molecular Design at British Biotech in Oxford, UK. He obtained his PhD in Theoretical Chemistry from the University of Sussex in Brighton.

Galapagos Receives Grant for Alzheimer's Disease Research

Mechelen, Belgium, February 12, 2004 – Galapagos Genomics, the Belgian functional genomics company, today announced that it has been awarded by the IWT (The Flemish Institute for the Promotion of Industrial Scientific-Technological Research) a Euro 1.4 million technology development grant in Belgium for Alzheimer's disease research.
Galapagos will build a number of Alzheimer's disease relevant assays using neuronal cells and will use these in combination with its adenoviral based target discovery platform. Functionally identified and validated targets will lead to drug discovery programs that ultimately will be partnered with pharmaceutical companies to develop new Alzheimer's disease therapeutics.
"We are very pleased with this IWT grant, as it enables us to expand our discovery activities in one or our core disease areas," said Onno van de Stolpe, CEO of Galapagos. "The continuing support from Flanders over the years has helped Galapagos to build its technology and disease programs and is an confirmation of the quality of the research at Galapagos".

Appendix 2: Application form



Galápagos

Limited Liability Company
Generaal De Wittelaan L11, A3
2800 Mechelen, Belgium

Offering of up to € 35 million in newly issued Shares
Offering of 82,562 Shares created through the exercise of warrants

APPLICATION FORM (to be completed in duplicate)

The undersigned (first name and last name)
residing at....., street, n°..... having had the opportunity to read the Prospectus, declares to subscribe for Offer Shares:

❑ In the Institutional Tranche

Number of shares[10]	**At a price below (in €)**
…….	…….
…….	…….
…….	…….
…….	…….

❑ In the Retail Tranche: open to all investors
……. Shares[11] at the price published in the press on 30 April 2005 as follows

The Offer Price that will be determined through a bookbuilding procedure with institutional investors within a variable Price Range but which will, for retail invesetors, never exceed the upper end of the initial Price Range published on 16 April 2005, must be debited from my account N° ……..... , on the payment date expected to be on 4 May 2005.

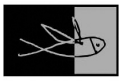
I would like these Offer Shares:
❑ to be delivered to me as BEARER shares[12]
❑ to be REGISTERED IN MY NAME in the company share register
❑ to be deposited in my securities account N° ..... with .....

I will accept the allocation which may be applied. In the event of allocation, each form unless submitted by professional intermediaries which are not Syndicate Members, shall be considered to be an independent and separate application unless it is clearly specified thereon that it is a form grouping the application of several persons.

Done in duplicate, at ……....……., on …… 2005
The financial institution The subscriber

[10] Fill out the number of Offer Shares requested
[11] Fill out the number of Offer Shares requested
[12] The cost for physical delivery is mentioned in "Taxation in Belgium, Tax on the physical delivery of bearer shares".
❑ Tick where appropriate

Appendix 2: Application form



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❑ Tick where appropriate

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Galapagos NV
Registered office
Generaal De Wittelaan L11/A3
2800 Mechelen
Belgium

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