

Galápagos



GLPG
2008

INTERIM REPORT
INTERIM REPORT

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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 made progress on its R&D programs as planned, and improved the performance of its service division BioFocus DPI in the first half of 2008. Galapagos reported achievement of financial milestones in all three of its alliances in bone & joint disease, amounting to €5.2 M to date this year, building further on the Company's successful track record in its alliance strategy. BioFocus DPI continued to grow its business, and the Company expects this division to return to profitability on a segment basis for full year 2008. Overall, Galapagos recorded revenues of €33.6 M for the first six months, an increase of 30% over the first six months of 2007 and well on track to meet 2008 revenue guidance of €75-80 M.

Strong progress in drug discovery programs

In April the Company in-licensed from Enceladus Pharmaceuticals Nanocort[®], a clinical stage product for treatment of flares in rheumatoid arthritis, with possible further indications in irritable bowel disease and multiple sclerosis. A 22 patient Phase I/II investigator-led trial of Nanocort has been completed, and full analysis of the trial data will be presented at a rheumatoid arthritis conference later this year. Based on the data, Galapagos intends to file an IND application later this year, with commencement of a 240 patient Phase II trial in the first half of 2009.

The R&D division announced satisfactory progress in its research programs, resulting in plans to enter the clinic with its bone metastasis and rheumatoid arthritis molecules in early 2009. The Company's rheumatoid arthritis candidate against novel kinase target GT418 demonstrates significant bone protection and reduced inflammation in the industry standard mouse model - the effect of this oral compound was at least equivalent to etanercept (Enbrel[®]), the injectable anti-TNF treatment for rheumatoid arthritis. The initiation of Galapagos' clinical Phase I with its bone metastasis drug candidate coincides with recent results in the field of bone cancer research that bode well for novel therapies in this disease area. In animal models, Galapagos' candidate drug has shown reduction of bone metastasis and bone degeneration comparable to zoledronate (Zometa[®]), the industry gold standard treatment for metastatic bone cancer, and superior prevention of metastases to other organs. The candidate drug has also demonstrated reduction in tumor growth and prevention of blood vessel formation in preclinical animal studies, clearly differentiating the compound from zoledronate. Both the GT418 and bone metastasis programs are currently in preclinical safety studies, and the outcome of these will determine the further development route.

In its osteoarthritis program, Galapagos showed Proof of Principle (reduction of disease markers) and Proof of Concept (reduction of targeted symptoms) in pre-clinical models. The data generated thus far encourage the Company to aim for delivery of a pre-clinical candidate in osteoarthritis by end 2008.

To oversee the development of the Company's maturing pipeline, Galapagos appointed Piet Wigerinck, formerly VP Discovery and Development at Tibotec, as Senior VP Development.

Through its alliance agreements, Galapagos is eligible to receive in excess of €1.7 billion in success-dependent downstream milestone revenues plus up to double-digit royalties on the worldwide sales of medicines that result from these research programs. So far this year, Galapagos achieved financial milestones in its three alliances in bone & joint disease for a total of €5.2 M and €18.3 M to date. Galapagos also was awarded a €4.4 M grant through IWT from the Flemish Government for its rheumatoid arthritis development program and signed a collaborative research agreement in eye diseases with Bausch & Lomb.

The R&D division reported six months revenues of €14.2 M, an increase of 145% compared to the same period last year, and a segment loss of €3.9 M, a decrease of 62% compared to the first six months of 2007, in line with 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.

Improvement of service division performance

With revenues of €23.7 M, BioFocus DPI showed a year-on-year growth of 10% in the first half of 2008, excluding currency effects of 7.5%. The service division announced deals with existing partners such as Allergan, Eli Lilly, Janssen Pharmaceutica, and the U.S. National Institutes of Health, as well as with new customers such as University College London and Sepracor. The segment loss for BioFocus DPI over the first six months of the year was €1.8 M, compared to €2.6 M in the same period last year. The negative segment result, a 30% improvement over the first half of 2007, was in line with management expectations and consistent with previous years, in which second half performance historically has been stronger. Visibility in the pipeline and the improved margins on certain newly closed contracts give management confidence that BioFocus DPI will continue this progress towards profitability in the second half of 2008, delivering a positive result for the full year, in line with guidance given to the financial markets.

Corporate developments

In April, our valued Board member Barry Ross passed away at the age of 60. He was replaced by Dr. William Garth Rapeport, who was appointed to the Galapagos Board of Directors. Galapagos cancelled its listing on the Alternative Investment Market of the London Stock Exchange and launched a Level-1 American Depositary Receipt facility (ticker: GLPYY) for over-the-counter trading in the United States.

Significant post-closing events

On 23 July 2008, Galapagos announced the transfer of BioFocus DPI's predictive drug discovery databases to EMBL's European Bioinformatics Institute. The databases concerned were acquired with Inpharmatica in December 2006 and did not include the StarDrop™ software platform which is still offered by BioFocus DPI. Galapagos received €1.8 M in cash for this transfer.

Cash position

The Company expects to have a year end cash position of approximately €25 M. Based on the anticipated cash needs and revenue streams in 2009 and 2010, Galapagos sees no need to raise additional capital for its current operations in the coming 18 months. In a period with much turbulence in the global financial markets, this is a comfortable position for the Company.

Company outlook for the second half and full year 2008

The Company reiterates full-year 2008 guidance figures: revenues of €75 to €80 M, a 14-21% increase in annual consolidated sales of 2007; R&D expenditure of €50 M; and, based on the contracts in the pipeline and anticipated R&D payments, a maximum cash burn of €25 M.

The Company continues to advance toward achievement of its strategic objectives for 2008:

- IND filing for Nanocort to initiate 240 patient Phase II trial in H1 2009
- Preparation for IND filings and initiation of Phase I trials for rheumatoid arthritis and bone metastasis drug candidates early 2009
- Nomination of a pre-clinical candidate in osteoarthritis
- Profitability of the BioFocus DPI service division
- Increased revenues from milestone payments to offset R&D costs

Lastly, we wish to thank our shareholders for their support in the first half of 2008. Galapagos is executing its strategy according to plan in 2008, creating value for its shareholders through leadership in drug discovery services and bone & joint disease therapy development. Based on its alliance strategy, Galapagos can largely offset its R&D investment with milestones.

Onno van de Stolpe
Chief Executive Officer

Raj Parekh
Chairman

Related party transactions

In the first six months of 2008, 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 2007 that potentially had material impact to the financials of the first six months of 2008.

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, made up according to the applicable standards for financial statements, 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.

UNAUDITED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE

Thousands of €	2008	2007
Revenue	33,585	25,854
Cost of sales	-14,212	-14,812
Gross profit	19,373	11,042
Other income	301	430
R&D Expenditure	-17,989	-15,740
General and administrative costs	-9,975	-11,673
Sales and marketing expenses	-1,445	-1,090
Integration costs	-95	-167
Operating loss	-9,830	-17,198
Finance costs/income	23	-22
Other non operating result		16
Loss before tax	-9,807	-17,204
Taxes	443	477
NET LOSS FOR THE PERIOD	-9,364	-16,727
Basic and diluted loss per share (€)	-0.44	-0.72

UNAUDITED CONSOLIDATED BALANCE SHEET

ASSETS

Thousands of €	30 Jun 08	31 Dec 07	30 Jun 07
NON-CURRENT ASSETS	68,063	67,981	81,200
Goodwill	33,952	33,952	35,948
Intangible assets	6,067	6,090	17,216
Property plant and equipment	21,135	22,914	26,013
Deferred tax assets	216	352	727
Available for sale financial assets	849	1,049	998
Other non-current assets	5,844	3,624	298
CURRENT ASSETS	51,842	80,743	66,562
Inventories	4,688	4,948	4,802
Trade and other receivables	19,761	26,500	24,702
Cash and cash equivalents	27,393	49,295	37,058
TOTAL ASSETS	119,905	148,724	147,762

EQUITY AND LIABILITIES

Thousands of €	30 Jun 08	31 Dec 07	30 Jun 07
Total equity	88,231	98,626	104,188
Share capital	110,855	110,855	110,831
Share premium account	48,268	48,268	48,268
Translation differences	-3,161	-1,535	-302
Accumulated losses	-67,731	-58,962	-54,609
TOTAL LIABILITIES	31,674	50,098	43,574
NON-CURRENT LIABILITIES	6,142	6,737	20,870
Pension liabilities	664	664	861
Provisions	2,358	2,498	16,607
Deferred tax liabilities	240	292	508
Finance lease liabilities	1,650	1,747	2,252
Other non-current liabilities	1,230	1,536	642
CURRENT LIABILITIES	25,532	43,361	22,704
Post employment benefit obligations	247	226	
Provisions	547	933	365
Financial liabilities	1,094	2,621	3,690
Trade and other payables	23,588	39,525	18,631
Current income tax payable	56	56	18
TOTAL EQUITY AND LIABILITIES	119,905	148,724	147,762

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

Thousands of €	2008	2007
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	49,295	51,519
<i>Cash used in operations</i>	-20,902	-19,264
Interest paid	-824	-769
Income taxes received	4,056	5,520
NET CASH USED IN OPERATING ACTIVITIES	-17,670	-14,513
Purchase of property, plant and equipment	-2,016	-3,020
Purchase of and expenditure in intangible assets	-1,125	-297
Interest received and other financial income	839	762
NET CASH USED IN INVESTING ACTIVITIES	-2,302	-2,553
Repayment of obligations under finance lease	-1,930	-1,825
Proceeds of capital increase, net of issue cost		4,430
NET CASH USED IN FINANCING ACTIVITIES	-1,930	2,605
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENT	-21,902	-14,461
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	27,393	37,058

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER EQUITY

Thousands of €	Share capital	Share premium	Translation differences	Retained earnings	Total
Balance on 1 Jan 2007	103,458	44,170	9	-38,095	109,542
Exchange differences on translating foreign operations			-1,544		-1,544
Net result				-21,948	-21,948
Share based compensation				1,098	1,098
Issue of share capital	6,741	4,098			10,839
Cost of capital increase	256				256
Exercise warrants	400				400
Other				-17	-17
Balance on 31 Dec 2007	110,855	48,268	-1,535	-58,962	98,626
Exchange differences on translating foreign operations			-1,626		-1,626
Net result				-9,364	-9,364
Share based compensation					
Issue of share capital				595	595
Cost of capital increase					
Exercise warrants					
Rounding					
Balance on 30 Jun 2008	110,855	48,268	-3,161	-67,731	88,231

UNAUDITED SEGMENT REPORTING FOR THE SIX MONTHS ENDED 30 JUNE

2008

Revenue

Thousands of €	Drug Discovery	BioFocus DPI	Inter-segment eliminations	Total
External sales	13,937	19,648		33,585
Inter-segment sales	228	4,101	-4,329	
Segment result	14,165	23,749	-4,329	33,585

Inter-segment sales are charged at prevailing market rates

Result

Thousands of €	Drug Discovery	BioFocus DPI	Inter-segment eliminations	Total
Segment result	-3,883	-1,828		-5,711
Unallocated expenses				
G & A costs				-4,024
Integration costs				-95
Operating loss				-9,830
Net finance costs				23
Loss before taxation				-9,807
Income tax credit				443
Net loss for the period				-9,364

2007

Revenue

Thousands of €	Drug Discovery	BioFocus DPI	Inter-segment eliminations	Total
External sales	5,781	20,073		25,854
Inter-segment sales		2,896	-2,896	
Segment result	5,781	22,969	-2,896	25,854

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
Operating loss				-17,198
Net finance costs				-22
Other non-operating results				16
Loss before taxation				-17,204
Income tax credit				477
Net loss for the period				-16,727

EXPLANATORY NOTES FOR GALAPAGOS' UNAUDITED SIX MONTHS RESULTS ENDED 30 JUNE 2008

Accounting policies

The accounting policies and methods of computation in the interim financial statements are identical to 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 are 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. In April 2008, Galapagos announced the in-licensing of Nanocort[®], a clinical stage product for treatment of flares in rheumatoid arthritis, with possible further indications in irritable bowel disease and multiple sclerosis.

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. This technology enables an efficient analysis of the function of individual human proteins in disease processes. In addition BioFocus DPI has a range of focused collections of small molecules that are marketed under the SoftFocus[®] and Thematic Analysis[™] trade names. BioFocus DPI 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.

In December 2006, Galapagos acquired Inpharmatica Limited (UK) through an all-share offer. The acquired ADME^{nsa} (later renamed StarDrop[™]) and Chematica (later renamed DrugStore[™]) and other software 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. On 23 July 2008, Galapagos announced the transfer of the DrugStore[™] and other predictive drug discovery databases to EMBL's European Bioinformatics Institute. The databases concerned did not include the StarDrop[™] software platform which is still offered by BioFocus DPI. Galapagos received €1.8 M cash for this transfer.

Details of the unaudited half-year 2008 financial results

Revenue

Group revenues for the first half of 2008 amounted to €33.6 M compared to €25.9 M recorded in the same period of 2007. This growth is attributable to achievement of milestones in the Company's R&D programs as well as to growth of the BioFocus DPI service division. The R&D division reported six months revenues of €14.2 M, an increase of 145% compared to the same period last year. With revenues of €23.7 M, BioFocus DPI showed a year-on-year growth of 10% in the first half of 2008, excluding currency effects of 7.5%.

Results

The net loss for the first half-year of 2008 was €9.4 M, compared to the loss of €16.7 M for the first six months of 2007.

The R&D division reported a segment loss of €3.9 M, a decrease of 62% compared to the first six months of 2007, and in line with expectations. The segment loss for BioFocus DPI over the first six months of the year was €1.8 M, compared to €2.6 M in the same period last year. This segment result is a 30% improvement over the first half of 2007, in line with management expectations and consistent with previous years, in which second half performance historically has been stronger.

Total research and development expenses in the first half-year of 2008 were €18.0 M compared to €15.7 M in the same period of 2007.

General and administrative expenses for the group were €10.0 M in the first half of 2008, a 14% reduction compared to the €11.7 M in the first six months of 2007. On a like-for-like basis (excluding exceptional costs and some reporting changes) the general and administrative expenses grew by 4% and reduced as a percentage of revenues from 33% in 2007 to 28% in 2008.

Cash flow and cash position

A net decrease of €21.9 M in cash and cash equivalents was recorded during the first half of 2008. The cash used in operations was €20.9 M, as compared to €19.3 M during the same period in 2007. Galapagos' cash and cash equivalents amounted to €27.4 M on 30 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 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	GLPGA
OTC Pink Sheets	GLPYY

Financial calendar 2008

3Q08 interim update	14 November 2008
Annual results 2008	6 March 2009
Annual shareholders meeting	2 June 2009

Financial year

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

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 2008 is available on the website of Galapagos, www.glpg.com/investor/financial_reports.htm.