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## FORWARD-LOOKING STATEMENTS

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

# Letter to our shareholders

## **Dear Shareholder,**

Galapagos delivered strong results in the first half year, executing as planned on its growth strategy to become a leading European biotechnology company. Following the excellent clinical results with GLPG0634 in rheumatoid arthritis patients announced late last year, the Company went on to announce a global collaboration with Abbott to develop and commercialize GLPG0634 in autoimmune diseases earlier this year. The R&D division currently has four programs in clinical development and more than 30 in pre-clinical and discovery stages. Our Service Division continued to deliver innovation to clients, demonstrating overall leadership in premium drug discovery services. The Galapagos Group recorded revenues of €64.5 M for the first six months and ended the period with a cash balance of €122.6 M. With significant R&D revenues and a continued strong performance of the Service Division in 2012 expected in the second half of the year, management reiterates 2012 full year financial guidance which includes Group revenues of €150 M.

## **Success with 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. Galapagos reported in November 2011 that GLPG0634 showed excellent efficacy and safety in a Phase II Proof-of-Concept study in rheumatoid arthritis patients.

On 29 February 2012, Galapagos and Abbott announced a global collaboration to develop and commercialize GLPG0634 to treat autoimmune diseases. Under the terms of the agreement, Abbott made an initial upfront payment of \$150 million for rights related to the global collaboration. This upfront payment will be recognized over 30 months and contribute to Galapagos' profitability the coming three years. Upon successful completion of the rheumatoid arthritis Phase II studies to be completed by Galapagos, Abbott will license the program for a one-time fee of \$200 million if the studies meet certain pre-agreed criteria. Abbott will assume sole responsibility for Phase III clinical development and will have global manufacturing rights. Pending achievement of certain developmental, regulatory, commercial and sales-based milestones, Galapagos will be eligible to receive additional milestone payments from Abbott, potentially amounting to \$1.0 billion, in addition to tiered double-digit royalties on net sales upon commercialization. Furthermore, Galapagos retains co-promotion rights in the Benelux.

In May 2012, Galapagos initiated a Phase IIa study with GLPG0634. This study enrolls 90 patients with active rheumatoid arthritis, showing an insufficient response to the standard-of-care treatment, methotrexate (MTX). The aim is to evaluate the efficacy, safety, tolerability and pharmacokinetics of once-daily dosing of 30 to 300mg of GLPG0634 in treating rheumatoid arthritis. Five groups of 18 patients with active disease take the once-daily regimen of GLPG0634 or placebo for a period of four weeks, while all continue to take their stable background therapy of MTX. The primary efficacy endpoint will be the ACR20 response rate, the standard primary endpoint for early response in RA clinical studies. Secondary endpoints include improvements in DAS28, ACR50 and ACR70 rates. Galapagos has opened centers in multiple sites across 4 different countries (Hungary, Moldova, Russia, and Ukraine). Recruitment for the study has been completed and is anticipated to report topline data by the end of 2012.

### **Progress in other R&D programs**

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 GPR43 (also known as FFAR2). Overactivity 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 GPR43 to be evaluated clinically. In this First-in-Human study, healthy volunteers were given increasing single doses of candidate drug GLPG0974 by oral administration. Encouraging safety data showed no relevant safety findings, including adverse events, changes in vital signs or laboratory parameters. The favourable PK profile and the highly significant changes in neutrophil biomarkers are consistent with once- or twice-daily oral dosing. Galapagos intends to complete Phase I studies and determine the Phase II clinical strategy before year end 2012.

GLPG0492 is an orally available selective androgen receptor modulator (SARM) which was tested in a Phase I Proof of Mechanism study to assess the effect on muscle function in healthy volunteers. A biomarker effect similar to that of Oxandrolone was observed, but the data were insufficient for Galapagos to pursue GLPG0492 further in cachexia.

In November 2008, Galapagos and MorphoSys entered an antibody alliance aimed at discovering and developing antibody therapies based on novel modes of action in the area of immuno-inflammation disorders. Neutralizing antibodies with high specificity towards this target have now been tested in two gold standard, disease-specific in vivo models – rheumatoid arthritis and COPD - and achieved positive Proof of Concept. A joint program for generation of a fully human antibody directed against this target has been initiated. Pre-clinical candidate selection could be achieved by mid 2013.

In the alliance with GSK in anti-infectives, Galapagos discovered a new class of compounds with a novel mode-of-action by inhibiting DNA polymerase III, an enzyme essential for bacterial DNA replication. The compounds show activity in different MRSA in vivo models and thus may offer a new approach to treat resistant S. Aureus strains, with potential for broader spectrum application. GSK and Galapagos have ended the anti-infectives alliance, and the antibacterial assets have been returned to Galapagos, including the DNA polymerase III mode-of-action programs.

### **R&D division financial result**

The R&D division recorded revenues of €34.5 M (including €2.4 M intersegment revenues), compared to €19.3 M in the same period last year. R&D division revenues benefited from pro rata revenue recognition on the upfront payment from Abbott in the global collaboration on GLPG0634 announced on 29 February. The R&D division reported an EBITDA loss of €6.3 M, compared to an EBITDA loss of €29.0 M the first six months of 2011. R&D expenses for the Group in the first half-year of 2012 were €35.9 M compared to €42.4 M in the same period of 2011.

### **Service Division performance**

Total services revenues amounted to €34.6 M (including €1.7 M in intersegment revenues), compared to €30.0 M (including €6.0 M in intersegment revenues) in the same period last year. Growth of 37% in external revenues confirms the strength of the Service Division in the premium drug discovery services segment. BioFocus signed new collaborations with Ono Pharma for target discovery in allergic diseases and with Almirall to deliver pre-clinical candidates in respiratory disease. Furthermore, BioFocus and Argenta announced a collaboration with AstraZeneca to find new compounds in respiratory and inflammatory disease. BioFocus initiated closure of the Basel site in order to increase efficiency and capture more synergies with high-throughput screening activities in the UK.

The EBITDA for the Service Division over the first six months of the year was €5.7 M, compared to €3.7 M last year, showing an improvement of 54%. Gross margins of the continuing Service Division were 34%, compared to 33% last year.

### **Corporate developments**

Galapagos received shareholder notifications from Abingworth (4.9%), Capital Research and Management (5.1%), and Baker Brothers (6.5%). As a result of warrant exercises in March and June 2012 a total of 156,113 new shares were issued and Galapagos NV's share capital increased by €1,259,915.34 (including issuance premium), bringing the total number of shares outstanding as of 30 June 2012 to 26,577,554. Dr Piet Wigerinck was appointed Chief Scientific Officer.

### **Group result and cash position**

A net increase of €90.1 M in cash and cash equivalents was recorded during the first half of 2012, compared to an increase of €9.4 M in the same period last year. This increase is due to the collection of the \$150 M (€112 M) cash payment from Abbott. Galapagos' cash and cash equivalents amount to €122.6 M on 30 June 2012.

### **Company outlook for the second half and full year 2012**

In the past, Galapagos delivered the majority of its full-year revenues in the second half of the year. After good results in the first half of 2012, and expecting significant R&D revenues and a continued strong performance of the service operations in the second half of the year, management reiterates full-year 2012 financial guidance: Group revenues of €150 M, a positive operational and net result, and a year-end cash position of at least €130 million by the end of 2012.

The Company advances toward achievement of its strategic objectives for 2012:

- Deliver topline Phase 2a results for GLPG0634
- Increase cash and profit contribution of Service division
- Meet financial guidance for the full year

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. Through 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 2012, 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 2011 that potentially had material impact to the financials of the first six months of 2012.

### **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 2011, pp.11-16, which remains valid for the first half of 2012. 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 2011, pp. 78-80, which remains valid for the first half of 2012.

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

|   | Continuing operations | Continuing operations | Discontinued operations | Group total    | Group total    |
|---|-----------------------|-----------------------|-------------------------|----------------|----------------|
| Thousands of €                              | Jun 2012              | Jun 2011              | Jun 2011                | Jun 2012       | Jun 2011       |
| Services revenue                            | 32,929                | 23,991                | 2,418                   | 32,929         | 26,409         |
| R&D revenue                                 | 23,283                | 9,158                 |                         | 23,283         | 9,158          |
| Other income                                | 8,257                 | 6,580                 |                         | 8,257          | 6,580          |
| <b>Total operating income</b>               | <b>64,469</b>         | <b>39,729</b>         | <b>2,418</b>            | <b>64,469</b>  | <b>42,147</b>  |
| Cost of sales                               | -24,982               | -17,961               | -1,832                  | -24,982        | -19,793        |
| R&D Expenditure                             | -35,860               | -42,383               |                         | -35,860        | -42,383        |
| General and administrative costs            | -11,902               | -10,968               | -602                    | -11,902        | -11,570        |
| Sales and marketing expenses                | -1,052                | -1,150                |                         | -1,052         | -1,150         |
| Restructuring and integration costs         | -353                  |                       |                         | -353           |                |
| Result on liquidation                       | -2,948                |                       |                         | -2,948         |                |
| Result on divestment                        |                       | 5,927                 | -3,043                  |                | 2,884          |
| <b>Operating profit/loss (-)</b>            | <b>-12,628</b>        | <b>-26,806</b>        | <b>-3,058</b>           | <b>-12,628</b> | <b>-29,865</b> |
| Finance income                              | 1,568                 | 440                   | 28                      | 1,568          | 468            |
| Finance cost                                | -740                  | -1,669                | -4                      | -740           | -1,673         |
| <b>Profit/loss (-) before tax</b>           | <b>-11,800</b>        | <b>-28,035</b>        | <b>-3,034</b>           | <b>-11,800</b> | <b>-31,070</b> |
| Taxes                                       | 453                   | 293                   |                         | 453            | 293            |
| <b>Net profit/loss (-)</b>                  | <b>-11,347</b>        | <b>-27,742</b>        | <b>-3,034</b>           | <b>-11,347</b> | <b>-30,777</b> |
| <b>Net profit/loss (-) attributable to:</b> |                       |                       |                         |                |                |
| Owners of the parent                        | -11,347               | -27,742               | -3,034                  | -11,347        | -30,777        |
| <b>Earnings/loss (-) per share</b>          | <b>-0.43</b>          | <b>-1.05</b>          | <b>-0.11</b>            | <b>-0.43</b>   | <b>-1.17</b>   |

### Consolidated statement of comprehensive income

|  | Continuing operations | Continuing operations | Discontinued operations | Group total    | Group total    |
|--|-----------------------|-----------------------|-------------------------|----------------|----------------|
| Thousands of €   | Jun 2012              | Jun 2011              | Jun 2011                | Jun 2012       | Jun 2011       |
| <b>Profit/loss (-) for the period</b>                            | <b>-11,347</b>        | <b>-27,742</b>        | <b>-3,034</b>           | <b>-11,347</b> | <b>-30,777</b> |
| Exchange difference arising on translating of foreign operations | 3,164                 | 231                   | -956                    | 3,164          | -725           |
| <b>Other comprehensive income</b>                                | <b>3,164</b>          | <b>231</b>            | <b>-956</b>             | <b>3,164</b>   | <b>-725</b>    |
| <b>Total comprehensive income attributable to:</b>               |                       |                       |                         |                |                |
| Owners of the parent   | -8,183                | -27,511               | -3,990                  | -8,183         | -31,502        |

## UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### Assets

| Thousands of €   | 30 Jun 2012    | 31 Dec 2011    |
|--|----------------|----------------|
| <b>NON-CURRENT ASSETS</b>  | <b>99,601</b>  | <b>95,493</b>  |
| Goodwill   | 38,314         | 38,880         |
| Intangible assets  | 9,821          | 10,614         |
| Property, plant and equipment                                    | 19,253         | 19,524         |
| Deferred tax assets  | 2,272          | 2,166          |
| Non-Current tax receivables                                      | 28,675         | 23,081         |
| Available for sale financial assets and other non-current assets | 1,265          | 1,228          |
| <b>CURRENT ASSETS</b>  | <b>143,735</b> | <b>65,562</b>  |
| Inventories  | 517            | 502            |
| Trade and other receivables                                      | 16,083         | 30,010         |
| Cash and cash equivalents  | 122,613        | 32,555         |
| Other current assets   | 4,523          | 2,495          |
| <b>TOTAL ASSETS</b>  | <b>243,337</b> | <b>161,055</b> |

### Equity and liability

| Thousands of €                      | 30 Jun 2012    | 31 Dec 2011    |
|-------------------------------------|----------------|----------------|
| <b>TOTAL EQUITY</b>                 | <b>112,339</b> | <b>118,376</b> |
| Share capital                       | 138,301        | 137,460        |
| Share premium account               | 72,439         | 72,021         |
| Translation differences             | 3,199          | 35             |
| Accumulated losses                  | -101,599       | -91,140        |
| <b>TOTAL LIABILITIES</b>            | <b>130,997</b> | <b>42,679</b>  |
| <b>NON-CURRENT LIABILITIES</b>      | <b>6,630</b>   | <b>7,319</b>   |
| Pension liabilities                 | 1,426          | 1,426          |
| Provisions                          | 664            | 786            |
| Deferred tax liabilities            | 1,976          | 2,403          |
| Finance lease liabilities           | 273            | 451            |
| Other non-current liabilities       | 2,291          | 2,253          |
| <b>CURRENT LIABILITIES</b>          | <b>124,367</b> | <b>35,360</b>  |
| Provisions                          | 211            | 393            |
| Finance lease liabilities           | 406            | 425            |
| Trade and other payables            | 15,739         | 18,068         |
| Current tax payable                 | 556            | 616            |
| Other current liabilities           | 107,455        | 15,857         |
| <b>TOTAL LIABILITIES AND EQUITY</b> | <b>243,337</b> | <b>161,055</b> |

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

| Thousands of €  | 30 Jun 2012    | 30 Jun 2011    |
|---|----------------|----------------|
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>   | <b>32,555</b>  | <b>40,397</b>  |
| Result from operations  | -12,628        | -29,865        |
| <b>Adjustments for:</b>   |                |                |
| Depreciation of property, plant and equipment   | 3,451          | 4,216          |
| Amortization of intangible fixed assets   | 1,390          | 2,353          |
| Inventories write off   | -3             |                |
| Exchange gain/loss (-) on translation of net assets of subsidiary                                     | 51             | -1,516         |
| Share based compensation  | 892            | 746            |
| Loss/gain (-) on disposal of business   | 2,948          | -2,885         |
| Loss/gain (-) on disposal of fixed assets   | -42            |                |
| Increase/Decrease (-) provisions  | -347           | 37             |
| <b>Operating cash flows before movements in working capital</b>                                       | <b>-4,288</b>  | <b>-26,914</b> |
| Increase (-)/Decrease in inventories  | -15            | 371            |
| Increase (-)/Decrease in receivables, other current assets  | 7,813          | 37,824         |
| Increase/Decrease (-) in payables, other current liabilities  | 88,495         | -10,185        |
| Increase/Decrease (-) in provisions   |                | -1             |
| <b>Cash generated/used (-) in operations</b>  | <b>92,005</b>  | <b>1,095</b>   |
| Interest paid and other financial costs   | -86            | -251           |
| Taxes   | -91            | -94            |
| <b>NET CASH FLOWS GENERATED/USED (-) IN OPERATING ACTIVITIES</b>                                      | <b>91,828</b>  | <b>750</b>     |
| Purchase of property, plant and equipment   | -2,958         | -1,882         |
| Purchase of and expenditure in intangible fixed assets  | -577           | -96            |
| Proceeds from disposal of property, plant and equipment   | 55             |                |
| Acquisitions (-), disposables of subsidiaries (+), associates or joint ventures, net of cash acquired |                | 9,442          |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>  | <b>-3,480</b>  | <b>7,464</b>   |
| Repayment of obligations under finance leases and other debts   | -202           | -171           |
| Proceeds of Capital and Share premium increases, net of issue costs                                   | 1,259          | 541            |
| Interest received and other financial income  | 136            | 142            |
| <b>NET CASH GENERATED/USED (-) IN FINANCING ACTIVITIES</b>  | <b>1,193</b>   | <b>512</b>     |
| <b>EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS</b>                               | <b>518</b>     | <b>722</b>     |
| <b>INCREASE/DECREASE (-) IN CASH AND CASH EQUIVALENTS</b>   | <b>90,059</b>  | <b>9,448</b>   |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>   | <b>122,613</b> | <b>49,845</b>  |

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

| Thousands of €                     | Share capital  | Share premium<br>account | Translation<br>differences | Accumulated<br>losses | Total          |
|------------------------------------|----------------|--------------------------|----------------------------|-----------------------|----------------|
| <b>Balance at 1 January 2011</b>   | <b>137,122</b> | <b>71,806</b>            | <b>-343</b>                | <b>-60,079</b>        | <b>148,506</b> |
| Net result                         |                |                          |                            | -33,097               | -33,097        |
| Other comprehensive income         |                |                          | 378                        |                       | 378            |
| <b>Total comprehensive income</b>  |                |                          | <b>378</b>                 | <b>-33,097</b>        | <b>-32,719</b> |
| Share based compensation           |                |                          |                            | 2,040                 | 2,040          |
| Exercise warrants                  | 338            | 215                      |                            |                       | 553            |
| Other                              |                |                          |                            | -4                    | -4             |
| <b>Balance at 31 December 2011</b> | <b>137,460</b> | <b>72,021</b>            | <b>35</b>                  | <b>-91,140</b>        | <b>118,376</b> |
| Net result                         |                |                          |                            | -11,347               | -11,347        |
| Other comprehensive income         |                |                          | 3,164                      |                       | 3,164          |
| <b>Total comprehensive income</b>  |                |                          | <b>3,164</b>               | <b>-11,347</b>        | <b>-8,183</b>  |
| Share based compensation           |                |                          |                            | 892                   | 892            |
| Exercise warrants                  | 841            | 418                      |                            |                       | 1,259          |
| Other                              |                |                          |                            | -3                    | -3             |
| <b>Balance at 30 June 2012</b>     | <b>138,301</b> | <b>72,439</b>            | <b>3,199</b>               | <b>-101,599</b>       | <b>112,339</b> |

## UNAUDITED SEGMENT REPORTING FOR THE SIX MONTHS ENDED 30 JUNE

### 2012

|                                     | Continuing operations |               |                           | Discontinued operations | Unallocated costs | Galapagos Group total |
|-------------------------------------|-----------------------|---------------|---------------------------|-------------------------|-------------------|-----------------------|
|                                     | R&D                   | Services      | Intersegment eliminations |                         |                   |                       |
| Thousands of €                      |                       |               |                           |                         |                   |                       |
| External revenues                   | 23,283                | 32,929        |                           |                         |                   | 56,212                |
| Other income                        | 8,883                 |               | -626                      |                         |                   | 8,257                 |
| Intersegment sales                  | 2,372                 | 1,683         | -4,055                    |                         |                   |                       |
| <b>Total operating income</b>       | <b>34,538</b>         | <b>34,612</b> | <b>-4,681</b>             |                         |                   | <b>64,469</b>         |
| <b>Gross margin</b>                 | <b>31,517</b>         | <b>11,646</b> | <b>-2,343</b>             |                         |                   | <b>40,820</b>         |
| <b>R&amp;D Expenditure</b>          | <b>-37,532</b>        |               | <b>2,229</b>              |                         |                   | <b>-35,303</b>        |
| General and administrative costs    | -2,054                | -6,541        | 127                       |                         |                   | -8,469                |
| Unallocated G&A costs               |                       |               |                           |                         | -2,982            | -2,982                |
| Sales and marketing expenses        |                       | -1,028        | -13                       |                         |                   | -1,041                |
| <b>EBITA</b>                        | <b>-8,070</b>         | <b>4,076</b>  |                           |                         | <b>-2,982</b>     | <b>-6,976</b>         |
| <b>EBITDA</b>                       | <b>-6,335</b>         | <b>5,725</b>  |                           |                         | <b>-2,982</b>     | <b>-3,592</b>         |
| Depreciation                        | -1,734                | -1,649        |                           |                         |                   | -3,383                |
| Amortization                        | -247                  | -1,212        |                           |                         |                   | -1,459                |
| IFRS adjustments                    | -554                  | -338          |                           |                         |                   | -892                  |
| Restructuring and integration costs |                       | -353          |                           |                         |                   | -353                  |
| Result on liquidation               |                       |               |                           |                         | -2,948            | -2,948                |
| <b>Operating results</b>            | <b>-8,871</b>         | <b>2,173</b>  |                           |                         | <b>-5,930</b>     | <b>-12,628</b>        |

### 2011

|                                  | Continuing operations |               |                           | Discontinued operations | Unallocated costs | Galapagos Group total |
|----------------------------------|-----------------------|---------------|---------------------------|-------------------------|-------------------|-----------------------|
|                                  | R&D                   | Services      | Intersegment eliminations |                         |                   |                       |
| Thousands of €                   |                       |               |                           |                         |                   |                       |
| External revenues                | 9,158                 | 23,991        |                           | 2,418                   |                   | 35,567                |
| Other income                     | 7,260                 | 33            | -713                      |                         |                   | 6,580                 |
| Intersegment sales               | 2,856                 | 5,973         | -8,829                    |                         |                   |                       |
| <b>Total operating income</b>    | <b>19,273</b>         | <b>29,997</b> | <b>-9,542</b>             | <b>2,418</b>            |                   | <b>42,147</b>         |
| <b>Gross margin</b>              | <b>19,273</b>         | <b>9,791</b>  | <b>-7,296</b>             | <b>587</b>              |                   | <b>22,354</b>         |
| <b>R&amp;D Expenditure</b>       | <b>-48,550</b>        |               | <b>6,167</b>              |                         |                   | <b>-42,384</b>        |
| General and administrative costs | -2,560                | -6,845        | 1,149                     | -602                    |                   | -8,858                |
| Unallocated G&A costs            |                       |               |                           |                         | -2,713            | -2,713                |
| Sales and marketing expenses     | -168                  | -962          | -20                       |                         |                   | -1,150                |
| Result on divestment             | 5,034                 | 894           |                           | -3,043                  |                   | 2,885                 |
| <b>Operating results</b>         | <b>-26,971</b>        | <b>2,878</b>  |                           | <b>-3,058</b>           | <b>-2,713</b>     | <b>-29,865</b>        |

## DISPOSAL OF FULLY CONSOLIDATED COMPANIES

### Condensed balance sheet Compound Focus on date of disposal

| Thousands of €                                | Jun 2011      |
|---|---------------|
| <b>Transfer of fully consolidated company</b> |               |
| Fixed assets                                  | 993           |
| Current assets                                | 3,403         |
| <b>Total assets</b>                           | <b>4,396</b>  |
| Equity  | 3,469         |
| Current liabilities                           | 927           |
| <b>Total equity and liabilities</b>           | <b>4,396</b>  |
| Total assets                                  | 4,396         |
| Total liabilities                             | 927           |
| <b>Translation differences</b>                | <b>355</b>    |
| Net assets                                    | 3,114         |
| Goodwill at acquisition                       | 3,500         |
| Costs associated to sale                      | 750           |
| <b>Sell price</b>                             | <b>10,249</b> |
| <b>Gain/loss on sale</b>                      | <b>2,885</b>  |
| <b>Net cash from divestment</b>               | <b>9,442</b>  |

## EXPLANATORY NOTES FOR GALAPAGOS' UNAUDITED SIX MONTHS RESULTS ENDED 30 JUNE 2012

### Accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statement are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2011.

### New standards

The following (amended) standards and interpretations are applicable as of 1 January 2012, none of them has an impact on the financial statements of the Group.

- Amendment IFRS 7: Transfer of financial assets

The following (amended) standards and interpretations were issued and endorsed by the EU but are not yet applicable.

- Amendment of IAS 1 – Items of other comprehensive income (effective date 1/7/2012)
- IAS 19 – Employee benefits (effective date 1/1/2013)

The following (amended) standards and interpretations were published by the IASB but not yet endorsed by the EU:

- Amendment IFRS 1 – Severe hyperinflation and removal of fixed dates for first-time adopters (effective date IASB: 1/7/2011)
- Amendment IAS 12 – Deferred tax- Recovery of underlying assets (effective date IASB: 1/1/2012)
- IFRS 10 – Consolidated financial statements (effective date IASB: 1/1/2013)
- IFRS 11 – Joint arrangements (effective date IASB: 1/1/2013)
- IFRS 12 – Disclosures of involvement with other entities (effective date IASB: 1/1/2013)
- IFRS 13 – Fair value measurement (effective date IASB: 1/1/2013)
- IAS 27 – Separate financial statements (effective date IASB: 1/1/2013)
- IAS 28 – Investments in associates and joint ventures (effective date IASB: 1/1/2013)
- IFRIC 20 – Stripping costs in the production phase of a surface mine (effective date IASB: 1/1/2013)
- Amendment IFRS 1 – Government loans (effective date IASB: 1/1/2013)
- Amendments due to annual improvement project to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34 (effective date IASB: 1/1/2013)
- Amendment IAS 32 – Offsetting financial assets and financial liabilities (effective date IASB: 1/1/2014)
- IFRS 9 – Financial instruments (effective date IASB: 1/1/2015)

### Operating segments

For management purposes, the Group is divided into two operating segments: R&D and Services. These activities form the basis upon which the Group reports its primary segment information.

As of this year segment reporting is presented in a way that reflects the business performance – in line with information presented to the CODM (Chief Operating Decision Maker) being the Executive Committee – as well as the IFRS adjusted operating results. Galapagos decided that EBITA (Earnings Before deduction of Interest, Tax and Amortization) is the best indicator for business performance which is reflected as such in management reporting. Therefore business performance (EBITA) and IFRS results are reported separately as from 2012.



### R&D operations

Galapagos' R&D operations are specialized in the discovery and development of small molecules. Galapagos funds these programs through alliance payments from its pharma partners, cash generated by its profitable service operations, licensing agreements, 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

The Service operations comprise BioFocus and Argenta. Galapagos acquired BioFocus in October 2005 and added to this business through a number of acquisitions in 2006 and 2008. BioFocus offers a full suite of target-to-drug discovery products and services to pharmaceutical and biotech companies and to patient foundations, encompassing target discovery and validation, screening and drug discovery through to delivery of pre-clinical candidates.

Galapagos acquired Argenta in February 2010 and retained this company as a separate operation next to BioFocus. Argenta's contract research, which includes expertise in medicinal chemistry, computer-aided drug discovery, in vitro biology, analytics, in vivo pharmacokinetics, pharmacology and world-leading respiratory models, has a strong reputation for scientific excellence.

BioFocus' compound management business, Compound Focus Inc., was sold to Evotec AG on 1 June 2011.

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 market rates.

## DETAILS OF THE UNAUDITED HALF-YEAR 2012 RESULTS

Note: The income statement and statement of comprehensive income are divided into two sections of operations (continuing and discontinued), which reflect the IFRS 5 disclosure requirements. In this report, discontinued operations include the compound management business of BioFocus (Compound Focus Inc., based in South San Francisco, CA, USA) until 31 May 2011 and the result of the sale.

### Revenues

Galapagos' revenues from continuing operations for the first half of 2012 amount to €64.5 M compared to €39.7 M in the same period of 2011. The R&D division reported revenues of €34.5 M (including €2.4 M intersegment revenues), compared to €19.3 M in the same period last year. The R&D division revenues benefited from pro rata revenue recognition on the upfront payment from Abbott in the global collaboration on GLPG0634 announced on 29 February. The Service division revenues showed 37% external revenues growth for the period, increasing to €32.9 M from €24 M. The Service division total revenues amount to €34.6 M (including €1.7 M in intersegment revenues), compared to €30.0 M (including €6.0 M in intersegment revenues) for continuing operations in the same period last year.

### Results

The group net loss from continuing operations for the first half-year of 2012 was €11.3 M, compared to the loss of €27.7 M for the same period last year. The EBITDA for the Service division was €5.7 M, compared to €3.7 M last year. Gross margins of the continuing service operations were 34%, compared to 33% last year.

The R&D division reported an EBITDA loss of €6.3 M, compared to €29.0 M last year. R&D expenses for the Group were €35.9 M compared to €42.4 M last year.

General and administrative (G&A) expenses of the Group's continuing operations were €11.9 M in the first half of 2012 (18% of revenues), compared to €11.0 M (28% of revenues) last year.

The first half 2012 financials show a loss on liquidation of EUR 2.9 million. This non-cash line item is a one-off historical currency impact, a direct result of the reduction of the number of dormant corporate legal entities in the UK.

### **Cash flow and cash position**

A net increase of €90.1 M in cash and cash equivalents was recorded during the first half of 2012, compared to an increase of €9.4 M in the same period last year. This increase is due to the collection of the \$150 M (€112 M) cash payment made by Abbott in the collaboration on GLPG0634. The deferred income part of the payment from Abbott is reflected by the increase to Other current liabilities in the balance sheet and increase in Payables, other current liabilities in the cash flow statement. Galapagos' cash and cash equivalents amount to €122.6 M on 30 June 2012.

### **Disposal of subsidiary**

On 1 June 2011 Galapagos sold its facility in South San Francisco (Compound Focus Inc.), the compound management business of BioFocus, to a subsidiary of Evotec AG. This facility has been part of BioFocus, the service division of the Galapagos Group, since the acquisition of the Discovery Partners International assets by Galapagos in July 2006. For the sale of all shares in Compound Focus, Galapagos received a cash upfront of €10.25 M with an additional €2.25 M in potential earn out payments. These earn out payments are considered to be contingent assets and have consequently not yet been recognized in accordance with IAS 37. The realized gain on the sale of Compound Focus amounts to €2.9 M.

# 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 2012

3Q12 interim update 16 November 2012

Full year results 2012 8 March 2013

Annual shareholders' meeting 30 April 2013

## 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:

Galapagos NV

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ir@glpg.com

For informational purposes, an electronic version of the Interim Report 2012 is available on the website of Galapagos, [www.glpg.com/index.php/companyoverview/financialskey-financials/financial-reports](http://www.glpg.com/index.php/companyoverview/financialskey-financials/financial-reports).

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## Our offices

