The Galapagos Group

An overview of Galapagos, its strategy and portfolio in the first nine months of 2016

Letter from the management

Dear Shareholders,

For Galapagos, there is no such thing as slow months of summer. We delivered robust progress in R&D and kept executing our plans on track. Our collaboration partner Gilead started the FINCH Phase 3 program with filgotinib in rheumatoid arthritis (RA), to be conducted in centers all over the world. We announced successful completion of discussions with regulatory authorities for the next studies with filgotinib in Crohn's disease and ulcerative colitis; these studies are expected to start before the end of 2016. Also on filgotinib, we reported endoscopic and histopathologic improvements that are consistent with clinical remission rates observed in patients with Crohn's disease in the FITZROY study, in an abstract submitted to UEG Week 2016.

In this third quarter, we received orphan status from the EU for our autotaxin inhibitor GLPG1690. Galapagos started a Phase 2a biomarker study with GLPG1690 in patients with idiopathic pulmonary fibrosis (IPF) earlier this year. Next step is filing for orphan drug designation with the FDA in the United States. GLPG1690 is fully proprietary to Galapagos. Galapagos and MorphoSys also disclosed the first dosing with MOR106 in atopic dermatitis patients and disclosed the target of MOR106, IL-17C, which was discovered by Galapagos to play a role in skin inflammation.

Galapagos has been working in cystic fibrosis (CF) since 2005, giving us 11 years' experience of developing new drugs in the field. We remain on track to evaluate a potential triple combination therapy in patient studies in mid-2017. Galapagos and AbbVie reported the results for the first-in-human study with GLPG2222 and for the Phase 2 SAPHIRA 2 study with GLPG1837 in S1251N mutation patients, and profiled much of our preclinical CF work at NACFC 2016 in Orlando.

We look forward to the last months of 2016. At the ACR conference in Washington we will present further modelling data on filgotinib and we will share our initial biomarker work from DARWIN on filgotinib. We will show patient reported outcomes from FITZROY at AIBD in December. In CF we will be starting Phase 1 with GLPG2737, our C2 corrector, which will bring us another step closer towards developing a triple combination therapy with the potential for transformative efficacy.

All these innovations could not have been possible without the continuous trust of our investors, and I thank you for that. But most of all, I want to thank my colleagues. Without their determination and ability to solve the most complex puzzles in biology, chemistry, and development, we would not have been where we are right now. And it is the Galapagos commitment to 'getting things done' that will bring us further along our way. The best is yet to come.

Operational overview Q3 2016

Rheumatoid arthritis

- Reported first patient dosing in the FINCH Phase 3 program with filgotinib in rheumatoid arthritis

Inflammatory bowel disease

- Reported that endoscopic improvements with filgotinib are consistent with clinical remission rates in patients with Crohn's disease, in an abstract submitted to UEG Week 2016

- Announced successful completion of discussions with regulatory authorities for the next studies with filgotinib in Crohn's disease (DIVERSITY) and ulcerative colitis (SELECTION). Both studies will recruit approximately 1,300 patients each from the US, Europe, Latin America, Canada, and Asia/Pacific. The SELECTION Phase 2b/3 study in ulcerative colitis will include a futility analysis, serving as the Phase 2b part of this integrated Phase 2b/3 study. The filgotinib Phase 3 program will also contain a dedicated male patient testicular safety study. First dosing in DIVERSITY and SELECTION is expected in Q4'16

Atopic dermatitis

- Galapagos and MorphoSys disclosed the first dosing with MOR106 in atopic dermatitis patients and disclosed the target of MOR106, IL-17C, which was discovered by Galapagos to play a role in skin inflammation.
- Topline results from the Phase 1 study with MOR106 are expected in the second half of 2017

Cystic fibrosis (CF)

- We remain on track to have a potential triple combination therapy in patient studies in mid-2017
- Galapagos and AbbVie reported the results for the First-in-Human study with GLPG2222 and for the Phase 2 SAPHIRA 2 study with GLPG1837 in S1251N mutation patients at NACFC 2016

Fibrosis

- Received orphan status from the EU for autotaxin inhibitor GLPG1690. Galapagos started a Phase 2a biomarker study with GLPG1690 in patients with idiopathic pulmonary fibrosis (IPF) earlier this year. Topline results are expected in Q2 2017

Q3 2016 financial result

Revenues and other income

Our revenues and other income for the first nine months of 2016 amounted to €65.0 million, compared to €47.2 million in the same period of 2015. Revenues (€50.0 million vs €32.4 million for the same period last year) were higher due to an increase of milestone payments received and contractually agreed costs recharges on partnered programs (i.e. reimbursement income). Other income was stable (€15.0 million vs €14.8 million for the same period last year).

Results

We realized a net profit of €8.1 million for the first nine months of 2016, compared to a net loss of €61.4 million in the first nine months of 2015. This evolution was primarily driven by €57.5 million fair value gain from the re-measurement of the financial asset triggered by the recent Share Subscription Agreement with Gilead.

We reported an operating loss amounting to €48.5 million for the first nine months of 2016, compared to an operating loss of €63.3 million for the same period last year.

Our R&D expenses in the first nine months of 2016 were €96.7 million, compared to €96.9 million for the same period in 2015.

Our G&A and S&M expenses were €16.8 million in the first nine months of 2016, compared to €13.6 million in the first nine months of 2015. This increase mainly resulted from higher costs recognized in relation to the warrant plans as a result of the increase of our share price in the past year as well as a slight headcount increase and higher other operational costs.

Financial results were primarily driven by the fair value re-measurement of the Share Subscription Agreement, which is explained under the next caption below. Net other financial costs in the first nine months of 2016 amounted to €0.9 million, compared to a net other financial income of €0.4 million in the first nine months of 2015, and were primarily attributable to €2.4 million of exchange loss on our cash position in USD due to the fluctuation of the USD exchange rate in the first nine months of 2016.

Fair value re-measurement of Share Subscription Agreement

On 16 December 2015, Gilead and Galapagos entered into a global collaboration for the development and commercialization of filgotinib, in the framework of which Gilead committed to an upfront payment of $725 million consisting of a license fee of $300 million and a $425 million equity investment in Galapagos NV by subscribing to new shares at a price of €58 per share, including issuance premium. This agreement was effectively completed and entered into force on 19 January 2016 and the full payment was received.

In connection with this agreement, we recognized in December 2015 a short term financial asset (derivative) and an offsetting deferred income of €39 million upon signing of the Share Subscription Agreement with Gilead as required under IAS 39. This financial asset initially reflected the share premium that Gilead committed to pay above our closing share price on the day of entering into the Share Subscription Agreement. Under IAS 39 the fair value of the financial asset was re-measured at year-end and again upon closing of the Share Subscription Agreement on 19 January 2016, when the financial asset expired. Variations in fair value of the financial asset are recorded in the income statement.

The decrease in the fair value of the financial asset resulting from the increase in the Galapagos share price between signing of the Share Subscription Agreement and 31 December 2015 resulted in a negative, non-cash fair value adjustment of €30.6 million in the financial results of 2015.

The subsequent increase in the fair value of the financial asset resulting from the decrease in our share price between 1 January 2016 and 19 January 2016 resulted in a positive non-cash adjustment of €57.5 million in the financial result of the first quarter of 2016.

On 19 January 2016, the value of the financial asset at maturity amounted to €65.9 million, reflecting the share premium that Gilead paid above our closing share price on the day of the capital increase. This financial asset expired on the effective date of the Share Subscription Agreement.

Liquid assets position

Cash, cash equivalents and restricted cash totaled €938.8 million on 30 September 2016.

A net increase of €590.5 million in cash and cash equivalents was recorded during the first nine months of 2016, compared to an increase of €178.8 million during the same period last year. Net cash flows from financing activities generated €395.2 million mainly through the share subscription by Gilead. Furthermore, a net cash inflow from operating activities was realized for €204.3 million in the first nine months of 2016 resulting from the license fee of $300 million (€275.6 million) received from Gilead and, by difference, from an operating cash burn of €71.3 million. Finally, €6.7 million was used in investing activities and €2.4 million negative exchange rate differences were generated on cash and cash equivalents.

Finally, our balance sheet holds an unconditional and unrestricted receivable from the French government (*Crédit d'Impôt Recherche*[1]) now amounting to €39.0 million, to be received in yearly tranches from 2016 to 2020. Our balance sheet also holds a receivable from the Belgian Government for R&D incentives now amounting to €28.3 million, to be received in yearly tranches from 2017 to 2026.

[1] *Crédit d'Impôt Recherche* refers to an innovation incentive system underwritten by the French government.

Outlook 2016

In the first nine months of 2016, Galapagos continued to execute as planned on its R&D strategy. The full year 2016 is expected to deliver more data, with topline results expected from GLPG1837 in the SAPHIRA 1 Phase 2 program in patients with the G551D mutation. In addition, we expect to initiate a Phase 1 study with novel C2 corrector GLPG2737 in CF, and our collaboration partner Gilead is expected to start dosing with filgotinib in a Phase 3 program in Crohn's disease, and Phase 2b/3 in ulcerative colitis.

Based on the forecast for the remainder of the year, management retains 2016 guidance for operational cash burn (excluding payments received from our collaboration partner Gilead for filgotinib) of €100-120 million.

We thank you again for your support of Galapagos. We aim to discover and to develop more novel medications, bring the successful therapies to the market, and improve patients' lives.

Onno van de Stolpe
CEO

At a glance

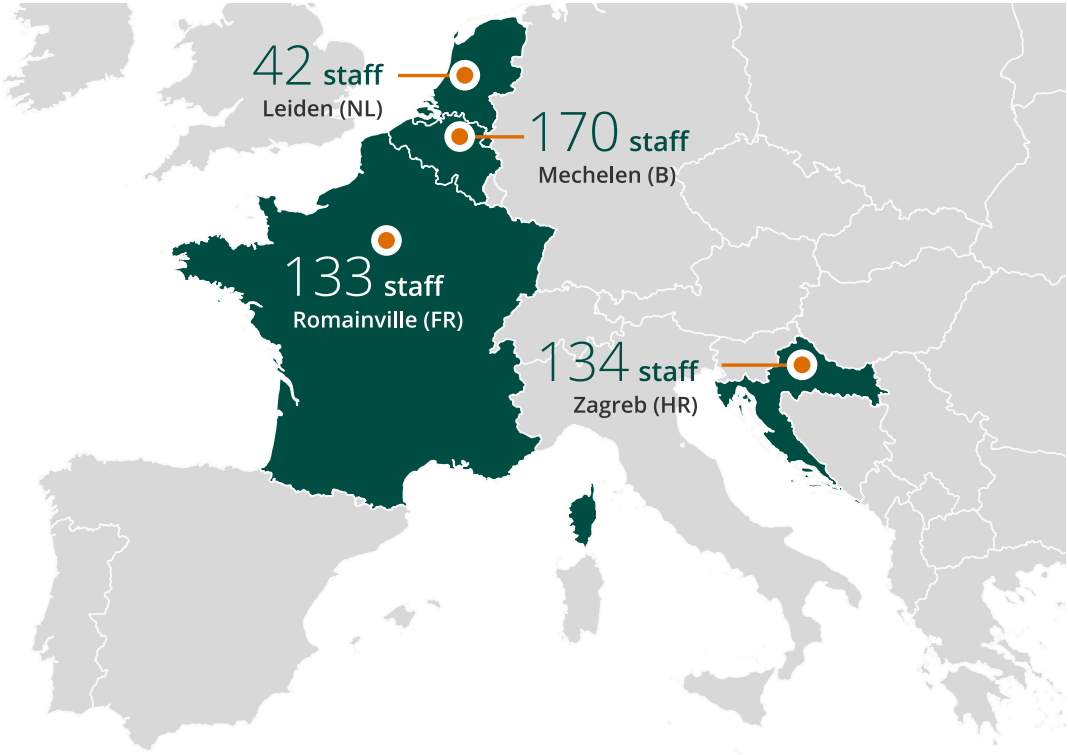
Key figures (IFRS) Galapagos Group (unaudited)

(in € thousands, if not stated otherwise)	30/09/2016	30/09/2015
Results		
Revenues and other income	65,040	47,219
R&D expenditure	(96,739)	(96,873)
S, G&A expenses	(16,784)	(13,600)
Personnel expenses (including share-based compensation)	(38,785)	(34,053)
Capital expenditure	3,876	4,543
Depreciation and amortization of (in)tangible assets	(3,077)	(2,518)
Operating loss	(48,482)	(63,254)
Net financial results	56,621	438
Taxes	(71)	1,411
Net income / loss (–)	8,067	(61,406)
Galapagos share		
Number of shares issued on 30 September	46,169,828	39,012,842
Basic income / loss (–) per share (in €)	0.18	(1.78)
Diluted income / loss (–) per share (in €)	0.17	(1.78)
Share price on 30 September (in €)	57.13	36.54
Personnel data		
Total Group employees on 30 September (Number)	479	427

Balance sheet

(thousands of €)	30/09/2016	31/12/2015
Total assets	1,043,093	442,514
Cash, cash equivalents and restricted cash	938,764	348,216
Total liabilities	334,272	77,515
Stockholders' equity	708,822	364,999

Employees per site as of 30 September 2016



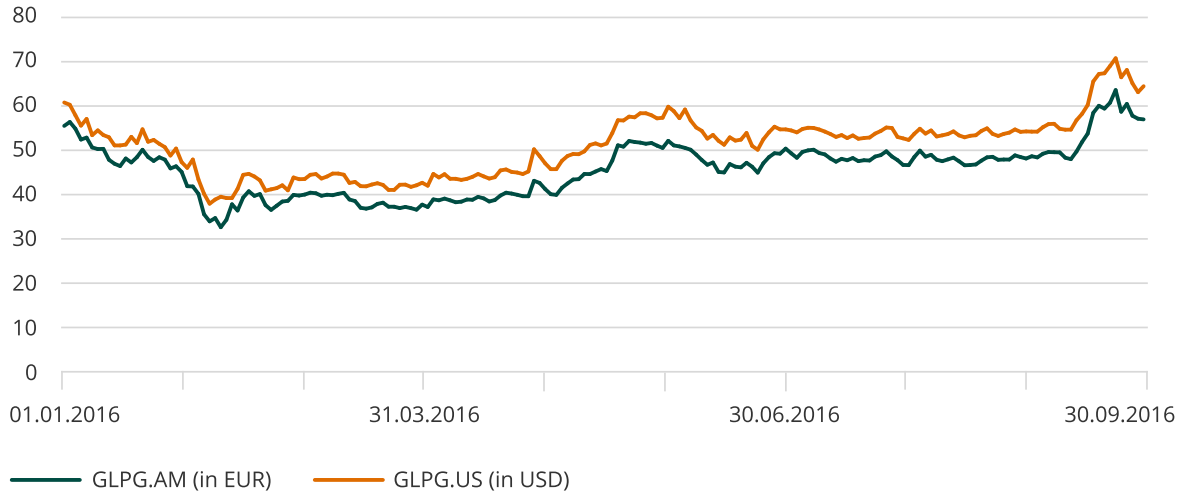
Risk factors

We refer to the description of risk factors in the 2015 Annual Report, pp. 53-59, as supplemented by the description of risk factors in our annual report on Form 20-F filed with the U.S. Securities and Exchange Commission, pp. 5-45. In summary, the principal risks and uncertainties faced by us relate to: our financial position and need for additional capital; product development, regulatory approval and commercialization; our reliance on third parties; our competitive position; our intellectual property; our organization, structure and operation (including but not limited to certain risks related to our status as a U.S. publicly listed company following the public offering of shares (in the form of ADSs) and listing on NASDAQ in May 2015) and market risks relating to our shares and ADSs.

We also refer to the description of the Group's financial risk management given in the 2015 Annual Report, pp. 131-134, which remains valid.

The Galapagos share

Performance of the Galapagos share on Euronext and NASDAQ



Disclaimer and other information

Galapagos NV is a limited liability company organized under the laws of Belgium, having its registered office at Generaal De Wittelaan L11 A3, 2800 Mechelen, Belgium. Throughout this report, the term "Galapagos NV" refers solely to the non-consolidated Belgian company and references to "we," "our," "the Group" or "Galapagos" include Galapagos NV together with its subsidiaries.

This report is published in Dutch and in English. In case of inconsistency between the Dutch and the English versions, the Dutch version shall prevail. Galapagos is responsible for the translation and conformity between the Dutch and English versions.

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

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Listings

Euronext Amsterdam and Brussels: GLPG
NASDAQ: GLPG

Forward-looking statements

This report contains forward-looking statements, all of which involve certain risks and uncertainties. These statements are often, but are not always, made through the use of words or phrases such as "believe," "anticipate," "expect," "intend," "plan," "seek," "estimate," "may," "will," "could," "stand to," "continue," as well as similar expressions. Forward-looking statements contained in this report include, but are not limited to, statements made in the "Letter from the management", the information provided in the section captioned "Outlook 2016", guidance from management regarding the expected operational use of cash during financial year 2016, statements regarding the development of a potential triple combination therapy for Class II cystic fibrosis patients and the possible activity and clinical utility of such potential triple combination therapy, statements regarding the expected timing, design and readouts of ongoing and planned clinical trials (i) with filgotinib in rheumatoid arthritis, Crohn's disease and ulcerative colitis, (ii) with GLPG2222, GLPG2737, GLPG2851, and GLPG2451 in cystic fibrosis, (iii) with GLPG1837 in Class III cystic fibrosis patients, (iv) with GLPG1690 in IPF, (v) with GLPG1972 in osteoarthritis, and (vi) with MOR106 in atopic dermatitis. We caution the reader that forward-looking statements are not guarantees of future performance. Forward-looking statements may involve known and unknown risks, uncertainties and other factors which might cause our actual results, financial condition and liquidity, performance or achievements, or the development of the industry in which we operate, to be materially different from any historic or future results, financial conditions, performance or achievements expressed or implied by such forward-looking statements. In addition, even if our results of operations, financial condition

and liquidity, and the development of the industry in which we operate are consistent with such forward-looking statements, they may not be predictive of results or developments in future periods. Among the factors that may result in differences are that our expectations regarding our 2016 revenues and financial results and our 2016 operating expenses may be incorrect (including because one or more of our assumptions underlying our revenue or expense expectations may not be realized), the inherent uncertainties associated with competitive developments, clinical trial and product development activities and regulatory approval requirements (including that data from our clinical research programs in rheumatoid arthritis, Crohn's disease, ulcerative colitis, cystic fibrosis, idiopathic pulmonary fibrosis, osteoarthritis, atopic dermatitis, and other inflammatory indications may not support registration or further development of our product candidates due to safety, efficacy or other reasons), our reliance on collaborations with third parties (including our collaboration partner for filgotinib, Gilead, and our collaboration partner for cystic fibrosis, AbbVie), and estimating the commercial potential of our product candidates. A further list and description of these risks, uncertainties and other risks can be found in our Securities and Exchange Commission filings and reports, including in our most recent annual report on Form 20-F filed with the SEC and our other filings and reports. We also refer to the "Risk Factors" section of this report. 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. We expressly disclaim any obligation to update any such forward-looking statements in this document to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements, unless specifically required by law or regulation.