The Galapagos group

An overview of Galapagos, its strategy and portfolio in H1 2017

David Amantini

Therapeutic Area Head

Letter from the management

Dear shareholders,

The Galapagos team continues to push the limits, with progress across our pipeline in the first half of 2017.

In addition to the Phase 3 programs initiated in rheumatoid arthritis, Crohn's disease and ulcerative colitis last year with filgotinib, Gilead started additional Phase 2 studies in small bowel and fistulizing Crohn's disease, Sjögren's syndrome, cutaneous lupus erythematosus, and uveitis. Galapagos started Phase 2 studies with filgotinib in psoriatic arthritis and ankylosing spondylitis earlier this year, making filgotinib widely explored in inflammation indications. We expect more studies with filgotinib in new indications to be initiated later this year. We now have nearly 1,900 patient years' experience in RA patients, as DARWIN 3 continues; in the first interim readout, presented at EULAR 2017, we reported continued activity with safety in line with the core studies.

In cystic fibrosis, we and AbbVie developed a large portfolio of potentiators and correctors that provides the opportunity to develop distinct triple combination therapies. At our R&D update in June, we reported that Phase 1 results on GLPG2451, GLPG2222 and GLPG2737 showed favorable findings relating to safety and tolerability of the individual components that constitute our current most advanced potential triple combination therapy. These results led us to initiate that triple combination program, including start of the regulatory review process in Europe this month, which we expect to allow for a patient study with '2737 in combination with Orkambi®[1] and the first patient study with the triple combination '2451, '2222, and '2737 to start in the fourth quarter. In addition, we announced the plan to start two additional triple combination studies in 2018, potentially enriching our future offering to CF patients.

But this is only part of what we reported at our R&D update. We received orphan status from the U.S. FDA for our proprietary autotaxin inhibitor GLPG1690, and we expect to report topline results for the FLORA Phase 2a study in IPF patients this quarter. We also plan to report topline results from MOR106 in atopic dermatitis patients later this year. We initiated a Phase 1b patient study in the U.S. with novel osteoarthritis candidate GLPG1972. We also added several pre-clinical candidates, to grow our proprietary pipeline to seven clinical-stage programs today.

In April we raised €364 million gross proceeds in a U.S. public offering. We reported a cash balance of €1,263 million on 30 June 2017, further strengthening our solid financial position to invest in our promising R&D programs. With your continued support, we look forward to keeping you informed on execution of our strategy the rest of this year, on our way to becoming a fully integrated biopharmaceutical company.

Operational overview Q1 2017

We refer to our Q1 2017 report.

Operational overview Q2 2017

Inflammation

- We reported the first interim readout with filgotinib in RA patients in long-term extension study DARWIN 3 at EULAR 2017: continued activity and safety in line with the core studies

[1] Orkambi® is a registered drug of Vertex Pharmaceuticals

- Our collaboration partner Gilead initiated new Phase 2 studies with filgotinib in cutaneous lupus erythematosus, uveitis, and Sjögren's syndrome
- We initiated Phase 2 studies with filgotinib in psoriatic arthritis and ankylosing spondylitis, initiation of the former triggering a $10 million milestone payment from our collaboration partner Gilead
- We disclosed the target of GLPG1972 to be ADAMTS-5 during OARSI 2017
- We dosed the first osteoarthritis patient with GLPG1972 in a Phase 1b study in the U.S.
- We expect to report topline results with MOR106, a human monoclonal antibody targeting IL-17C, in a Phase 1b trial in atopic dermatitis patients later in 2017
- We nominated fully proprietary pre-clinical candidates GLPG3121 and GLPG3312 with undisclosed targets in inflammation

Cystic fibrosis (CF)

- We reported favorable findings relating to safety and tolerability of C2 corrector GLPG2737 and potentiator GLPG2451
- We reported initiation of the first triple combination patient program, starting with regulatory process in July
- We reported plans to initiate patient studies with two additional triple combinations out of our deep CF candidate portfolio

Idiopathic pulmonary fibrosis (IPF)

- We received orphan drug status from the U.S. FDA for GLPG1690 in IPF
- We completed the Phase 2a FLORA study with GLPG1690; we expect results in the third quarter
- We nominated fully proprietary pre-clinical candidate GLPG3499 in fibrosis, replacing GLPG2938

Additional pipeline progress

- We announced plans to initiate a new study with GPR84 inhibitor GLPG1205 in an undisclosed indication later in 2017
- We nominated pre-clinical candidate GLPG2384 in an undisclosed indication
- We nominated pre-clinical candidate GLPG3535 for pain in the alliance with collaboration partner Calchan

Corporate

- We raised €364 million gross proceeds from a U.S. public offering and €4.7 million from warrant exercises, resulting in the issue of 4,611,600 new shares
- We received shareholder approval for all proposed resolutions at the 25 April 2017 AGM and EGM

Recent events

- We announced the appointment of Michele Manto as SVP Commercial Operations
- On 27 July 2017, Servier announced the inlicensing of GLPG1972, triggering a €6 million license fee payment to Galapagos

H1 2017 financial result

Revenues and other income

Our revenues and other income for the first six months of 2017 amounted to €73.0 million, compared to €48.8 million in the same period of 2016. Revenues (€60.9 million vs €38.8 million for the same period last year) were higher due to increased revenue recognition of upfront payments, which were related to our filgotinib program with Gilead. Other income increased slightly (€12.1 million vs €10.0 million for the same period last year), mainly driven by higher income from R&D incentives.

Results

We realized a net loss of €49.2 million for the first six months of 2017, compared to a net profit of €32.2 million in the first six months of 2016. Last year's result was primarily driven by a €57.5 million non-cash fair value gain from the re-measurement of the financial asset triggered by the share subscription agreement with Gilead.

We reported an operating loss amounting to €32.9 million for the first half of 2017, compared to an operating loss of €24.3 million for the same period last year.

Our R&D expenses in the first six months of 2017 were €92.9 million, compared to €62.4 million for the first half of 2016. This planned increase was due mainly to an increase of €21.3 million in subcontracting costs for our filgotinib and cystic fibrosis programs. Furthermore, personnel costs increased, explained by a planned headcount increase, as well as higher costs for warrants and bonus plans as a result of the increase of our share price.

Our G&A and S&M expenses were €13.0 million in the first six months of 2017, compared to €10.7 million in the first half of 2016. This increase primarily resulted from higher costs recognized for warrants and bonus plans as a result of the increase of our share price.

Net other financial expenses in the first six months of 2017 amounted to €16.2 million, compared to net other financial expenses of €0.9 million for the same period last year, and were primarily attributable to €17.1 million of unrealized exchange loss on our cash position in U.S. dollar. We expect to use this cash held in U.S. dollar to settle our future payables in U.S. dollar, which will be primarily linked to our global collaboration with Gilead for the development of filgotinib.

Liquid assets position

Cash, cash equivalents and restricted cash totaled €1,263.2 million at 30 June 2017.

A net increase of €288.8 million in cash and cash equivalents was recorded during the first six months of 2017, compared to an increase of €620.2 million during the same period last year. Net cash flows used in operating activities amounted to €51.3 million during the first six months of 2017. Furthermore €4.5 million was generated in investing activities primarily driven by the release of restricted cash to cash and cash equivalents for €6.6 million. Financing activities generated €352.8 million of cash, consisting of €348.1 million proceeds from the U.S. public offering and €4.7 million proceeds from warrant exercises. Finally €17.1 million of unrealized negative exchange rate differences were reported on cash and cash equivalents.

On 30 June 2017, our balance sheet held a receivable from the French government (*Crédit d'Impôt Recherche*[2]) amounting to €39.6 million, to be received in yearly tranches from 2017 to 2021. Our balance sheet also held a receivable from the Belgian government for R&D incentives amounting to €31.9 million, to be received in yearly tranches from 2018 to 2027.

Outlook 2017

Looking to the second half of the year, we aim to dose the first CF patient with our first triple combination therapy in Q4, and to launch new clinical studies with CF candidates and combinations throughout the half year. Together with our collaboration partner Gilead we plan to start additional proof-of-concept studies with filgotinib. Topline results from the FLORA Phase 2a study with GLPG1690 in IPF (Q3) and from the Phase 1b study with MOR106 in atopic dermatitis patients are expected later this year. We expect to complete recruitment for a Phase 1b study with GLPG1972 in osteoarthritis patients in the U.S. We maintain our guidance for an operational use of cash of €135-155 million during 2017.

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

Onno van de Stolpe
CEO

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

At a glance

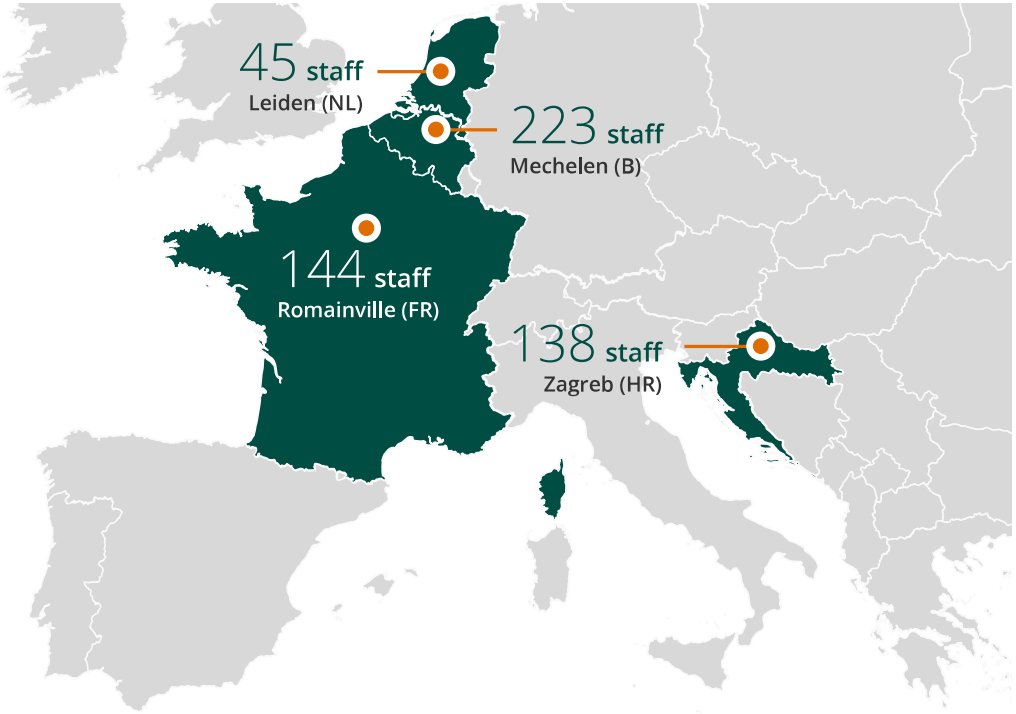
Key figures (IFRS) Galapagos group (unaudited)

(in thousands of €, if not stated otherwise)	30/06/2017	30/06/2016
Results		
Revenues and other income	73,031	48,764
R&D expenditure	(92,913)	(62,412)
S, G&A expenses	(13,020)	(10,702)
Personnel expenses (including share-based compensation)	(33,885)	(25,058)
Capital expenditure	2,464	2,932
Depreciation and amortization of (in)tangible assets	(2,144)	(2,001)
Operating loss	(32,903)	(24,349)
Net financial result	(16,254)	56,554
Taxes	(92)	24
Net income / loss (–)	(49,249)	32,229
Galapagos share		
Number of shares issued on 30 June	50,867,678	46,109,508
Basic income / loss (–) per share (in €)	(1.03)	0.71
Diluted income / loss (–) per share (in €)	(1.03)	0.69
Share price on 30 June (in €)	66.86	49.46
Personnel data		
Total group employees on 30 June (number)	550	462

Balance sheet

(thousands of €)	30/06/2017	31/12/2016
Total assets	1,368,355	1,083,338
Cash, cash equivalents and restricted cash	1,263,198	980,909
Total liabilities	299,329	324,637
Stockholders' equity	1,069,026	758,701

Employees per site as of 30 June 2017



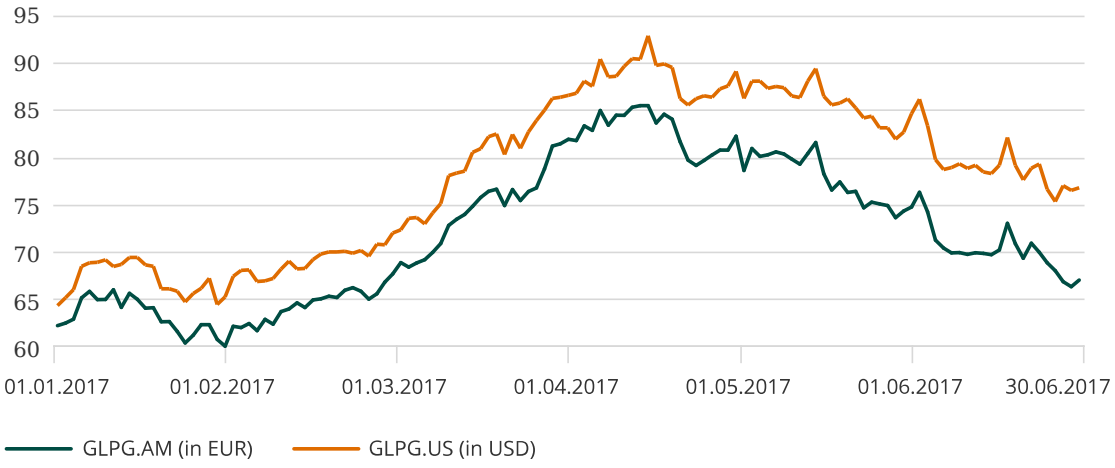
Risk factors

We refer to the description of risk factors in the 2016 annual report, pp. 42-50, as supplemented by the description of risk factors in our most recent annual report on Form 20-F filed with the U.S. Securities and Exchange Commission, pp. 5-47. In summary, the principal risks and uncertainties faced by us relate to: product development, regulatory approval and commercialization; our reliance on third parties; our financial position and need for additional capital; 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 2016 annual report, pp. 130-134, which remains valid.

The Galapagos share

Performance of the Galapagos share on Euronext and NASDAQ



Related party transactions

On 6 April 2017, the acceptance of the 150,000 warrants offered on 20 January 2017 to our new Chief Medical Officer, Walid Abi-Saab, under Warrant Plan 2016 (B) was enacted. These warrants have a term of eight years as of the date of the offer. The exercise price of the warrants is €62.50. Each warrant gives the right to subscribe for one new Galapagos share. The warrants vest only and fully on the third anniversary of the notary deed enacting the acceptance of the warrants. The warrants are not transferable and can in principle not be exercised prior to 6 April 2020.

On 17 May 2017, the members of the board of directors and the executive committee were offered new warrants under Warrant Plan 2017, subject to acceptance. As of the date of this report, the acceptance period for Warrant Plan 2017 is still ongoing, so the final number of warrants granted to members of the board of directors and the executive committee cannot be determined yet. Under Warrant Plan 2017, the warrants have an exercise term of eight years as of the date of the offer. The exercise price of the warrants is €80.57. Each warrant gives the right to subscribe for one new Galapagos share. As regards the directors, the warrants vest over a period of 36 months at a rate of $1/36^{th}$ per month. As regards the other beneficiaries, the warrants vest only and fully on the first day of the fourth calendar year following the calendar year in which the grant was made. The warrants are not transferable and can in principle not be exercised prior to 1 January 2021.

The table below sets forth the number of warrants offered under Warrant Plan 2017 to each member of the board and executive committee in office during the first six months of 2017:

Name	Title	Number of 2017 Warrants offered
Onno van de Stolpe	Chief Executive Officer; Executive director	100,000
Raj Parekh	Non-executive director; Chairman of the board	15,000
Werner Cautreels	Non-executive director	7,500
Harrold van Barlingen	Non-executive director	7,500
Howard Rowe	Non-executive director	7,500
Katrine Bosley	Non-executive director	7,500
Christine Mummery	Non-executive director	7,500
Mary Kerr	Non-executive director	7,500
Piet Wigerinck	Chief Scientific Officer	60,000
Bart Filius	Chief Financial Officer	60,000
Andre Hoekema	Senior Vice President Corporate Development	60,000
Walid Abi-Saab	Chief Medical Officer	45,000

During the first six months of 2017, there were no changes to related party transactions disclosed in the 2016 annual report that potentially had a material impact on the financials of the first six months of 2017.

Statement of the board of directors

The board of directors of Galapagos NV declares that, as far as it is aware, the financial statements in this H1 report are prepared according to the applicable standards for financial statements, and give a true and fair view of the equity, financial position and the results of Galapagos NV and its consolidated companies.

The board of directors of Galapagos NV further declares that this H1 report gives a true and fair view on the important developments and significant transactions with related parties in the period under review and their impact on the interim financial statements, as well as on the most important risks and uncertainties pertaining to the remainder of the current financial year.

On behalf of the board of directors,

Onno van de Stolpe
CEO

Raj Parekh
Chairman of the board of directors

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 inconsistencies 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 version.

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

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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 2017", guidance from management regarding the expected operational use of cash during financial year 2017, 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 and the potential activity of filgotinib in inflammatory indications, GLPG2222, GLPG2451, GLPG2737, GLPG3067, GLPG2851, GLPG3221, GLPG1837 and of potential triple combinations including any of these compounds for cystic fibrosis, the anticipated timing of clinical studies and the potential activity of GLPG1972 for osteoarthritis, the further development of GLPG1690 and GLPG3499 for idiopathic pulmonary fibrosis, MOR106 and GLPG2534 for atopic dermatitis, GLPG3121 and GLPG3312 in inflammation, GLPG3535, GLPG1205, and GLPG2384. 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, performance or achievements, 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 2017 operating expenses may be incorrect (including because one or more of our assumptions underlying our 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, cystic fibrosis, idiopathic pulmonary fibrosis, osteoarthritis, 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, our collaboration partner for cystic fibrosis, AbbVie, and our collaboration partner for osteoarthritis, Servier), 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 filing and reports, including in our most recent annual report on Form 20-F filed with the SEC and our subsequent filings and reports filed with the SEC. 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.