The Galapagos group

An overview of Galapagos, its strategy and portfolio in the first nine months of 2017

Arthur Stok

Associate Scientist Target Discovery & Validation

Letter from the management

Dear shareholders,

Galapagos is well on its way toward becoming an integrated biopharmaceutical company specialized in finding novel modes of action and developing therapies for patients with high medical need.

We reported a very eventful third quarter, showing that our platform delivers more than filgotinib. We announced outstanding results with our autotaxin inhibitor GLPG1690 in idiopathic pulmonary fibrosis patients, followed by antibody MOR106 (jointly owned with MorphoSys) targeting IL-17C in atopic dermatitis patients. We discovered the targets for these medicines the same way we found JAK1 for inflammation, using our unique target discovery engine. These additional proofs of platform come at a pivotal moment for us, as we prepare to start the commercial phase of the company. The promising Phase 2a results observed with GLPG1690 have fueled an ambition to build a proprietary, worldwide R&D and commercial franchise in fibrosis, next to inflammation.

We have built Galapagos step by step over the years, and we are now adding the last pieces to the puzzle: a Phase 3 study and a commercial organization. What a fantastic opportunity, being able to create the company we envision to be in 2020. To that end, we are actively recruiting more top development talent, growing and evolving the company to its next phase. Change has always been an inextricable part of Galapagos since our inception almost 19 years ago. We are pioneers in exploring biology, finding new modes of action and developing matching novel medicines. We are also pioneers in taking the company further while nourishing our innovative motor; our discovery platform will always be at the heart of Galapagos. So far we have shown the world what the combination of excellent science and strong business acumen can deliver. Now we want to prove that an innovative core and being commercially successful can go together. It is in our DNA to evolve into a new company over and over again. We learn. We adapt. We step up - what a journey this is.

Our R&D engine continues to progress a large number of discovery and clinical candidate medicines. We anticipate updating the markets on the development of our cystic fibrosis triple combination therapies at the North American Cystic Fibrosis Conference in Indianapolis next month and expect to dose the first patient with the first triple by year end. We also plan to report the ALBATROSS Phase 2 study (GLPG2222 + Kalydeco[1] in Class II heterozygous patients) topline results before year-end. Our development teams are preparing the next stage studies with GLPG1690 in IPF and MOR106 in atopic dermatitis. We completed recruitment of a Phase 1b patient study with ADAMTS-5 inhibitor GLPG1972 in osteoarthritis and expect to report topline results in early 2018.

We reported a cash balance of €1,220 million on 30 September 2017, retaining a solid financial position to invest in our promising R&D programs. With your continued support, we anticipate to keep reporting strong progress towards our goal of becoming a fully integrated biopharmaceutical company.

Operational overview H1 2017

We refer to our H1 2017 report.

[1] Kalydeco® is a registered drug of Vertex Pharmaceuticals.

Operational overview Q3 2017

Inflammation

- Our collaboration partner Gilead initiated studies to investigate proof-of-concept with filgotinib in uveitis and lupus membranous nephropathy
- Our collaboration partner Servier inlicensed the non-U.S. commercial rights to novel ADAMTS-5 inhibitor GLPG1972 for osteoarthritis. This triggered a €6 million license fee payment to Galapagos. Servier and Galapagos will make joint decisions about co-development of GLPG1972
- We completed recruitment of osteoarthritis patients for a Phase 1b study with GLPG1972 in the U.S.
- We reported promising signs of clinical activity with MOR106, a human monoclonal antibody targeting IL-17C, in a Phase 1b study in atopic dermatitis patients

Idiopathic pulmonary fibrosis (IPF)

- We announced that GLPG1690 halted disease progression and was reported to be well tolerated in the Phase 2a FLORA study in patients with moderate-to-severe IPF

Cystic fibrosis (CF)

- We progressed as planned in discussions with U.K. regulatory authorities for the initiation of a first triple combination evaluation in CF patients in Q4 2017
- We completed recruitment for the FLAMINGO patient study with GLPG2222

Corporate

- We announced the appointment of Michele Manto as Senior VP Commercial Operations

Q3 2017 financial result

Revenues and other income

Our revenues and other income for the first nine months of 2017 amounted to €106.4 million, compared to €65.0 million in the first nine months of 2016. Revenues for the first nine months of 2017 (€87.9 million vs. €50.0 million for the first nine months of 2016) were higher due to increased revenue recognition of upfront payments, which were related to our filgotinib program with Gilead, and due to an increase in milestone payments. Other income for the first nine months of 2017 increased (€18.5 million vs. €15.0 million for the first nine months of 2016), mainly driven by higher income from R&D incentives.

Results

We realized a net loss of €85.9 million for the first nine months of 2017, compared to a net profit of €8.1 million in the first nine months of 2016. Last year's net profit 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 €62.6 million for the first nine months of 2017, compared to an operating loss of €48.5 million for the first nine months of 2016.

Our R&D expenses for the first nine months of 2017 were €149.2 million, compared to €96.7 million for the first nine months of 2016. This planned increase was due mainly to an increase of €37.0 million in subcontracting costs, mostly for our filgotinib and cystic fibrosis programs. Furthermore, personnel costs increased in 2017, 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 €19.7 million for the first nine months of 2017, compared to €16.8 million for the first nine months 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 nine months of 2017 amounted to €23.1 million, compared to net other financial expenses of €0.9 million for the same period last year, and were primarily attributable to €24.8 million of unrealized exchange loss on our cash position in U.S. dollars. We expect to use this cash held in U.S. dollars to settle our future payables in U.S. dollars, 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 €1,220.1 million at 30 September 2017.

A net increase of €245.6 million in cash and cash equivalents was recorded during the first nine months of 2017, compared to an increase of €590.5 million during the first nine months of 2016. Net cash flows used in operating activities amounted to €86.2 million during the first nine months of 2017. Furthermore €3.6 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 €353.0 million of cash, consisting of €348.1 million proceeds from the U.S. public offering and €4.9 million proceeds from warrant exercises. Finally €24.8 million of unrealized negative exchange rate differences were reported on cash and cash equivalents.

On 30 September 2017, our balance sheet held a receivable from the French government (*Crédit d'Impôt Recherche*[2]) amounting to €42.0 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 €34.2 million, to be received in yearly tranches from 2018 to 2027.

Outlook 2017

Looking to the remainder of the year, we aim to dose the first CF patient with our first triple combination investigational therapy in Q4, to disclose the ALBATROSS study topline results, and to launch new clinical studies with CF candidates and combinations. We aim to prepare the next late-stage study design with GLPG1690 in IPF patients and with MOR106 in Phase 2 in atopic dermatitis patients. We expect to end the year 2017 at the lower end of the guided range between €135-155 million operational use of cash.

We thank you again for your support of Galapagos. We aim to discover and develop more novel medications, bring 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

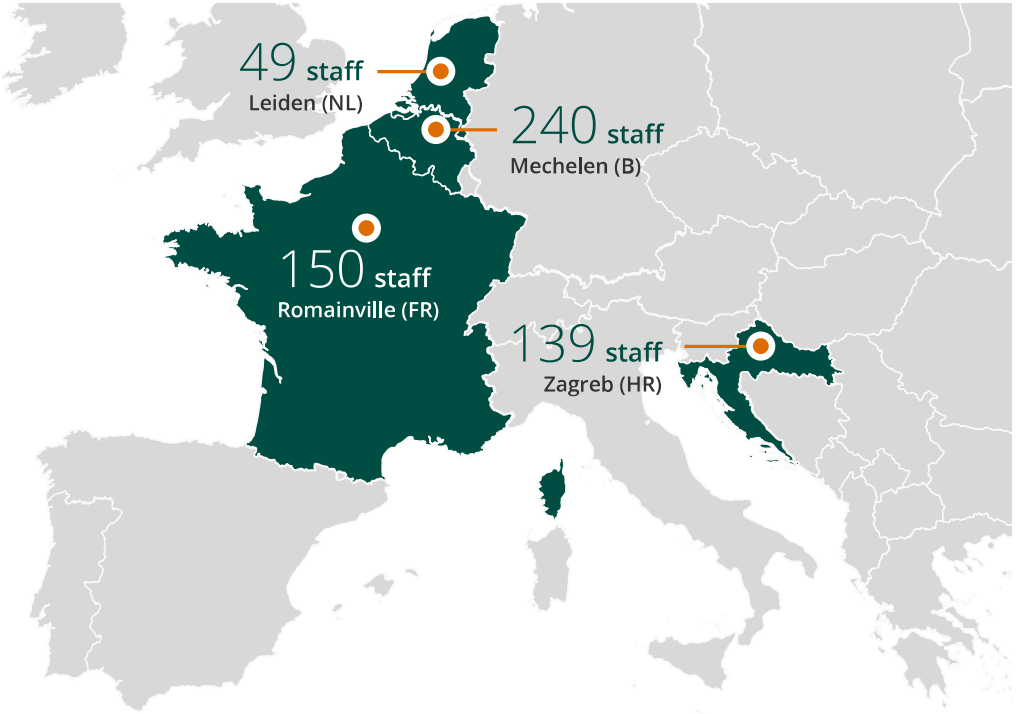
Key figures (IFRS) Galapagos group (unaudited)

(in thousands of €, if not stated otherwise)	30/09/2017	30/09/2016
Results		
Revenues and other income	106,354	65,040
R&D expenditure	(149,226)	(96,739)
S, G&A expenses	(19,681)	(16,784)
Personnel expenses (including share-based compensation)	(53,922)	(38,785)
Capital expenditure	3,219	3,876
Depreciation and amortization of (in)tangible assets	(3,211)	(3,077)
Operating loss	(62,552)	(48,482)
Net financial result	(23,142)	56,621
Taxes	(161)	(71)
Net income / loss (–)	(85,855)	8,067
Galapagos share		
Number of shares issued on 30 September	50,895,778	46,169,828
Basic income / loss (–) per share (in €)	(1.75)	0.18
Diluted income / loss (–) per share (in €)	(1.75)	0.17
Share price on 30 September (in €)	86.19	57.13
Personnel data		
Total group employees on 30 September (number)	578	479

Balance sheet

(thousands of €)	30/09/2017	31/12/2016
Total assets	1,331,373	1,083,338
Cash, cash equivalents and restricted cash	1,220,072	980,909
Total liabilities	294,440	324,637
Stockholders' equity	1,036,932	758,701

Employees per site as of 30 September 2017



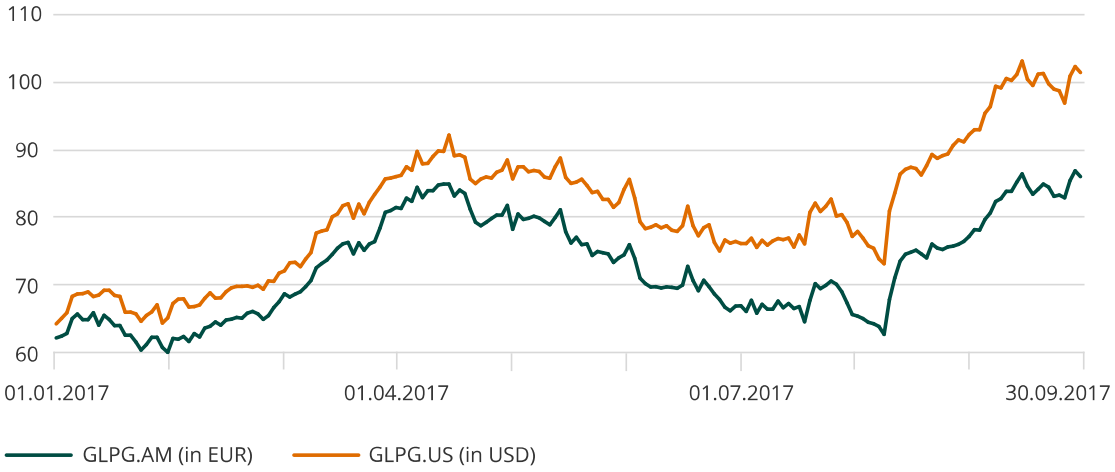
Risk factors

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



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.

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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 and our financial results, including timing of the release thereof, statements regarding interactions with regulators, statements regarding the expected timing, design and readouts of ongoing and planned preclinical and clinical studies and the potential activity of filgotinib in inflammatory indications, the further development, anticipated timing of clinical studies and potential activity of 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, and build-up and development of commercial operations. 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 study 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, 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, our collaboration partner for cystic fibrosis, AbbVie, our collaboration partner for osteoarthritis, Servier, and our collaboration partner for MOR106, MorphoSys), 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 (SEC) filings 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.