

**Galápagos**



GLPG  
2009

**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 remains on course to meet its objectives in 2009, as it has performed according to guidance in the first half of the year. The R&D division has strengthened its pipeline of drug candidates by progressing a second candidate into clinical development, while also advancing and expanding the number of discovery programs. GLPG0259, the oral drug candidate for rheumatoid arthritis, has completed a successful Phase I study, showing safety in healthy volunteers, and GLPG0187 entered clinical development in the second quarter. The BioFocus DPI service division continued to win new business and improve margins. Overall, Galapagos recorded revenues of €37.7 M for the first six months, an increase of 19% over the first six months of 2008 and confirms 2009 revenue guidance of €100 M.

**Successful Phase I trial with rheumatoid arthritis candidate GLPG0259**

Galapagos completed a clinical Phase I trial for GLPG0259, its first-in-class rheumatoid arthritis (RA) candidate drug. GLPG0259 showed good safety and tolerability in healthy volunteers as well as the desired pharmacokinetic profile, which supports once-daily oral dosing. We are on track to complete the remaining Phase I trials for GLPG0259 by the end of 2009, and we are preparing to start a Phase IIa study in 2010, where we will assess the efficacy of this novel candidate drug in treating RA patients. This is the first candidate drug based on Galapagos' proprietary target discovery platform to have completed a Phase I study. The candidate is based on the Galapagos target protein kinase MAPKAPK5, which had not been previously associated with RA; however, Galapagos has shown that MAPKAPK5 plays a key role in inflammation and in the breakdown of collagen in human cartilage. The candidate drug GLPG0259 inhibits MAPKAPK5, and has demonstrated bone protection and reduced inflammation in a standard RA animal model. GLPG0259 is a compound in Galapagos' internal RA program, which is part of the option agreement with Janssen Pharmaceutica. Upon successful completion of a dose finding Phase II clinical trial for GLPG0259, Janssen has the exclusive option to license the program for €60 million, with further potential milestones to Galapagos of €776 million and up to double-digit royalties on global sales.

**Bone metastasis candidate GLPG0187 entered clinic**

In June 2009, Galapagos announced the start of Phase I clinical development of the integrin receptor antagonist (IRA), GLPG0187, a program which is funded entirely by the Company. This candidate drug could offer a new therapeutic approach for treating cancer patients. It has a potentially highly competitive therapeutic profile compared to currently available agents to treat bone metastasis. GLPG0187 blocks five integrin receptors known to be present in many metastatic cancers. In animal studies, oral administration of GLPG0187 as a single agent has been shown to inhibit multiple processes involved in the spread and growth of tumors and the destruction of bone. In these models, GLPG0187 also provided additive benefits to the bone protective action reported for currently used treatments. Based on the pre-clinical safety and efficacy data, Galapagos has initiated a first-in-human Phase I study to evaluate this compound's safety, tolerability and pharmacokinetic properties in healthy volunteers. The first single ascending dose study is ongoing and we will report on the outcome of this study within the next couple of months.

**Planning Phase II trials for Nanocort®**

Galapagos is preparing for Phase II studies to evaluate the effectiveness of Nanocort in treating inflammatory diseases. This includes production of clinical batches of the product, trial design, and preparation of the regulatory filings. Nanocort is a novel liposomal formulation of prednisolone, a corticosteroid that is widely used to reduce inflammation. In animal models, Nanocort particles accumulated in inflamed areas, thereby allowing delivery of a higher concentration of prednisolone to these inflamed areas. Nanocort is being developed as a single administration to relieve acute episodes (flares) in chronic inflammatory diseases like RA and multiple sclerosis. The Phase I/II trial for Nanocort demonstrated safety as well as faster and more pronounced decrease in RA symptoms as compared to a standard steroid treatment. Based on these findings, two Phase II trials will be initiated - one to evaluate Nanocort's efficacy in multiple sclerosis, an autoimmune disease affecting the central nervous system, and the other to evaluate Nanocort's effectiveness in targeting inflamed joints in RA patients. The Nanocort program is proprietary and funded by the Company.

### **Progressing pre-clinical candidates in osteoarthritis alliance**

In the osteoarthritis alliance with GlaxoSmithKline, Galapagos is advancing two oral pre-clinical drug candidates. The first pre-clinical candidate is on track to start Phase I testing by the end of 2009. The second candidate nomination was achieved in the first half of 2009. Candidates in this alliance are all directed against protein targets identified in human cartilage cells using Galapagos' target discovery platform. The orally available candidate drugs in both programs meet the chemical and biological criteria set by GSK for potential new medicines.

### **Advancing cachexia candidate toward the clinic**

A third pre-clinical program is the SARM (selective androgen receptor modulator) candidate drug which is being developed for the treatment of cachexia (loss of weight and muscle mass). At the start of 2009, Galapagos announced the remarkable success of this program to produce a novel compound that overcame the limited bioavailability reported at the beginning of 2008. The SARM program is funded by the Company.

### **Moving discovery programs forward**

In addition to its clinical and pre-clinical programs, Galapagos has active research ongoing in over 40 discovery programs across its arthritis, osteoporosis and infectious diseases alliances. In addition to the milestones received in the arthritis alliances, Galapagos also received a €2.5M payment from Eli Lilly for advancing one of the programs in the osteoporosis alliance to the next stage of drug discovery.

To date, Galapagos has received more than €77 million in payments from these alliances, demonstrating Galapagos' ability to offset substantially the costs of its own discovery and development programs. Additionally, Galapagos has initiated an Alzheimer's drug discovery program based on the novel Alzheimer's target described earlier this year in the journal *Science*<sup>1</sup>, with the aim to deliver a candidate drug to treat Alzheimer's disease.

In the first half of the year, Galapagos announced alliances with Merck & Co. in diabetes and obesity and in inflammatory diseases. The Company also expanded its anti-infectives alliance with GSK. Through its six risk/reward sharing alliances with top pharma companies, Galapagos is eligible to receive in excess of €2.2 billion in success-dependent milestone payments plus double-digit royalties on the worldwide sales of medicines that result from these programs.

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

The R&D division reported six months revenues of €18.0 M, an increase of 27% compared to the same period last year, and a segment loss of €9.9 M, compared €5.8 M to the first six months of 2008. R&D expenses in the first half year of 2009 were €25.8 M compared to €18.0 M in the same period of 2008. This planned increase was due to the broader portfolio of research programs and increased costs of later stage clinical programs. The Company will continue to invest in its research and development to strengthen its position in the discovery of breakthrough drugs.

### **BioFocus DPI division performance**

BioFocus DPI had a solid first half year, with revenues of €26.1 M, external sales growth of 11%, and the best financial performance in its history. The unit showed resiliency in a tough economic climate; while the chemistry division again reported a strong performance, much of the growth was driven by the biology division. BioFocus DPI signed deals with partners such as Lilly, Medicines for Malaria Venture, and Opona Therapeutics. The segment profit for BioFocus DPI over the first six months of the year was €3.4 M, compared to a €1.2 M segment loss in the same period last year, on a pro forma<sup>2</sup> basis. This improvement is the result of higher margins and further payback of earlier restructuring efforts, in line with management expectations. Visibility in the pipeline

<sup>1</sup> Full reference: Thathiah, A., Spittaels, K., Hoffmann, M., Staes, M., Cohen, A., Horré, K., Vanbrabant, M., Coun, F., Baekelandt, V., Delecourte, A., Fischer, D.F., Pollet, D., De Strooper, B., and Merchiers, P. The orphan G protein-coupled receptor 3 modulates amyloid-beta peptide generation in neurons. *Science* **323** (2009), 946-951.

<sup>2</sup> Pro forma figures exclude BioFocus DPI's San Diego operations which were sold in November 2008.

and the improved margins give management confidence that BioFocus DPI remains on track to deliver improved revenues, profit, and cash generation for the full year.

### **Corporate developments**

In June, Geoff McMillan and Laurent Ganem stepped down as Board Members and Werner Cautreels, CEO of Solvay Pharmaceuticals, joined the Board as an independent member. In June the Company also announced the resignation of CFO Leo Steenberg, and the appointment of Guillaume Jetten as his replacement as per 1 July 2009. Galapagos also received the Innovative Enterprise qualification in France, opening up the Galapagos investment opportunity to a new category of French investors. In April 2009 a new warrant plan was created by the Board under which 555,000 warrants were issued for the benefit of employees and an independent consultant of the Group, and in June 2009 a new warrant plan was created by the EGM under which 135,100 warrants were issued for the benefit of the members of the Board and the new CFO. As a result of the exercise of warrants in April and June, a total of 45,500 new shares were issued and the Share Capital was increased by €182,000, bringing the total number of shares outstanding per 30 June 2009 to 21,234,329.

### **Group result**

The net loss for the group for the first half-year of 2009 was €7.3 M, compared to the loss of €7.9 M on a pro forma basis for the first six months of 2008. General and administrative expenses were €9.9 M in the first half of 2009, compared to the €9.3 M in the first six months of 2008. The general and administrative expenses decreased as a percentage of revenues from 29% in 2008 to 26% in 2009.

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

A net decrease of €8.6 M in cash and cash equivalents was recorded during the first half of 2009, compared to a decrease of €21.9 M in the same period last year. The net cash flow used in operating activities was €5.4 M, as compared to €17.7 M during the same period in 2008; this decrease is due to a larger tax refund received from the French government for research investments, an additional non-cash provision for share-based compensation, as well as differences in timing between revenue recognition and cash received in the two periods. Galapagos' cash and cash equivalents amounted to €18.7 M on 30 June 2009.

### **Company outlook for the second half and full year 2009**

The Company reiterates full-year 2009 guidance figures: revenues of €100 M, a 30% increase in annual consolidated sales of 2008; R&D revenues of approximately €60 M; an improved cash contribution from BioFocus DPI and, based on the contracts in the pipeline and anticipated R&D payments, a maximum cash burn of €7 M and a corresponding cash position of €20 M at year end.

The Company continues to advance toward achievement of its strategic objectives for 2009:

- Completion Phase Ia, initiation of Phase Ib for GLPG0259 first-in-class molecule
- Completion Phase Ia for GLPG0187 bone metastasis molecule
- Initiation Phase II trial for Nanocort
- Finalization of pre-clinical testing for SARM & osteoarthritis candidates
- Increased revenues, profit, and cash flow from the BioFocus DPI service division
- Further capitalize on target discovery platform

Lastly, we thank our shareholders for their support in the first half of 2009. Galapagos' strategy is proving to be a viable way to build a leadership position in European biotech. With your support, Galapagos will continue to expand its alliances, advance its proprietary clinical pipeline, and increase profitability and revenues of its BioFocus DPI service division.

Onno van de Stolpe  
Chief Executive Officer

Raj Parekh  
Chairman

**Related party transactions**

In the first six months of 2009, 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 2008 that potentially had material impact to the financials of the first six months of 2009.

**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 INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME**

Note: In November 2008 Galapagos sold BioFocus DPI's San Diego operations. For better comparison, pro forma figures for June 30, 2008 have been presented based on continuing business streams.

**INCOME STATEMENT**

Thousands of €	<b>Jun 2009</b>	<b>Pro forma Jun 2008</b>	<b>As reported Jun 2008</b>
<b>Revenue</b>	<b>37,659</b>	<b>31,600</b>	<b>33,585</b>
Cost of sales	-10,325	-12,180	-14,212
<b>Gross profit</b>	<b>27,334</b>	<b>19,420</b>	<b>19,373</b>
Other income	504	301	301
R&D Expenditure	-25,751	-17,989	-17,989
General and administrative costs	-9,894	-9,294	-9,975
Sales and marketing expenses	-1,115	-1,445	-1,445
Integration costs		-95	-95
<b>Operating loss</b>	<b>-8,922</b>	<b>-9,102</b>	<b>-9,830</b>
Finance income	685	836	848
Finance cost	-343	-201	-825
<b>Loss before tax</b>	<b>-8,581</b>	<b>-8,467</b>	<b>-9,807</b>
Taxes	1,282	579	443
NET INCOME/LOSS FROM CONTINUING OPERATIONS	-7,299	-7,888	-9,364
NET INCOME/LOSS FROM DISCONTINUED OPERATIONS		-1,476	
<b>NET INCOME/LOSS attributable to:</b>	<b>-7,299</b>	<b>-9,364</b>	<b>-9,364</b>
• owners of the parent	-7,299	-9,364	-9,364
• non-controlling interests			
Earnings/loss per share from continuing operations (€)	-0.34	-0.37	-0.44
Earnings/loss per share from continuing and discontinuing operations (€)	-0.34	-0.44	-0.44

**STATEMENT OF COMPREHENSIVE INCOME**

Thousands of €	<b>Jun 2009</b>	<b>Jun 2008</b>	<b>Jun 2008</b>
<b>Profit/loss for the period</b>	<b>-7,299</b>	<b>-9,364</b>	<b>-9,364</b>
Exchange difference arising on translating of foreign operations	360	-1,626	-1,626
<b>Other comprehensive income/loss</b>	<b>360</b>	<b>-1,626</b>	<b>-1,626</b>
<b>Total comprehensive income/loss attributable to:</b>	<b>-6,939</b>	<b>-10,990</b>	<b>-10,990</b>
• owners of the parent	-6,939	-10,990	-10,990
• non-controlling interests			

**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**ASSETS**

Thousands of €	30 Jun 09	31 Dec 08
<b>NON-CURRENT ASSETS</b>	<b>61,593</b>	<b>58,975</b>
Goodwill	33,751	33,751
Intangible assets	4,209	4,159
Property plant and equipment	20,542	20,293
Deferred tax assets		
Available for sale financial assets	789	704
Income tax receivables	2,250	
Other non-current assets	52	68
<b>CURRENT ASSETS</b>	<b>44,623</b>	<b>59,849</b>
Inventories	4,143	3,574
Trade and other receivables	18,485	18,208
Current income tax receivables	317	8,408
Cash and cash equivalents	18,745	27,316
Other current assets	2,933	2,343
• Accrued income	1,329	1,012
• Deferred charges	1,604	1,331
<b>TOTAL ASSETS</b>	<b>106,216</b>	<b>118,824</b>

**EQUITY AND LIABILITIES**

Thousands of €	30 Jun 09	31 Dec 08
<b>Total equity</b>	<b>79,241</b>	<b>84,324</b>
Share capital	111,037	110,855
Share premium account	48,268	48,268
Translation differences	-1,947	-2,307
Accumulated losses	-78,117	-72,492
<b>TOTAL LIABILITIES</b>	<b>26,975</b>	<b>34,500</b>
<b>NON-CURRENT LIABILITIES</b>	<b>4,188</b>	<b>4,749</b>
Pension liabilities	830	830
Provisions	854	850
Deferred tax liabilities	162	201
Finance lease liabilities	1,495	1,156
Other non-current liabilities	847	1,712
<b>CURRENT LIABILITIES</b>	<b>22,787</b>	<b>29,751</b>
Financial lease liabilities	255	530
Other financial liabilities	12	16
Trade and other payables	11,850	13,425
Current income tax payable	56	56
Other current liabilities	10,614	15,724
• Accrued charges	1,946	2,290
• Deferred income	8,668	13,434
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>106,216</b>	<b>118,824</b>

**UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE**

Thousands of €	<b>2009</b>	<b>2008</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>27,316</b>	<b>49,295</b>
Result from operations	-8,922	-9,830
<b>Adjustments for:</b>		
Depreciation of property, plant and equipment	3,090	3,038
Amortization of intangible fixed assets	809	803
Exchange (loss) gain on translation of net assets of subsidiary	-552	-516
Share based compensation	1,675	595
Increase / (Decrease) provisions	31	-526
Increase / (Decrease) pension liabilities (assets)		21
<b>Operating cash flows before movements in working capital</b>	<b>-3,870</b>	<b>-6,415</b>
(Increase)/Decrease in inventories	-308	260
(Increase)/Decrease in receivables	486	1,190
Increase/(Decrease) in payables	-8,627	-15,937
<b>Cash used in operations</b>	<b>-12,319</b>	<b>-20,902</b>
Interest paid and other financial costs	-208	-824
Taxes	7,083	4,056
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>-5,445</b>	<b>-17,670</b>
Purchase of property, plant and equipment	-2,917	-2,016
Purchase of and expenditure in intangible fixed assets	-882	-1,125
Proceeds from disposal of intangible assets	215	
Proceeds from disposal of property, plant and equipment	154	
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>-3,430</b>	<b>-3,141</b>
Repayment of obligations under finance leases and other debts	-129	-1,930
Proceeds from share issues	182	
Interest received and other financial income	251	839
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>304</b>	<b>-1,091</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>-8,571</b>	<b>-21,902</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>18,745</b>	<b>27,393</b>

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

Thousands of €	Share capital	Share premium	Translation differences	Retained earnings	Total
<b>Balance on 1 Jan 2008</b>	<b>110,855</b>	<b>48,268</b>	<b>-1,535</b>	<b>-58,962</b>	<b>98,626</b>
Net result				-14,584	-14,584
Other comprehensive income			-1,116	-87	-1,203
Share based compensation				1,161	1,161
Disposal of subsidiaries			344		344
Other				-20	-20
<b>Balance on 31 Dec 2008</b>	<b>110,855</b>	<b>48,268</b>	<b>-2,307</b>	<b>-72,492</b>	<b>84,324</b>
Net result				-7,300	-7,300
Other comprehensive income			360		360
Share based compensation				1,675	1,675
Exercise warrants	182				182
<b>Balance on 30 Jun 2009</b>	<b>111,037</b>	<b>48,268</b>	<b>-1,947</b>	<b>-78,117</b>	<b>79,241</b>

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

Note: In November 2008 Galapagos sold BioFocus DPI's San Diego operations. For better comparison, pro forma figures for June 30, 2008 have been presented based on continuing business streams.

**2009**

Thousands of €	Internal R&D	BioFocus DPI	Intersegment eliminations	Unallocated	Galapagos Group
External revenues	16,950	18,676			35,626
Grant income	1,074	958			2,032
Intersegment sales		6,441	-6,441		
<b>Revenues</b>	<b>18,024</b>	<b>26,076</b>	<b>-6,441</b>		<b>37,659</b>
<b>Gross margin</b>	<b>18,024</b>	<b>10,634</b>	<b>-1,325</b>		<b>27,333</b>
<b>R&amp;D expenditure</b>	-26,556		1,309		-25,247
<b>General and administrative costs</b>	-1,352	-6,161	16		-7,497
Unallocated G&A costs				-2,397	-2,397
<b>Sales and marketing expenses</b>	-52	-1,063			-1,115
<b>Operating results</b>	<b>-9,936</b>	<b>3,410</b>		<b>-2,397</b>	<b>-8,922</b>

**2008 Pro forma**

Thousands of €	Internal R&D	BioFocus DPI	Intersegment eliminations	Unallocated	Galapagos Group
External revenues	12,360	16,879			29,239
Grant income	1,578	783			2,361
Intersegment sales	228	3,953	-4,181		
<b>Revenues</b>	<b>14,166</b>	<b>21,615</b>	<b>-4,181</b>		<b>31,600</b>
<b>Gross margin</b>	<b>14,166</b>	<b>6,672</b>	<b>-1,418</b>		<b>19,420</b>
<b>R&amp;D expenditure</b>	-18,168		481		-17,687
<b>General and administrative costs</b>	-1,551	-6,545	932		-7,164
Unallocated G&A costs				-2,132	-2,132
<b>Sales and marketing expenses</b>	-242	-1,206	3		-1,445
Integration costs	-4	-91			-95
<b>Operating results</b>	<b>-5,799</b>	<b>-1,169</b>	<b>-2</b>	<b>-2,132</b>	<b>-9,102</b>

**2008 As reported**

Thousands of €	<b>Internal R&amp;D</b>	<b>BioFocus DPI</b>	<b>Intersegment eliminations</b>	<b>Unallocated</b>	<b>Galapagos Group</b>
External revenues	12,360	18,863			31,223
Grant income	1,578	783			2,361
Intersegment sales	228	4,101	-4,329		
<b>Revenues</b>	<b>14,166</b>	<b>23,747</b>	<b>-4,329</b>		<b>33,584</b>
<b>Gross margin</b>	<b>14,166</b>	<b>6,625</b>	<b>-1,418</b>		<b>19,373</b>
<b>R&amp;D expenditure</b>	-18,168		481		-17,687
<b>General and administrative costs</b>	-1,551	-7,086	932		-7,705
Unallocated G&A costs				-2,270	-2,270
<b>Sales and marketing expenses</b>	-242	-1,206	3		-1,445
Integration costs	-4	-91			-95
<b>Operating results</b>	<b>-5,799</b>	<b>-1,758</b>	<b>-2</b>	<b>-2,270</b>	<b>-9,830</b>

## **EXPLANATORY NOTES FOR GALAPAGOS' UNAUDITED SIX MONTHS RESULTS ENDED 30 JUNE 2009**

### **ACCOUNTING POLICIES AND CHANGES IN TERMS AND CONDITIONS OF WARRANT PLANS**

The accounting policies and methods of computation in the interim financial statements are identical to the most recent annual financial statements, with exception of the new standards described below. As a consequence of IAS 1 and IFRS 8, certain financial statements from the reported 2008 Interim Results have been presented on a pro forma basis to exclude BioFocus DPI's San Diego operations, enabling a like-for-like comparison with continuing operations on June 30, 2009.

#### *IFRS 2 Share-based payment – Vesting conditions and cancellations*

The Extraordinary General Shareholders' Meeting of June 2, 2009 approved a five year extension of the warrant exercise period under Galapagos Warrant Plan 2002 Belgium (only for warrants offered as from January 1, 2003), Galapagos Warrant Plan 2005, and other Galapagos Warrant Plans including those warrants offered to directors, all as described in the Board of Directors' special report in accordance with article 583 of the Belgian Code of Companies and in accordance with article 21 of the Economic Recovery Law of March 27, 2009.

#### *IAS 1 Revised presentation of financial statements*

This standard requires the statement of comprehensive income in one or two statements. Galapagos has opted for the publication of two statements. The standard also revises the presentation of the statement of changes in equity and a new terminology has been introduced: "balance sheet" is now called "statement of financial position", "cash flow statement" is now "statement of cash flow", and "minority interest" is now called "non-controlling interest".

#### *IFRS 8 Operational segments*

IFRS 8 replaces the IAS 14 standard and requires disclosure of information about the operating segments. These operating segments, explained below, are the same as the primary business segments identified under IAS 14. This new standard has no impact on the financial position and results of Galapagos.

### **Operating segments**

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

#### *Internal R&D*

Internal R&D division has small molecule programs in bone and joint diseases, bone metastasis, cachexia, anti-infectives and metabolic diseases. Galapagos funds these programs through alliance payments, cash generated by its profitable service division BioFocus DPI, 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. Through an alliance with MorphoSys, Galapagos' R&D division is also developing new antibody therapies in bone and joint diseases.

#### *BioFocus DPI*

The BioFocus DPI service division 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.

The operational results of these segments are evaluated monthly at the Executive Committee meetings for resource allocation and performance measurement. Inter-segment sales are charged at prevailing market rates.

### **Details of the unaudited half-year 2009 financial results**

Note: All comparisons are relative to pro forma figures for June 30, 2008 which exclude BioFocus DPI's San Diego operations.

#### **Revenue**

Galapagos' revenues for the first half of 2009 amounted to €37.7 M compared to €31.6 M on a pro forma basis in the same period of 2008. The R&D division is on track with revenues of €18.0 M compared to €14.2 M in the same period last year (+27%). BioFocus DPI reported total revenues of €26.1 M, including €6.4 M in inter-company revenues. BioFocus DPI external revenues grew by 11% as compared to the same period last year.

#### **Results**

The net loss for the first half-year of 2009 was €7.3 M, compared to the loss of €7.9 M on a pro forma basis for the first six months of 2008. The R&D division reported a segment loss of €9.9 M, compared to €5.8 M the first six months of 2008. The segment profit for BioFocus DPI over the first six months of the year was €3.4 M, compared to a €1.2 M segment loss in the same period last year, on a pro forma basis. This improvement is the result of higher margins and further payback of earlier restructuring efforts, in line with management expectations. Visibility in the pipeline and the improved margins give management confidence that BioFocus DPI remains on track to deliver improved revenues, profit, and cash generation for the full year.

R&D expenses for the group in the first half-year of 2009 were €25.8 M compared to €18.0 M in the same period of 2008. This planned increase was due to the broader portfolio of research programs and increased costs of later stage clinical programs.

General and administrative expenses for the group were €9.9 M in the first half of 2009, compared to the €9.3 M in the first six months of 2008. The general and administrative expenses decreased as a percentage of revenues from 29% in 2008 to 26% in 2009.

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

A net decrease of €8.6 M in cash and cash equivalents was recorded during the first half of 2009, compared to a decrease of €21.9 M in the same period last year. The net cash flow used in operating activities was €5.4 M, as compared to €17.7 M during the same period in 2008; this decrease is due to a larger tax refund received from the French government for research investments, an additional non-cash provision for share-based compensation, as well as differences in timing between revenue recognition and cash received in the two periods. Galapagos' cash and cash equivalents amounted to €18.7 M on 30 June 2009.

## **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 2009**

3Q09 interim update	13 November 2009
Annual results 2009	5 March 2010
Annual shareholders meeting	27 April 2010

### **Financial year**

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

### **Statutory auditor**

Deloitte Bedrijfsrevisoren, represented by Mr. Gert Vanhees  
Louizalaan 240  
1050 Brussels, Belgium

### **Availability of the Interim Report**

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

Galapagos NV  
Investor Relations  
Generaal De Wittelaan L11 A3  
B-2800 Mechelen, Belgium  
Tel: +32 15 34 29 00  
ir@glpg.com

For informational purposes, an electronic version of the Interim Report 2009 is available on the website of Galapagos, [www.glpg.com/investor/financial\\_reports.htm](http://www.glpg.com/investor/financial_reports.htm).