Breaking through

Galápagos

Interim Report 2013

Galápagos

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Letter to our shareholders

Dear Shareholder,

Galapagos has had a successful first half year, showing great progress in a maturing pipeline. Galapagos announced the start of an expanded Phase 2B program with GLPG0634 in rheumatoid arthritis, began preparations for a Phase 2 program with GLPG0634 in Crohn's disease, initiated a Phase 2 Proof-of-Concept study with GLPG0974 in ulcerative colitis, and started a Phase 1 First-in-Human study in the alliance with Janssen Pharmaceutica NV. The R&D division currently has six programs in clinical development, six in pre-clinical, and twenty in discovery stage. The service operations had a disappointing performance in the first half, but with a strong pipeline we are confident that the result will improve over the second half of the year. The Galapagos Group recorded revenues of €77.4 million for the first six months and ended the period with a cash balance of €136.7 million. Galapagos is well on track to achieve its operational goals for the year, and management reiterates 2013 full year financial guidance for Group revenues of €160 million and provides guidance for a year end cash position of €100 million.

Progress in the clinic

GLPG0634

GLPG0634 is an orally-available, novel Janus kinase (JAK) inhibitor with selectivity for JAK1 developed by Galapagos. JAKs are critical components of signaling mechanisms utilized by a number of cytokines and growth factors, including those that are elevated in rheumatoid arthritis patients. JAK inhibitors have shown long-term efficacy in rheumatoid arthritis studies with an early onset of action. GLPG0634 differentiates from other JAK inhibitors in development by specifically targeting JAK1, a strategy which could result in a better efficacy and safety profile. GLPG0634 is a fully proprietary program. Last year, Galapagos and AbbVie announced a global collaboration to develop and commercialize GLPG0634 to treat autoimmune diseases.

In April this year, Galapagos presented the scope of the Phase 2B program with GLPG0634 in rheumatoid arthritis, increasing to a total number of 875 patients. AbbVie provided an additional payment of $20 million to Galapagos to fund the program's expansion. The DARWIN Phase 2B program has since started as planned, including two dose finding studies and an open label extension study. The dose finding studies will evaluate the efficacy and safety of GLPG0634 with 24 weeks of treatment in 875 moderate to severe RA patients refractory to methotrexate. Galapagos expects to report completion of recruitment by mid-2014 and 12-week topline data from the Phase 2B program in Q4 2014.

In May, AbbVie and Galapagos extended the GLPG0634 collaboration to include Crohn's disease. Galapagos will fund and complete a Phase 2 program, which is designed to facilitate rapid progression into Phase 3. Upon successful completion of the study, expected in Q2 2015, AbbVie will pay Galapagos $50 million. The terms of the collaboration extension are in addition to previously agreed upon financial terms. AbbVie will be responsible for funding and performing clinical development beyond Phase 2, and completing regulatory and commercialization activities.

GLPG0974

GLPG0974 is an orally available small molecule that reduces migration of neutrophils, one of the critical cell types in inflammatory processes, by potent inhibition of FFA2 (free fatty acid receptor 2, formerly known as GPR43). Over-activity of neutrophils is a cause of tissue damage in illnesses such as inflammatory bowel disease, and this anti-inflammatory mechanism may provide for a novel treatment approach. GLPG0974 is the first inhibitor of FFA2 to be evaluated clinically.
Galapagos performed a second Phase 1 study which confirmed that GLPG0974 was safe and well tolerated at all dose levels.

The positive outcome of this study supported the progression to a *Proof of Concept* study in ulcerative colitis patients which started in April. This is the third compound from Galapagos' pipeline to enter Phase 2 studies, and its first drug for patients with gastro-intestinal inflammation. GLPG0974 presents a novel *mode of action* for the treatment of ulcerative colitis, a debilitating inflammatory bowel disease. The efficacy and safety of GLPG0974 will be tested in a 4-week study with 45 patients and will deliver topline results early in 2014.

GLPG1205

In 2007, Galapagos announced an alliance agreement with Janssen Pharmaceutica NV providing the option to worldwide, commercial licenses to certain Galapagos internal inflammatory disease programs. These programs include a novel target for inflammatory disorders that was identified and validated by Galapagos using its proprietary target discovery engine. Subsequent Galapagos research led to the discovery of GLPG1205, a first-in-class molecule that enters the clinic for inflammatory disorders.

In July, Galapagos initiated a First-In-Human study with GLPG1205. The candidate drug targets inflammation of the bowel. The aim of this Phase 1 trial is to evaluate the safety, tolerability, pharmacokinetics, and pharmacodynamics of oral single and multiple ascending doses of GLPG1205. Galapagos anticipates topline results from the study by the end of this year.

Progress in other R&D programs

In the field of oncology, Galapagos discovered a novel candidate drug, GLPG1790, to treat breast cancer. GLPG1790 has shown high activity against breast tumors that are triple-negative, for which the absence of estrogen (ER), progesterone (PR) or HER2 receptors affects the prognosis for recovery, and no targeted therapeutic options are currently available. Galapagos will initiate pre-clinical studies with GLPG1790, and expects to initiate the first clinical trials in humans in 2014. This novel program is fully proprietary to Galapagos.

In its immune-inflammation alliance with GlaxoSmithKline, Galapagos announced that GSK is progressing GSK2586184, formerly GLPG0778 and in-licensed by GSK in February 2012. GSK initiated a Phase 2 study with GSK2586184 in chronic plaque psoriasis and in systemic lupus erythematosus (SLE). In the osteoarthritis alliance with Servier, Galapagos achieved a late stage discovery milestone for small molecules against a novel target.

The Flemish agency for Innovation by Science and Technology (IWT) awarded Galapagos three grants: €2.7 million to discover new antibiotic treatments, €2.5 million for inflammatory bowel disease research and development, and €2.4 million for psoriasis research.

In the beginning of the year, Galapagos and Roche announced an end to their alliance in fibrosis. Galapagos regained worldwide rights to all the assets developed in the alliance, which can form the basis for potential future alliances. Galapagos received a total of €16 M in alliance payments from Roche since 2009. Galapagos also announced an end to the alliance with Lilly in osteoporosis. The rights to the bone-building programs have returned to Galapagos. During the collaboration with Lilly, Galapagos received a total of €11 M in payments.

R&D division financial result

The R&D division reported external revenues of €49.1 million, compared to €31.5 million in the same period last year. The R&D division revenue increase was driven by revenue recognition on the upfront payment from AbbVie in the global collaboration on GLPG0634, the amendment announced in April 2013 for extended scope of the Phase 2B program, and the achievement of significant milestone payments from the other alliances. The R&D division reported an EBITDA loss before intersegment and IFRS adjustments of €1.3 million, compared to €8.3 million in the first six months of 2012. R&D expenses for the Group in the first half-year of 2013 were €48.0 million compared to €35.9 M in 2012. This increase is mainly due to outsourcing costs related to the GLPG0634 franchise, which was as expected with the larger Phase 2B program.

Service operations performance

Services external revenues amounted to €28.4 million in the first half of 2013, compared to €32.9 million in the same period last year. Normalizing for the closure and relocation of the Basel site activities last year and the Cangenix acquisition this year, external service revenues for the running business were €28.0 million, compared to €29.4 million in the same period last year.

To augment Argenta's ability to design new drugs and fill a growing client need, Galapagos acquired Cangenix, a structure-based drug discovery company. BioFocus extended its collaboration with The Michael J. Fox Foundation for optimization of agents for disease specific biomarkers. Argenta signed a new collaboration with Antabio for the identification of novel anti-bacterial agents and discovery of a development candidate. Furthermore, Argenta announced an integrated drug discovery collaboration with Boehringer Ingelheim in which Argenta will apply its extensive respiratory drug discovery services.

The EBITDA before intersegment and IFRS adjustments for the service operations over the first six months of the year was €3.0 million, compared to €5.7 million last year. Gross margins of the service operations were 31%, compared to 34% in the first half last year. Profitability of the Services unit is traditionally lower in the first half of the year.

Corporate developments

The AGM appointed Katrine Bosley to the Board of Directors to replace Ferdinand Verdonck. As a result of a warrant exercise a total of 197,581 new shares were issued and Galapagos NV's share capital increased by €1,181,926. Galapagos completed a private placement of 2,696,831 new ordinary shares, raising €54 million (€52.8 million net proceeds) with primarily US institutional investors, bringing the total number of shares outstanding as of 30 June 2013 to 29,665,159. NYSE Liffe, the Europe-based derivatives business of NYSE Euronext (NYX), added options on the shares of Galapagos. The options are available on the Brussels derivatives market of NYSE Liffe under the ticker GLS.

Liquid assets position

Galapagos' cash and cash equivalents amounted to €136.7 million on 30 June 2013. The Company's liquid asset position of €150.3 million on 30 June 2013 (€115.4 million at year end 2012) included €13.6 million in alliance related receivables for which revenues were recorded in H1 2013, and payment was received in Q3 2013. A net increase of €42.1 million in cash and cash equivalents was recorded during the first half of 2013, compared to an increase of €90.1 million in the same period last year. The increase this year is due to the €52.8 million net proceeds from a private placement in April 2013. The increase last year was due to the collection of the $150 million (€112 million) cash upfront payment made by AbbVie in the collaboration on GLPG0634. Furthermore, Galapagos' balance sheet holds an unconditional and unrestricted receivable from the French government (Crédit d'Impôt Recherche)[1] now amounting to €28 million, payable in four yearly tranches starting in early 2014.

Company outlook for the second half and full year 2013

The Phase 2B clinical study in RA with GLPG0634 started in the second quarter of 2013, on track to delivering the 12-week data to AbbVie in late 2014 and 24-week data in early 2015. The Company expects to make significant progress in both partnered and non-partnered R&D programs as the clinical pipeline continues to mature across a broad range of therapeutic areas, resulting in five Phase 2 and multiple Phase 1 programs by end 2013.

Galapagos management reiterates full-year 2013 financial guidance for Group revenues of €160 million and provides guidance of €100 million in cash at year end.

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

Lastly, we thank you, our shareholders, for your support. Galapagos' strategy is proving to be a viable way to build a large and promising pipeline. Supported by your loyalty, Galapagos continues to grow according to our strategic plan.

Onno van de Stolpe
Chief Executive Officer

Raj Parekh
Chairman

Related party transactions

In the first six months of 2013, no transactions with related parties were made which have material impact on the financial position and results of the Company. There were also no changes to related party transactions disclosed in the Annual Financial Report 2012 that potentially had material impact to the financials of the first six months of 2013.

Declaration of responsible persons

The Board of Directors of Galapagos NV, represented by all its members, declares that, as far as it is aware, the financial statements in this Interim Report, are made up according to the applicable standards for financial statements, and give a true and fair view of the equity, financial position and the results of the Company and its consolidated companies. The Board of Directors of Galapagos NV, represented by all its members, further declares that this letter to the shareholders gives a true and fair view on the information that has to be contained therein.

Risk factors

Management refers to its description of risk factors in the Company's Annual Financial Report 2012, pp.12-17, which remains valid for the first half of 2013. In summary, the principal risks and uncertainties faced by the Galapagos Group include: financial and liquidity risk, foreign exchange risk, reliance on alliance partners and key Service Division customers, competition, reliance on key personnel and intellectual property, and risks associated with drug discovery and (pre-)clinical development. Management also refers to Financial risk management given in the Company's Annual Financial Report 2012, pp. 80-82, which remains valid for the first half of 2013.

Because Galapagos' reporting currency is the euro, the operations and financial position of entities operating in other currencies needs to be translated into euros in the consolidation process. As there is an ongoing fluctuation between these foreign currencies and the euro, a negative impact might occur on the consolidated financial results.

UNAUDITED CONSOLIDATED INCOME STATEMENT AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE

Consolidated income statement

Thousands of €	Group total Jun 2013	Group total Jun 2012
Services revenue	28,353	32,929
R&D revenue	40,067	23,283
Other income	8,999	8,257
Total operating income	**77,419**	**64,469**
Cost of sales	-20,117	-24,982
R&D Expenditure	-47,970	-35,860
General and administrative costs	-12,897	-11,902
Sales and marketing expenses	-1,051	-1,052
Restructuring and integration costs	-614	-353
Result on liquidation		-2,948
Operating profit/loss (-)	**-5,230**	**-12,628**
Finance income	843	1,568
Finance cost	-1,045	-740
Profit/loss (-) before tax	**-5,431**	**-11,800**
Taxes	63	453
Net profit/loss (-)	**-5,368**	**-11,347**
Net profit/loss (-) attributable to:		
Owners of the parent	-5,368	-11,347
Earnings/loss (-) per share	**-0.19**	**-0.43**

Consolidated statement of comprehensive income

Thousands of €	Group total Jun 2013	Group total Jun 2012
Profit/loss (-) for the period	**-5,368**	**-11,347**
Exchange difference arising on translating of foreign operations	-150	3,164
Actuarial gains or losses (-) related to pension liabilities	-454	
Other comprehensive income	**-604**	**3,164**
Total comprehensive income attributable to:		
Owners of the parent	-5,972	-8,183

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

Thousands of €	30 Jun 2013	31 Dec 2012
NON-CURRENT ASSETS	**108,189**	**102,602**
Goodwill	39,240	37,667
Intangible assets	8,528	9,424
Property, plant and equipment	17,273	18,099
Deferred tax assets	1,667	1,705
Non-Current tax receivables	41,253	35,288
Available for sale financial assets and other non-current assets	229	419
CURRENT ASSETS	**168,039**	**132,727**
Inventories	270	204
Trade and other receivables	26,278	32,494
Current tax receivables	262	188
Cash and cash equivalents	136,709	94,647
Other current assets	4,520	5,194
TOTAL ASSETS	**276,228**	**235,329**

Equity and liability

Thousands of €	30 Jun 2013	31 Dec 2012
TOTAL EQUITY	**168,012**	**118,447**
Share capital	154,372	139,347
Share premium account	112,431	72,876
Translation differences	844	994
Accumulated losses	-99,635	-94,770
TOTAL LIABILITIES	**108,216**	**116,882**
NON-CURRENT LIABILITIES	**8,922**	**7,868**
Pension liabilities	2,489	2,035
Provisions	640	676
Deferred tax liabilities	2,566	2,624
Finance lease liabilities	282	165
Other non-current liabilities	2,946	2,367
CURRENT LIABILITIES	**99,294**	**109,014**
Provisions	164	176
Finance lease liabilities	246	240
Trade and other payables	20,449	22,093
Current tax payable	36	3
Accrued charges	2,883	2,893
Deferred income	75,517	83,608
TOTAL LIABILITIES AND EQUITY	**276,228**	**235,329**

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE

Thousands of €	30 Jun 2013	30 Jun 2012
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**94,647**	**32,555**
Result from operations	-5,230	-12,628
Adjustments for:		
Depreciation of property, plant and equipment	3,079	3,451
Amortization of intangible fixed assets	960	1,390
Inventories write off	-1	-3
Exchange gain/loss (-) on translation of net assets of subsidiary	1,055	51
Share based compensation	955	892
Gain (-) / Loss (+) on disposal of business		2,948
Gain (-) / Loss (+) on disposal of fixed assets		-42
Increase/Decrease (-) provisions	-17	-347
Operating cash flows before movements in working capital	**801**	**-4,288**
Increase (-)/Decrease in inventories	-60	-15
Increase (-)/Decrease in receivables	933	7,162
Increase/Decrease (-) in payables	-9,822	88,495
Cash generated/used (-) in operations	**-8,149**	**91,354**
Interest paid and other financial costs	-520	-86
Taxes		-91
NET CASH FLOWS GENERATED/USED (-) IN OPERATING ACTIVITIES	**-8,669**	**91,177**
Purchase of property, plant and equipment	-2,205	-2,958
Purchase of and expenditure in intangible fixed assets	-93	-577
Proceeds from disposal of property, plant and equipment	56	55
Acquisitions (-), disposables (+) of subsidiaries, associates or joint ventures, net of cash acquired	-1,152	
NET CASH USED IN INVESTING ACTIVITIES	**-3,393**	**-3,480**
Repayment of obligations under finance leases and other debts	-169	-202
Proceeds of Capital and Share premium increases, net of issue costs	54,580	1,259
Interest received and other financial income	519	787
NET CASH GENERATED/USED (-) IN FINANCING ACTIVITIES	**54,930**	**1,844**
EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS	**-805**	**518**
INCREASE/DECREASE (-) IN CASH AND CASH EQUIVALENTS	**42,062**	**90,059**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**136,709**	**122,613**

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Thousands of €	Share capital	Share premium account	Translation differences	Accumulated losses	Total
Balance at 1 January 2012	**137,460**	**72,021**	**35**	**-91,140**	**118,376**
Net result				-5,721	-5,721
Other comprehensive income			959		959
Total comprehensive income			**959**	**-5,721**	**-4,762**
Share based compensation				2,086	2,086
Exercise warrants	1,887	855			2,742
Other				5	5
Balance at 31 December 2012	**139,347**	**72,876**	**994**	**-94,770**	**118,447**
Net result				-5,368	-5,368
Other comprehensive income			-150	-454	-604
Total comprehensive income			**-150**	**-5,822**	**-5,972**
Share based compensation				955	955
Issue of share capital	13,468	39,346			52,814
Exercise warrants	1,557	209			1,766
Other				2	2
Balance at 30 June 2013	**154,372**	**112,431**	**844**	**-99,635**	**168,012**

Galápagos

UNAUDITED SEGMENT REPORTING FOR THE SIX MONTHS ENDED 30 JUNE

2013

	Thousands of €	R&D	Services	Intersegment eliminations	Unallocated costs	Galapagos Group total
MANAGEMENT REPORTING	R&D revenue	37,693				37,693
	Service revenue	2,374	28,427			30,800
	Other Income	4,876	45			4,921
	Grant Income	2,135				2,135
	External revenue	**47,078**	**28,471**			**75,550**
	Internal revenue	2,073	862	-2,935		
	Total revenue	**49,151**	**29,334**	**-2,935**		**75,550**
	Cost of sales	-3,226	-20,550	766		-23,010
	Gross Margin	**45,925**	**8,784**	**-2,169**		**52,540**
	Opex	**-49,624**	**-7,140**	**2,052**	**-3,292**	**-58,004**
	MR EBIT	**-3,699**	**1,644**		**-3,292**	**-5,464**
	MR EBITDA	**-1,325**	**3,003**		**-3,292**	**-1,731**
IFRS - RECURRING	R&D Tax Credits	2,016				2,016
	Discounting of CIR receivables	-81				-81
	Transfer Pricing Effect	422	-422			
	Warrants	-602	-353			-955
	IFRS Amortisation	247	-549			-302
	Other effects	17	153			170
	IFRS EBIT - RECURRING	**-1,680**	**473**		**-3,292**	**-4,616**
IFRS - NON RECURRING	Restructuring costs	-161	-453			-614
	IFRS EBIT	**-1,841**	**20**		**-3,292**	**-5,230**

2012

	Thousands of €	R&D	Services	Intersegment eliminations	Unallocated costs	Galapagos Group total
MANAGEMENT REPORTING	R&D revenue	20,702				20,702
	Service revenue	2,600	32,927			35,527
	Other Income	5,592	5			5,596
	Grant Income	969				969
	External revenue	**29,862**	**32,931**			**62,794**
	Internal revenue	2,167	1,677	-3,843		
	Total revenue	**32,029**	**34,608**	**-3,843**		**62,794**
	Cost of sales	-3,020	-23,063	1,449		-24,634
	Gross Margin	**29,009**	**11,545**	**-2,395**		**38,159**
	Opex	**-39,521**	**-7,450**	**2,395**	**-2,982**	**-47,558**
	MR EBIT	**-10,512**	**4,096**		**-2,982**	**-9,399**
	MR EBITDA	**-8,320**	**5,745**		**-2,982**	**-5,558**
IFRS - RECURRING	R&D Tax Credits	1,694				1,694
	Reversal of Novartis revenue recognition	-98				-98
	Transfer Pricing Effect	1,011	-1,011			
	Warrants	-554	-338			-892
	IFRS Amortisation	214	-1,212			-998
	Other effects	151	214			365
	IFRS EBIT - RECURRING	**-8,094**	**1,748**		**-2,982**	**-9,328**
IFRS - NON RECURRING	Loss on liquidation of Cambridge Drug Discovery Holdings Ltd		-2,948			-2,948
	Restructuring costs		-353			-353
	IFRS EBIT	**-8,094**	**-1,553**		**-2,982**	**-12,629**

COMPANY ACQUISITIONS

Condensed balance sheet Cangenix at Acquisition Date

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

EXPLANATORY NOTES FOR GALAPAGOS' UNAUDITED SIX MONTHS RESULTS ENDED 30 JUNE 2013

Accounting policies

The accounting policies and methods of computation in the interim financial statements are identical to those used in the most recent annual financial statements, with exception of the new standards described below.

New standards

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2012, except for the adoption of new Standards and Interpretations, noted below:

Standards and interpretations applicable for the annual period beginning on 1 January 2013

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

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

- IFRS 9 *Financial Instruments and subsequent amendments* (applicable for annual periods beginning on or after 1 January 2015, but not yet endorsed in EU)
- IFRS 10 *Consolidated Financial Statements* (applicable for annual periods beginning on or after 1 January 2014)
- IFRS 11 *Joint Arrangements* (applicable for annual periods beginning on or after 1 January 2014)
- IFRS 12 *Disclosures of Interests in Other Entities* (applicable for annual periods beginning on or after 1 January 2014)
- IAS 27 *Separate Financial Statements* (applicable for annual periods beginning on or after 1 January 2014)
- IAS 28 Investments in Associates and Joint Ventures (applicable for annual periods beginning on or after 1 January 2014)
- Amendments to IFRS 10, IFRS 12 and IAS 27 – *Consolidated Financial Statements and Disclosure of Interests in Other Entities: Investment Entities* (applicable for annual periods beginning on or after 1 January 2014, but not yet endorsed in EU)
- Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

(applicable for annual periods beginning on or after 1 January 2014, but not yet endorsed in EU)

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

The nature and the effect of these changes were taken into consideration, but the above amendments did not affect the interim condensed consolidated financial statements, except for IAS19R (Employee Benefits) for which the nature and effects are described below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IAS 19 *Employee Benefits* (Revised - IAS 19R):
IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. In case of the Group, the transition to IAS 19R resulted in recognizing €0.5 million of actuarial losses related to the French defined benefit plan obligations in retained earnings through OCI, without impacting the income statement.

Operating segments

For management purposes, the Group is divided into two operating divisions: R&D and Service operations. These divisions are the basis on which the Group reports its primary segment information.

R&D operations

Galapagos' R&D operations are specialized in the discovery and development of small molecules. Galapagos funds these programs through alliance payments from its pharma partners, cash generated by its profitable service operations, licensing agreement from its proprietary pipeline, and its cash reserves. Many of these programs are based on proprietary disease-modifying drug targets in disease areas for which there is a need for safe and effective medicines.

Service operations

Galapagos' service operations offer target-to-drug discovery products and services to pharmaceutical and biotech companies and to patient foundations, encompassing target discovery and validation, screening and drug discovery through to delivery of pre-clinical candidates. The service division has two operating units: BioFocus, which Galapagos has operated since 2005, and Argenta, which Galapagos acquired in February 2010. Galapagos operates these units in parallel, with both providing additional capacity and drug discovery capabilities to the Galapagos Group.

The operational results of these segments are evaluated monthly at the Executive Committee meetings for resource allocation and performance measurement. Intersegment sales are charged at prevailing rates based on a tax transfer pricing study.

DETAILS OF THE UNAUDITED HALF-YEAR 2013 RESULTS

Revenues

Galapagos' revenues for the first half of 2013 amount to €77.4 million compared to €64.5 million in the same period of 2012. The R&D division reported external revenues of €49.1 million, compared to €31.5 million in the same period last year. The R&D division revenue increase was driven by revenue recognition on the upfront payment from AbbVie in the global collaboration on GLPG0634, the amendment announced in April 2013 for extended scope of the Phase 2B program, and the achievement of significant milestone payments from the other alliances. Services external revenues amount to €28.4 million in the first half of 2013, compared to €32.9 million in the same period last year. Normalizing for the closure and relocation of the Basel site activities last year and the Cangenix acquisition this year, external service revenues for the running business were €28.0 million compared to €29.4 million in the same period last year.

Results

The group net loss for the first half of 2013 was €5.4 million, an improvement of 52% compared to a loss of €11.3 million for the first six months of 2012.

The EBITDA before intersegment and IFRS adjustments for the service operations over the first six months of the year was €3.0 million, compared to €5.7 million last year. Gross margins of the service operations were 31%, compared to 34% in the first half last year. Profitability of the Services unit is traditionally lower in the first half of the year.

The R&D division reported an EBITDA loss before intersegment and IFRS adjustments of €1.3 million, compared to €8.3 million in the first six months of 2012. R&D expenses for the Group in the first half-year of 2013 were €48.0 million compared to €35.9 M in 2012. This increase is mainly due to outsourcing costs related to the GLPG0634 franchise, which was as expected with the larger Phasse 2B program.

General and administrative (G&A) expenses of the Group were €12.9 million in the first half of 2013 (17% of Group revenues), compared to €11.9 million (18% of Group revenues) in the first half of 2012.

Liquid assets position

Galapagos' cash and cash equivalents amounted to €136.7 million on 30 June 2013. The Company's liquid asset position of €150.3 million on 30 June 2013 (€115.4 million at year end 2012) included €13.6 million in alliance related receivables for which revenues were recorded in H1 2013, and payment was received in Q3 2013. A net increase of €42.1 million in cash and cash equivalents was recorded during the first half of 2013, compared to an increase of €90.1 million in the same period last year. The increase this year is due to the €52.8 million net proceeds from a private placement in April 2013. The increase last year was due to the collection of the $150 million (€112 million) cash upfront payment made by AbbVie in the collaboration on GLPG0634. Furthermore, Galapagos' balance sheet holds an unconditional and unrestricted receivable from the French government (Crédit d'Impôt Recherche)[1] now amounting to €28 million, payable in four yearly tranches starting in early 2014.

Disposal of subsidiary

On 4 January 2013 Galapagos acquired Cangenix Ltd which is located in Canterbury, UK. Cangenix is a structure-based drug discovery company and has been added to the Argenta service offering. It was formed in 2011 by scientists from the Structural Biology and Biophysics group at Pfizer Sandwich, UK. Recognized as experts in the field, the Cangenix team brings over 70 years of combined experience in the application of protein crystallography and biophysical techniques to drug discovery. Cangenix contributed €0.4 million of revenues for the period between the date of acquisition and 30 June 2013. In the 9 months reference period prior to the date of acquisition, Cangenix reported €0.7 million of revenues. The consideration paid for Cangenix in the course of 2013 amounted to €1.2 million, including €0.1 million of cash and cash equivalents acquired. A deferred consideration of €0.5 million has been recognized on the balance sheet and is payable after two years upon achievement of certain conditions. The goodwill arising on the acquisition of Cangenix Ltd amounts to €1.6 million and is mainly related to the know-how and the customer database which are brought in. The allocation of this goodwill through a Purchase Price Allocation (PPA) exercise is being carried out and will be finalized before year end 2013 in line with IFRS 3.

Corporate information

Registered office

Galapagos NV has its registered office at Generaal De Wittelaan L11 A3, 2800 Mechelen, Belgium.

Business number

Galapagos NV is registered with the Register of Legal Entities ("Rechtspersonenregister") under company number 0466.460.429. Galapagos is registered in Mechelen, Belgium.

Legal form

Galapagos NV is a limited liability company ("Naamloze Vennootschap") incorporated under Belgian law. It has the capacity of a company that has called upon and calls upon public savings. Galapagos NV is incorporated for an unlimited duration.

Listings

Euronext Brussels GLPG
Euronext Amsterdam GLPG
OTC Pink Sheets GLPYY

Financial calendar 2013

3Q13 interim update	15 November 2013
Full year results 2013	7 March 2014
Annual shareholders' meeting	29 April 2014

Financial year

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

Statutory auditor

Deloitte Bedrijfsrevisoren, represented by Mr Gino Desmet
Berkenlaan 8b
1931 Diegem, Belgium

Availability of the Interim Report

This document is available to the public free of charge and upon request:
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For informational purposes, an electronic version of the Interim Report 2013 is available on the website of Galapagos, www.glpg.com/index.php/companyoverview/financialskey-financials/financial-reports.

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