

GLPG
2006

INTERIM REPORT
INTERIM REPORT

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FORWARD-LOOKING STATEMENTS

The 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:

In the first six months of 2006, Galapagos has continued to take steps towards becoming a major European biotechnology company. Following the IPO on Euronext and the acquisition of BioFocus through an all-share offer and listing on AIM last year, Galapagos has ensured that the service division is profitable in the first half of the year. The division remains on track to deliver 40-70% organic sales growth for the full year. Our combined broad product and technology offering enabled the Company to secure a target-to-clinic discovery alliance with GlaxoSmithKline in the area of osteoarthritis. The recent acquisition of the operating activities of DPI has greatly expanded our service division, giving us the critical mass to compete in the top tier of the drug discovery service sector. In 2006, Galapagos accelerated its therapeutic programs toward clinical development by expanding both the number and the activity of the products that are in the pipeline for bone and joint diseases. With these events and results, Galapagos is maturing into a leading European biotechnology player with a strong discovery pipeline in bone and joint diseases and a global drug discovery service division.

Acceleration of our therapeutic programs

We remained committed to grow our investments in R&D with the 47% increase to €4.0 million. This increased investment has enabled us to make significant strides in the progression of our therapeutic programs toward the clinic. In our rheumatoid arthritis program we validated late last year our target discovery platform by demonstrating Proof of Concept in mice. We went on to achieve a step change in the potency of our most advanced drug candidates, while our team also delivered promising additional rheumatoid arthritis drug candidates using the fast follower approach. A third rheumatoid arthritis target now has a compound series showing dual activity against cytokines as well as T-cell activation. In the osteoporosis program, a new biological model was developed to accelerate the analysis of bone development; the recently announced IWT grant for €1.8 million will fund development of more such models, both for osteoporosis and rheumatoid arthritis. Importantly, we remain on track to enter the clinical phase of research by 2008.

Growth of the service division

After completing the integration of BioFocus late last year, the division has now shown that it is delivering as expected by almost doubling revenues on a pro forma basis to €10.2 million, resulting in a segment profit of €2.4 million. The profitability is particularly satisfying given that the first half of the year has been traditionally a difficult part in the sales cycle of this sector, as is evidenced by the segment loss on a pro forma basis of €0.4 million for the same period last year. This 2006 performance is attributable to a number of factors, by no means least, the dedication and talent of our staff to deliver high quality on a consistent basis. Within the industry, this has been recognized by new, long-term contracts with Boehringer Ingelheim, Roche and ArthroGen. Such contracts both endorse the quality of our product offerings and give us long-term visibility for our order book.

Galapagos alliance with GSK in osteoarthritis

In June 2006, Galapagos and GlaxoSmithKline entered into a broad alliance to discover and develop novel drugs in osteoarthritis. In this multi-year, multi-program alliance, Galapagos will develop molecules based on proprietary targets and take these all the way through to clinical Proof of Concept (Phase IIA), with the option for GSK's CEEDD (Center of Excellence for External Drug Discovery) to further develop and market the resulting drugs. This alliance builds on Galapagos' internal target and drug discovery program in osteoarthritis and could result in €137 million in payments by GSK based on up-front fees, success dependent milestone payments and equity investments. Important for the long-term profitability of the Company, Galapagos will receive up to double-digit royalties on worldwide sales by any drug resulting from the alliance. Notably, this was the first European alliance for GSK's CEEDD and only its second since inception. The deal provides a strong validation of the Galapagos discovery engine and recognizes the value of its internal programs. With this deal, the total disclosed downstream milestones that Galapagos could benefit from have now grown to over €220 million.

Acquisition of DPI drug discovery operations

We successfully acquired the operating activities of Discovery Partners International to accelerate our penetration into the American and Japanese markets as well as to broaden our BioFocus product offerings. The outstanding scientific reputation of the DPI team and the strong, complementary customer base greatly strengthen the service business. In addition, it provides for a straightforward solution to support the additional capacity required by increasing customer demand and by the GSK alliance. This acquisition propels our service division into the top tier of our segment within the pharmaceutical industry.

The acquisition price of €4.3 million was very attractive in view of the expected benefits to Galapagos. Customers have responded favorably, and the integration process has got off to a good start. Given the formal closing of the transaction on 5 July 2006, there are no results, or acquisition costs, included in the interim financial statements. Post-acquisition, Galapagos is now a company with more than 330 employees, including 144 PhDs, and operations in Belgium, the Netherlands, UK, US, Germany, Switzerland, and Japan.

Company outlook in the second half of 2006

Based on the visibility in our revenue streams, we reiterate our full-year 2006 revenue guidance of €33 to €38 million, a 200 - 240% increase in annual consolidated sales of 2005.

We continue to move forward on the remaining strategic objectives for 2006:

- Proof of concept in an animal model for our osteoarthritis/osteoporosis therapeutic programs
- Integration of DPI operations
- Natural product revenues from Heidelberg division

and, when the right opportunity arises,

- Acquisition of technologies that further strengthen our service offering

In addition to our employees, we would like to thank you as a shareholder for your backing throughout this phase that not only has increased the size of the company but also profoundly changed its service offering and drug development. We remain confident that with your continued support, we will maintain Galapagos' growth rate.

Onno van de Stolpe
Chief Executive Officer

Raj Parekh
Chairman

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE

Thousands of €	2006	2005
Revenue	10,210	1,181
Income from government grants	763	1,021
Total revenues	10,973	2,202
Cost of sales	-5,758	-744
Gross profit	5,215	1,458
R&D Expenditure	-4,045	-2,788
General and administrative costs	-5,334	-1,905
Sales and marketing expenses	-951	-200
Integration costs	-106	
Operating loss	-5,221	-3,435
Finance costs/income	-344	27
Loss before tax	-5,565	-3,408
Taxes	61	11
NET LOSS FOR THE PERIOD	-5,504	-3,397
Basic and diluted loss per share	-0.42	-0.51

CONSOLIDATED BALANCE SHEET AT 30 JUNE 2006 AND 31 DECEMBER 2005

ASSETS		
Thousands of €	2006	2005
NON-CURRENT ASSETS	44,611	45,018
Goodwill	29,112	29,481
Intangible Assets	4,578	4,869
Property plant and equipment	9,939	9,399
Available for sale financial assets	982	978
Trade and other receivables		291
CURRENT ASSETS	29,778	36,545
Inventories	4,045	3,142
Trade and other Receivables	5,729	9,786
Cash and cash equivalents	20,004	23,617
TOTAL ASSETS	74,389	81,563
EQUITY AND LIABILITIES		
Thousands of €	2006	2005
CURRENT LIABILITIES	12,305	14,065
Trade and other payables	9,711	9,568
Financial liabilities		394
Obligations under finance lease	2,000	2,967
Payroll and tax liabilities	594	1,136
NON CURRENT LIABILITIES	6,286	6,362
Obligations under finance lease	4,675	4,606
Trade and other payables	63	214
Deferred tax liabilities	1,548	1,542
TOTAL LIABILITIES	18,591	20,427
EQUITY	55,798	61,136
Capital and reserves	68,473	69,051
Share premium account	20,560	19,816
Accumulated losses	-33,235	-27,731
TOTAL EQUITY AND LIABILITIES	74,389	81,563

CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE SIX MONTHS ENDED 30 JUNE

Thousands of €	2006	2005
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	23,617	10,274
<i>Cash used in operations</i>	-1,492	-3,114
Interest paid	-370	-75
Income taxes received	134	
NET CASH USED IN OPERATING ACTIVITIES	-1,728	-3,189
Purchase of property, plant and equipment	-774	-402
Purchase of and expenditure in intangible assets		-32
Interest received and other financial income	50	103
NET CASH USED IN INVESTING ACTIVITIES	-724	-331
Repayment of obligations under finance lease	-1,569	-53
Proceeds of capital increase, net of issue cost	408	20,826
NET CASH USED IN FINANCING ACTIVITIES	-1161	20,773
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENT	-3,613	17,253
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	20,004	27,527

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER EQUITY

Thousands of €	Number of shares	Share capital	Share premium	Other capital	Retained earnings	Total
Balance on 1 January 2005 (after 4:1 reverse split)	5,938,554	32,369		-812	-21,190	10,367
Capital increase	3,261,441	17,677	4,877			22,554
Cost of capital increase				-1,962		-1,962
Share based compensation				117		117
Net loss of the period					-3,397	-3,397
Balance on 30 June 2005	9,199,965	50,046	4,877	-2,657	-24,587	27,679
BioFocus acquisition	3,474,157	18,934	14,939			33,873
Unissued shares for BioFocus				2,610		2,610
Share based compensation				118		118
Net loss of the period					-3,144	-3,144
Balance on 31 December 2005	12,674,122	68,980	19,816	71	-27,731	61,136
Capital increase	376,621	1,904	744			2,648
Share based compensation				202		202
Foreign exchange translation				-74		-74
Unissued shares for BioFocus				-2,610		-2,610
Net loss of the period					-5,504	-5,504
Balance on 30 June 2006	13,050,743	70,884	20,560	-2,411	-33,235	55,798

SEGMENT REPORTING FOR THE SIX MONTHS ENDED 30 JUNE

2006				
Thousands of €	Drug Discovery	BioFocus	Inter-segment eliminations	Total
Revenue	119	11,561	-1,470	10,210
Income from government grants	687	76		763
Total revenues	806	11,637	-1,470	10,973
Segment result	-5,192	2,404		-2,788
Unallocated G&A				-2,327
Integration costs				-106
Operating loss				-5,221
Finance cost				-344
Loss before taxes				-5,565
Taxes				61
NET LOSS FOR THE PERIOD				-5,504

2005				
Thousands of €	Drug Discovery	BioFocus	Inter-segment eliminations	Total
Revenue		1,181		1,181
Income from government grants	1,021			1,021
Total revenues	1,021	1,181		2,202
Segment result	-2,085	-400		-2,485
Unallocated G&A				-950
Operating loss				-3,435
Finance cost				27
Loss before taxes				-3,408
Taxes				-11
NET LOSS FOR THE PERIOD				-3,397

In 2005 the service division traded under the name of Galadeno until BioFocus plc was acquired on 17 October 2005. Thereafter the service division traded under the name of BioFocus.

EXPLANATORY NOTES FOR GALAPAGOS' SIX MONTHS RESULTS ENDED 30 JUNE

Accounting policies

The accounting policies and methods of computation in the interim financial statements are consistent with the most recent annual financial statements.

Business segments

For management purposes, the Group is divided into two operating divisions: Drug Discovery and BioFocus. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Drug Discovery

Internal drug discovery programs focused on finding new drugs against diseases that affect the joints and bones. The division 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 the group's internal development programs, combined with selected out-licensing and partnering of projects during development.

BioFocus

The division provides discovery services to the pharmaceutical sector as well as the Drug Discovery division of Galapagos and is a supplier of tools and reagents for use in target and drug discovery. The Group 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 Group previously provided access to this platform through the services business unit Galadeno, but after the acquisition of BioFocus has used the BioFocus trade name. In addition BioFocus has a range of focused collections of small molecules that are marketed under the SoftFocus[®] and Thematic Analysis[™] trade names. BioFocus provides biology and medicinal chemistry services to accelerate the customer programs toward the clinic. In doing so it has formed numerous partnerships with leading pharmaceutical, nutraceutical and biotechnology companies.

On 5 July 2006 Galapagos acquired the operational activities of DPI as part of its strategy to become a worldwide leader in drug discovery services, ranging from target discovery to the delivery of candidate drugs. The acquired operations include DPI's drug discovery services sites San Diego and South San Francisco (USA), Basel (Switzerland) and Heidelberg (Germany) as well as DPI's Japanese sales office in Tokyo. These operations strengthen and broaden the BioFocus product offering and global presence. The acquisition also provides Galapagos with additional capacity to deliver on its drug discovery and development alliance in osteoarthritis with GlaxoSmithKline, announced in June 2006. From July 2005 the service division will trade under the name of BioFocus DPI.

Details of half-year 2006 financial results

Revenue

Galapagos' revenues for the first half of 2006 amounted to €11.0 M compared to €2.2 M recorded in the same period of 2005. This is directly attributable to the acquisition of BioFocus plc which was wholly owned from October 2005 and therefore is fully reflected in the first half of 2006, but not in the consolidated results of the first half of 2005.

Results

The net loss for the first half-year of 2006 was €5.5 M, compared to the loss of €3.4 M for the first six months of 2005.

Total research and development expenses in the first half-year of 2006 were €4.0 M compared to €2.8 M in the same period of 2005.

General and administrative expenses were €5.3 M in the first half of 2006 compared to €1.9 M in the first six months of 2005. Again, this is directly attributable to the acquisition of BioFocus plc which was wholly owned from October 2005 and therefore is fully reflected in the first half of 2006, but not in the consolidated results of the first half of 2005.

Cash flow and cash position

A net decrease of €3.6 M in cash and cash equivalents was recorded during the first half of 2006. The cash used in operations was €1.7 M, as compared to €3.2 M during the same period in 2005. Galapagos' cash and cash equivalents amounted to €20.0 M on 30 June 2006.

PROFORMA STATEMENT OF OPERATIONS FOR THE SIX MONTHS ENDED 30 JUNE

BioFocus plc, a listed company based in the United Kingdom was acquired on 17 October 2005. The interim financial statements for the six months ended 30 June 2005 therefore exclude the operating activities for BioFocus plc. Although not formally part of the interim financial statements, the following information is provided for illustration purposes, showing the results of the group had the combination occurred at the beginning of 2005.

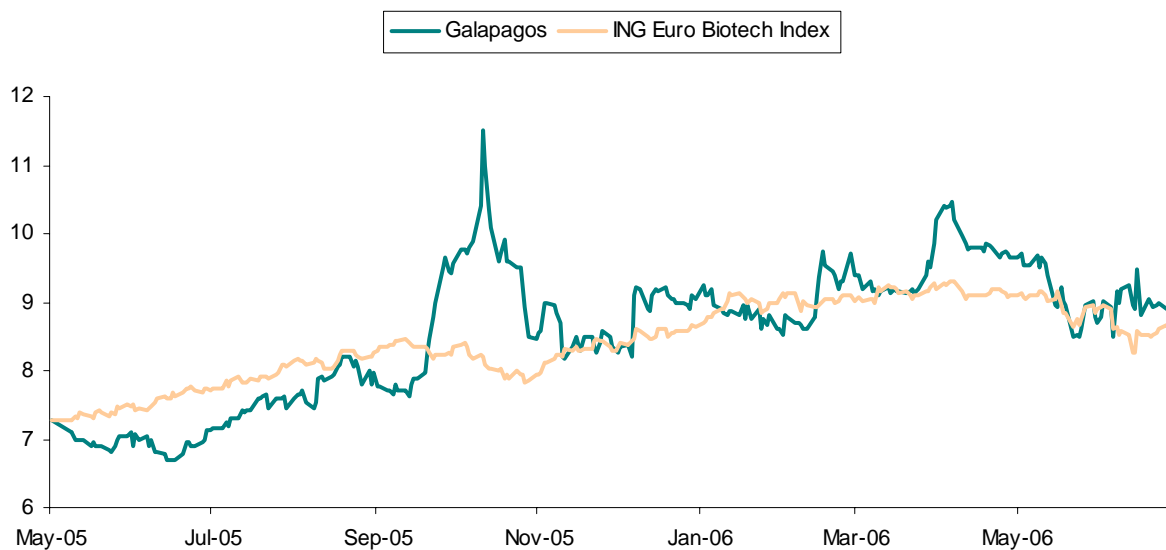
Thousands of €	2006	2005	Variance	Growth
Revenue	10,210	5,156	5,054	98%
Income from government grants	763	1,021	-258	-25%
Total revenues	10,973	6,177	4,796	78%
Cost of sales	-5,758	-4,883	-875	18%
Gross profit	5,215	1,294	3,921	303%
R&D expenses	-4,045	-2,743	-1,302	47%
General and administrative expenses	-5,334	-5,500	166	-3%
Sales and marketing	-951	-1,034	83	-8%
Integration costs	-106			
Operating loss	-5,221	-7,983	2,762	-35%
Finance cost	-344	-129	-215	166%
Loss before taxes	-5,565	-8,112	2,547	-31%

STOCK INFORMATION

Listings

Euronext Brussels	GLPG
Euronext Amsterdam	GLPGA
London Stock Exchange AiM	GLPG

Development of Share Price



Financial Calendar 2006

Annual Results 2006	2 March, 2007
Annual Shareholder Meeting	3 April, 2007

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 ("Rechtspersonenregisters") under business 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.

Financial year

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

Group structure

Galapagos NV holds all outstanding shares of:

- Galapagos Genomics BV, a company incorporated under the laws of the Netherlands, with registered office at Archimedesweg 4, 2333 CN Leiden, The Netherlands, and
- BioFocus plc, a company incorporated under the laws of the United Kingdom, with registered offices at Chesterford Research Park, Saffron Walden, Essex, CB10 1XL, United Kingdom, and
- DPI AG, a company incorporated under the laws of Switzerland with registered offices at Gewererbestrasse16, CH-4123 Allschwil Switzerland.

Statutory Auditor

Deloitte Bedrijfsrevisoren
Louizalaan 240
1050 Brussels, Belgium

Availability of the Interim Report

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

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