

GLPG  
2007

**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 2007, Galapagos has made substantial progress in both our Drug Discovery and BioFocus DPI divisions. Within our Drug Discovery division, we reached striking results in our proprietary therapeutic programs in bone and joint diseases in this first half year, keeping us well on track for initiating phase I clinical studies in 2008. In our alliance with GlaxoSmithKline in osteoarthritis, Galapagos achieved three milestones and expanded the alliance with drug discovery programs based on GSK targets. GSK also made an equity investment of €4.4 M in Galapagos. We obtained new and strong animal data in our arthritis programs and also strengthened our r&d portfolio considerably with progression in the acquired ProSkelia programs. The smooth integration of ProSkelia was illustrated by the recent milestone achievement in the antibody collaboration with Novartis. The Drug Discovery division is well on track with revenues of €5.4 M versus costs of €15.7 M on a segment basis, in line with our expectations. The Company will continue to invest in its research and development to strengthen its leadership position in drug development in bone and joint diseases.

Our BioFocus DPI service division almost doubled its revenues, at a 95% growth rate compared to the first six months of 2006, with total revenues of €22.5 M and a healthy organic growth of 12%. A high level of fixed costs has led to a loss for the division of €2.6 M over the first six months. This arises from certain one-time costs post acquisition as well as integration costs. A cost improvement program is now well underway, based on synergies and consolidation, which will reduce our cost base in the latter half of 2007 and establish a cost structure for future profitability. We believe that the acquisitions of the DPI operations and Inpharmatica in 2006 have created a service company capable of generating significant cash flows in future years, thereby reducing the Company's need for external funding for internal drug discovery programs.

Overall, Galapagos recorded revenues of €26.3 M for the first six months, an increase of 140% over the first six months of 2006, and is well on track to meet full year revenue guidance of €54-58 M.

### **Acceleration of our therapeutic programs**

The Drug Discovery division is showing exciting results and the programs are progressing toward the clinic across all three therapeutic areas. The division delivered a total of €4.6 M in milestone revenues in the first half of 2007. Lead compounds in the rheumatoid arthritis program show significant disease-modifying properties in the industry gold standard animal model, including protection against bone loss and reduction in joint swelling. In the osteoarthritis program, we have demonstrated Proof of Principle in an animal model through an increase in cartilage and bone. In the anti-catabolic approach for osteoarthritis, our proprietary lead compounds show prevention of cartilage degradation. In our osteoporosis programs, Galapagos announced in June that Wyeth licensed three proprietary bone anabolic drug targets from the 2003 research agreement, resulting in a €1.05 M milestone payment. In rodent studies the SARM and OARA compounds against osteoporosis show an increase in bone strength to a higher level than bisphosphonates, the drugs currently marketed for treatment of osteoporosis. The strong results in all three of our core bone & joint disease programs encourage us to retain our focus of bringing proprietary drugs towards and into the clinic. With the help of Clinquest Inc., acting Chief Medical Officer Cees Wortel is building the clinical infrastructure necessary to initiate Phase I studies in Galapagos' bone & joint programs in 2008.

### **Estrogen glucoside**

Given the success and quality of the internal drug discovery programs, the Company has decided to focus all of its internal resources on these programs and only pursue the estrogen glucoside program in the event a commercial partner is found. Galapagos obtained a license option for estrogen glucoside through the acquisition of ProSkelia in December 2006. Preliminary discussions have been initiated with several parties interested in this program.

### **Expansion of 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 is developing molecules based on proprietary

targets and taking these through to clinical Proof of Concept (Phase IIA), with the option for GSK to further develop and market the resulting drugs. Three milestones have been achieved in the first half of 2007, resulting in payments of €3.6 M from GSK. In June 2007, the scope of the alliance was expanded to include up to two drug discovery programs on selected GSK drug targets. Under the expanded agreement, Galapagos could obtain up to €186 M in total milestones and up to double digit royalties on worldwide sales of two marketed products. With this alliance expansion, the total downstream milestones of all alliances could result in payments to Galapagos in excess of €300 M.

#### **Growth and performance of the service division**

BioFocus DPI showed a year-on-year growth of 95%, which was due for a large part to the acquisition of the activities of Discovery Partners International and Inpharmatica in 2006. These acquisitions expanded the products and services of BioFocus DPI, propelling our service division into a top tier position in drug discovery worldwide. BioFocus DPI achieved an organic growth of 12% in the first half of 2007, slightly below our target growth for full year 2007 of 15%. BioFocus DPI announced deals with existing partners such as Amgen, AstraZeneca, Ono Pharmaceuticals, Johnson & Johnson and Cancer Research Technology, as well as with new customers such as the US Environmental Protection Agency and the University of Bristol and University of Rochester. The segment loss for BioFocus DPI over the first six months of the year was €2.6 M. Synergies and savings will become apparent as our cost saving measures work through the rest of 2007 and 2008. This should lead to a well integrated, efficient and cost effective service organization. The target discovery operations were relocated to state-of-the-art facilities in Leiden. The efficiency and profitability of the high-throughput screening and natural products businesses will improve by merging the Heidelberg operations into the Basel operations later this year. Additionally, in November the activities in Cambridge (UK) will be relocated to BioFocus DPI headquarters in Saffron Walden, facilitating easy interaction between the medicinal chemistry and ADMET teams. Galapagos expects that these initiatives will generate cost savings, towards profitability of the service division BioFocus DPI in the years to come.

#### **Company outlook in the second half of 2007**

Based on the visibility in our revenue streams, we reiterate our full-year 2007 revenue guidance of €54 to €58 million, a 150 - 165% increase in annual consolidated sales of 2006. We maintain our guidance for r&d expenditure of €33 million and, based on the contracts in our pipeline, maximum cash burn of €20 million, expecting to result in a 2007 year end cash position exceeding €31 million.

We continue to move forward on the strategic objectives for 2007:

- Delivery of pre-clinical candidates in RA and OP
- Continued growth of the BioFocus DPI service division
- Increased revenues from milestone payments to offset r&d costs
- Partnering with big pharma for long term value creation

We would like to thank our staff for their efforts to deliver these results, and all our shareholders for their continued support. Galapagos remains on track to assert a leadership position in both drug discovery services and bone & joint disease therapy development.

Onno van de Stolpe  
Chief Executive Officer

Raj Parekh  
Chairman

**UNAUDITED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE**

Thousands of €	2007	2006
<b>Revenue</b>	<b>25,034</b>	<b>10,210</b>
Cost of sales	-14,812	-5,758
<b>Gross profit</b>	<b>10,222</b>	<b>4,452</b>
Other income	1,250	763
R&D Expenditure	-15,740	-4,045
General and administrative costs	-11,673	-5,334
Sales and marketing expenses	-1,090	-951
Integration costs	-167	-106
<b>Operating loss</b>	<b>-17,198</b>	<b>-5,221</b>
Finance costs/income	-22	-344
Other non operating result	16	
<b>Loss before tax</b>	<b>-17,204</b>	<b>-5,565</b>
Taxes	477	61
<b>NET LOSS FOR THE PERIOD</b>	<b>-16,727</b>	<b>-5,504</b>
Basic and diluted loss per share	-0.72	-0.42

**UNAUDITED CONSOLIDATED BALANCE SHEET**

**ASSETS**

Thousands of €	30 Jun 07	31 Dec 06	30 Jun 06
<b>NON-CURRENT ASSETS</b>	<b>81,200</b>	<b>87,781</b>	<b>44,611</b>
Goodwill	35,948	35,560	29,112
Intangible assets	17,216	17,844	4,578
Property plant and equipment	26,013	25,965	9,939
Deferred tax assets	727	727	-
Available for sale financial assets	998	1,054	982
Other non-current assets	298	6,631	-
<b>CURRENT ASSETS</b>	<b>66,562</b>	<b>79,865</b>	<b>29,778</b>
Inventories	4,802	3,499	4,045
Trade and other receivables	24,702	24,847	5,729
Cash and cash equivalents	37,058	51,519	20,004
<b>TOTAL ASSETS</b>	<b>147,762</b>	<b>167,646</b>	<b>74,389</b>

**EQUITY AND LIABILITIES**

Thousands of €	30 Jun 07	31 Dec 06	30 Jun 06
<b>Total equity</b>	<b>104,188</b>	<b>109,542</b>	<b>55,798</b>
Share capital	111,985	104,396	68,473
Share premium account	48,268	44,170	20,560
Translation differences	-302	9	-
Accumulated losses	-55,763	-39,034	33,235
<b>TOTAL LIABILITIES</b>	<b>43,574</b>	<b>58,104</b>	<b>18,591</b>
<b>NON-CURRENT LIABILITIES</b>	<b>20,870</b>	<b>28,826</b>	<b>6,286</b>
Pension liabilities	861	905	-
Provisions	16,607	22,089	-
Deferred tax liabilities	508	594	1,548
Finance lease liabilities	2,252	4,595	4,675
Other non-current liabilities	642	643	63
<b>CURRENT LIABILITIES</b>	<b>22,704</b>	<b>29,278</b>	<b>12,305</b>
Provisions	365	556	-
Financial liabilities	3,690	3,172	2,000
Trade and other payables	18,631	25,431	9,711
Current income tax payable	18	119	594
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>147,762</b>	<b>167,646</b>	<b>74,389</b>

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

Thousands of €	2007	2006
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>51,519</b>	<b>23,617</b>
<i>Cash used in operations</i>	<b>-19,264</b>	<b>-1,492</b>
Interest paid	-769	-370
Income taxes received	5,520	134
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>-14,513</b>	<b>-1,728</b>
Purchase of property, plant and equipment	-3,020	-774
Purchase of and expenditure in intangible assets	-297	
Interest received and other financial income	762	50
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>-2,553</b>	<b>-724</b>
Repayment of obligations under finance lease	-1,825	-1,569
Proceeds of capital increase, net of issue cost	4,430	408
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>2,605</b>	<b>-1,161</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENT</b>	<b>-14,461</b>	<b>-3,613</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>37,058</b>	<b>20,004</b>

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

Thousands of €	Share capital	Share premium	Translation differences	Retained earnings	Total
<b>Balance on 1 Jan 2006</b>	<b>69,049</b>	<b>19,816</b>	<b>3</b>	<b>-27,731</b>	<b>61,137</b>
Exchange differences on translating foreign operations			6	33	39
Net result				-11,335	-11,335
Share based compensation	703				703
Issue of share capital	35,781	24,354			60,135
Cost of capital increase	-1,596				-1,596
Exercise warrants	459				459
<b>Balance on 31 Dec 2006</b>	<b>104,396</b>	<b>44,170</b>	<b>9</b>	<b>-39,034</b>	<b>109,542</b>
Exchange differences on translating foreign operations			-311		-311
Net result				-16,727	-16,727
Share based compensation	216				216
Issue of share capital	6,740	4,099			10,839
Cost of capital increase	363				363
Exercise warrants	267				267
Rounding	3	-1		-2	-1
<b>Balance on 30 Jun 2007</b>	<b>111,985</b>	<b>48,268</b>	<b>302</b>	<b>-55,763</b>	<b>104,188</b>

UNAUDITED SEGMENT REPORTING FOR THE SIX MONTHS ENDED 30 JUNE

2007

Revenue

Thousands of €	Drug Discovery	BioFocus DPI	Inter-segment eliminations	Total
External sales	5,416	19,618		25,034
Inter-segment sales		2,896	-2,896	
<b>Segment result</b>	<b>5,416</b>	<b>22,514</b>	<b>-2,896</b>	<b>25,034</b>

Inter-segment sales are charged at prevailing market rates

Result

Thousands of €	Drug Discovery	BioFocus DPI	Inter-segment eliminations	Total
Segment result	-10,324	-2,626		-12,950
Unallocated expenses				
G & A costs				-4,080
Integration costs				-168
<b>Operating loss</b>				<b>-17,198</b>
Net finance costs				-22
Other non-operating results				16
<b>Loss before taxation</b>				<b>-17,204</b>
Income tax credit				477
<b>Net loss for the period</b>				<b>-16,727</b>

2006

Revenue

Thousands of €	Drug Discovery	BioFocus DPI	Inter-segment eliminations	Total
External sales	119	10,091		10,210
Inter-segment sales		1,470	-1,470	
<b>Segment result</b>	<b>119</b>	<b>11,561</b>	<b>-1,470</b>	<b>10,210</b>

Inter-segment sales are charged at prevailing market rates

Result

Thousands of €	Drug Discovery	BioFocus DPI	Inter-segment eliminations	Total
Segment result	-5,192	2,404		-2,788
Unallocated expenses				
G & A costs				-2,327
Integration costs				-106
<b>Operating loss</b>				<b>-5,221</b>
Net finance costs				-344
<b>Loss before taxation</b>				<b>-5,565</b>
Income tax credit				61
<b>Net loss for the period</b>				<b>-5,504</b>

## **EXPLANATORY NOTES FOR GALAPAGOS' UNAUDITED SIX MONTHS RESULTS ENDED 30 JUNE 2007**

### **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 DPI. 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. 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.

On 22 December 2006, Galapagos acquired ProSkelia SASU from a wholly owned subsidiary of ProStrakan Group plc (UK). With ProSkelia, Galapagos obtained r&d operations focused on bone diseases as well as a product portfolio in three pre-clinical products in bone diseases (osteoporosis and bone metastasis), and one pre-clinical product in cachexia (muscle atrophy and weight loss).

#### **BioFocus DPI**

The BioFocus DPI 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 used the BioFocus trade name. In addition BioFocus has a range of focused collections of small molecules that are marketed under the SoftFocus<sup>®</sup> and Thematic Analysis<sup>™</sup> 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, biotechnology and nutraceutical 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 strengthened and broadened the BioFocus product offering and global presence. The acquisition also provided Galapagos with additional capacity to deliver on its drug discovery and development alliance in osteoarthritis with GlaxoSmithKline, announced in June 2006. From July 2006 the service division traded under the name of BioFocus DPI.

On 5 December 2006, Galapagos acquired Inpharmatica Limited (UK) through an all-share offer. The acquired Admensa and Chematica platforms were integrated into the BioFocus DPI service division offering, thereby enhancing the division's ability to help clients select drug targets and compounds throughout the drug discovery process.

## **Details of the unaudited half-year 2007 financial results**

### **Revenue**

Galapagos' revenues for the first half of 2007 amounted to €25.0 M compared to €10.2 M recorded in the same period of 2006. Total revenues including other income amounted to €26.3 M compared to €11.0 M in the same period of 2006. This growth is attributable to organic growth of BioFocus DPI as well as the acquisitions of the DPI operations in July 2006, and of Inpharmatica and ProSkelia in December 2006. The revenues from acquired operations are fully reflected in the first half of 2007, but not in the consolidated results of the first half of 2006.

### **Results**

The net loss for the first half-year of 2007 was €16.7 M, including restructuring and one-off costs of €2.7 M, compared to the loss of €5.5 M for the first six months of 2006.

Total research and development expenses in the first half-year of 2007 were €15.7 M compared to €4.0 M in the same period of 2006.

General and administrative expenses were €11.7 M in the first half of 2007, including €2.7 M restructuring and other one-off costs, compared to €5.3 M in the first six months of 2006. Again, this is directly attributable to the acquisitions of the DPI operations in July 2006, and of Inpharmatica and ProSkelia in December 2006 and therefore is fully reflected in the first half of 2007, but not in the consolidated results of the first half of 2006.

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

A net decrease of €14.5 M in cash and cash equivalents was recorded during the first half of 2007. The cash used in operations was €19.3 M, as compared to €1.5 M during the same period in 2006; this is a result of the planned increase in r&d costs, the BioFocus DPI segment result, and restructuring and other one-off costs. Proceeds of the capital increase related to the GSK alliance amounted to €4.4 M. Galapagos' cash and cash equivalents amounted to €37.1 M on 30 June 2007.

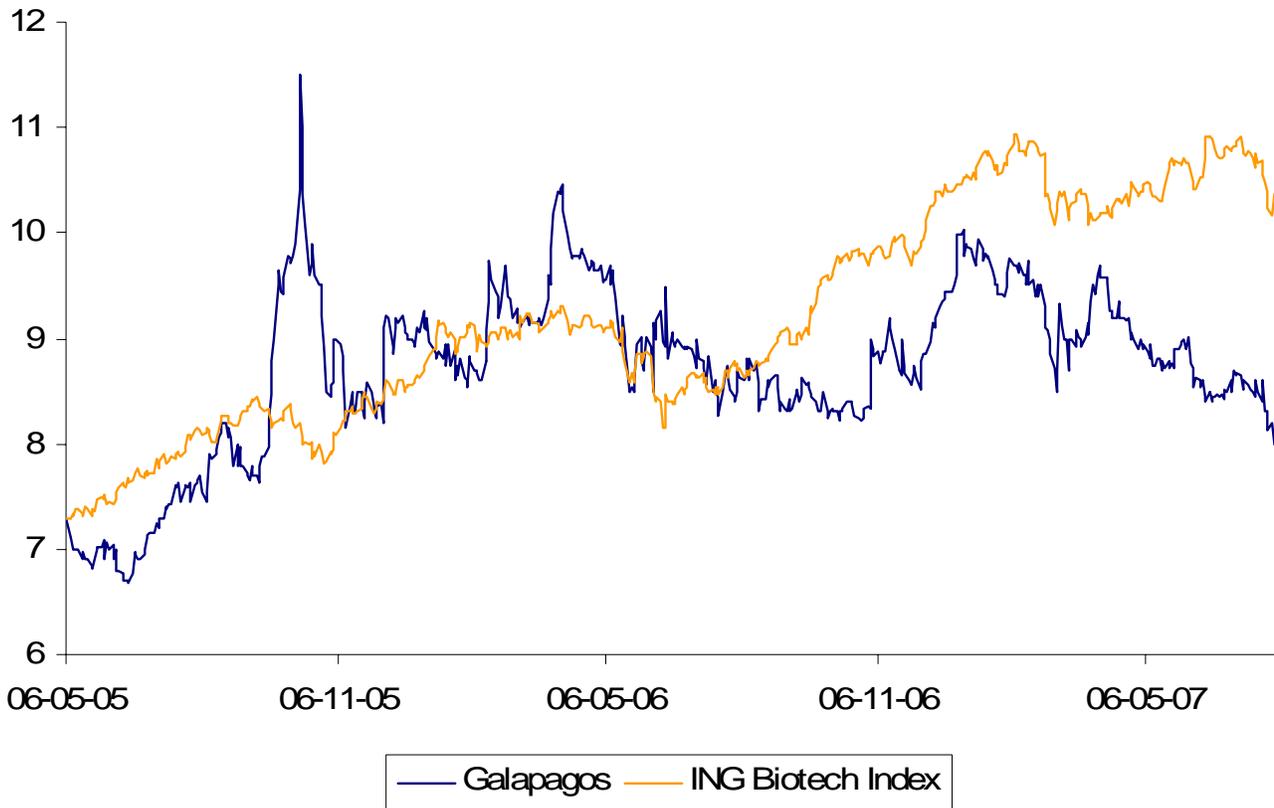
## STOCK INFORMATION

### Listings

Euronext Brussels	GLPG
Euronext Amsterdam	GLPGA
London Stock Exchange AiM	GLPG

### Development of share price

#### Galapagos vs. ING Biotech index (price index)



### Financial Calendar 2007

Annual results 2007	7 March 2008
Annual shareholders meeting	3 June 2008

**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**

Following is an overview of all subsidiaries within the Galapagos NV Group:

<b>Name of the subsidiary</b>	<b>Shareholder</b>	<b>Total shares held by Group</b>
Galapagos Genomics BV	Galapagos NV	100%
BioFocus DPI (Holdings) Ltd	Galapagos NV	100%
BioFocus DPI Ltd	BioFocus DPI (Holdings) Ltd	100%
BioFocus Inc	BioFocus DPI (Holdings) Ltd	100%
Cambridge Drug Discovery Holding Ltd	BioFocus Discovery Ltd	100%
Cambridge Genetics Ltd	Cambridge Drug Discovery Holding Ltd	100%
Cambridge Discovery Ltd	Cambridge Drug Discovery Holding Ltd	100%
Compound Focus Inc	BioFocus DPI Inc	100%
BioFocus DPI AG	Galapagos NV	100%
Discovery Partners International GmbH	BioFocus DPI AG	100%
BioFocus DPI Inc	BioFocus Inc	100%
Xenometrix Inc	BioFocus Inc	100%
BioFocus DPI LLC	BioFocus Inc	100%
Inpharmatica Ltd	Galapagos NV	100%
ProSkelia SASU	Galapagos NV	100%

**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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For informational purposes, an electronic version of the Interim Report 2007 is available on the website of Galapagos, [www.glpg.com](http://www.glpg.com).